PR19 final methodology queries and answers 18 July 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. We published revised data tables on 25 June 2018 and our response to the tenth set of queries on 6 July 2018. We have continued to receive queries. This document sets out our response to all remaining outstanding queries and represents the eleventh and final set of responses.

The query and clarification process has been extensive and we thank companies for their engagement and contribution. We consider it is important that companies can benefit from stable, fixed guidance as they move towards finalising their business plan submissions. We therefore do not plan to issue further updates to business plan tables or financial models unless absolutely critical. We will therefore only publicly respond to further queries by exception when the impact is likely to have a material impact on other companies.

Ref No.	Topic	Query	Response
621	Data tables	**WS18, WWS18 Greenhouse gas emissions from water and wastewater operations** We report GHG emissions in a variety of regulatory and voluntary reports using guidance set out by the internationally-recognised Greenhouse Gas Protocol Corporate Accounting and Reporting Standard from the World Resources Institute and World Business Council for Sustainable Development. With reference to this guidance: • Should these lines be reported as gross or net greenhouse gas emissions? • What scopes are expected to be included? Scopes 1 and 2 only or Scopes 1,2 and 3? If including scope 3, are there any expectations as to which scope 3 emissions should be included - or are we free to select those we feel are controllable?	We note from your company's recent Annual Report and Accounts (including 2018) that you customarily calculate your emissions using the methodology in the current version of the UKWIR Carbon Accounting Workbook. This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK to ensure transparency and consistency in reporting. We would expect your business plan reporting to follow the same approach and that the underlying assumptions made including those on scope and net or gross, should align with those used for water and sewerage when reporting for the Discover Water website. We expect that the latest available emissions factors published by Defra would be used for forecast emissions. It would be helpful to set out in your commentary whether the reported figures have been calculated using anything other than the location-based method and if so, what difference the choice of alternative method makes.

Ref No.	Topic	Query	Response
		• Should we use the marked-based or location-based reporting methodology? From discussion with other companies we believe some are choosing to report using market-based methods whilst others have stuck with location-based method or are reporting both side-by-side - this will affect the comparability of this measure. • DEFRA publish emissions factors each year, relevant to the previous year. No forecasts for emissions factors are published. Are we expected to project changes in national emissions factors or use the most recent actual factors?	
624	Retail	**R4 line 10** Looking at R4 we have noticed a formula error in line 10 Cross-check total business retail costs from tariffs. This line is worded as the calculation cell "Summates the business retail costs from the tariffs in blocks E to N and checks to see if reconciles with line 9" & "Cross check of the retail cost per customer multiplied by customer number in each tariff block below"	Your interpretation is correct. The tariff band blocks lines are in £, so the sum of the values need to be divided by 1,000,000 to get in £millions and be compared with line 10. We will amend the formulae for this line in your company specific template when uploaded to the secure area in our SharePoint site.

Ref No.	Topic	Query	Response
		In the formula shown there hasn't been an allowance that line 9 is stated in £m's so the formula needs to be adjusted to either multiply line 9 by 1m or divide the sum of all the tariff lines by 1m. Please could you confirm we have interpreted this correction correctly and advise if we should amend the formula in the tables and include this in our commentary or leave the formula as is and write up our issue with the line in the commentary?	
633	Data tables	**APP21** We have a question on DPC. We have checked the answers given to other questions on DPC and it has not been raised by others. The way the App21 table is structured and the wording in Ofwat's DPC methodology implies a fixed annual charge to be collected as part of customer bills and paid to the DPC contractor.	Table 9.2 Appendix 9 states "However, there may be factors that materially change opex costs over a long contract period. This may apply to some project types more than others. As such, some flexibility around opex may be beneficial to customers. Each opex element would need to be assessed on its merits." It is for the appointee to determine for highly variable opex schemes which method is most beneficial for the customer from a cost and risk perspective. Table App21 identifies the expected costs and revenue of the CAP and there is no need for it to be further broken down in the table. If a company wishes to explain the items

Ref No.	Topic	Query	Response
		The scheme we have been investigating is a desalination plant to maintain the supply / demand balance in drought conditions. The nature of a desalination plant is such that a very large percentage of the opex costs are variable. This is mostly energy. The way this has been handled in DBFM desalination schemes internationally is to split the payment into a fixed component which will cover the debt service + fixed O&M costs and a variable element which is dependent of the amount of water actually produced. It is also usual to insulate the contractor from energy market trends by either treating energy as a pass through to the offtaker (which would be us in this case), using a wholesale energy index to calculate the variable payment, or other methods. It is possible to do this and preserve an incentive to build and operate an efficient plant. However if this was passed through to the customer, it would add bill uncertainty depending on how much desalinated water the plant produces. This is	contributing to each line or significant variability in any of the lines then it can do so within its supporting documentation. The business plan should clearly identify which costs have been included within the appointee costs and within the CAP costs and revenues associated with its DPC schemes.

Ref No.	Topic	Query	Response
		disruptive to customers' ability to forecast costs and would probably be un-desirable. Does Ofwat have a view on handling of these variable costs? Is it preferable to add a line for expected variable costs to App21 with the understanding that these costs will be averages over the AMP, and a mechanism might be needed to adjust for actual costs incurred? Alternatively, should only the fixed cost element be included in App21 and the variable element be kept within the relevant wholesale control cost sheet?	
634	Data tables	**APP24a** We have a query that relates to the APP24a workbook of the latest PR19 data tables. We have 2 queries as follows: 1. We have picked up that in Section G lines 24 and 25, and column 'weightings' the calculated cell is being driven off spreadsheet R4 'Business retail – Welsh Companies'. Obviously we are not populating R4, however, as a non-exited company we are populating R5. As such we think the calculated cell in Section G	1. We agree that the calculated cells in lines 24 and 25 should link to values in table R5 not R4. We have amended the formulae for these lines in your company specific template when you uploaded this to the secure area in our SharePoint site on 18 July 2018. 2. Thank you for highlighting this issue. We agree that there is an error in the formula of line items 23 and 25 (resulting from additional lines being inserted in table R1). The numerator of the weighting calculations in lines 25 (R1) and 23 (R4/R5) should be using depreciation on assets acquired after 1 April 2020. We will change the formulae for these lines in table App24a on receipt of the completed templates

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		lines 24 and 25, and column 'weightings' of APP24a should be driven off R5. 2. Additionally for the Retail sections (F and G of APP24a) lines 25 and 23, column 'weightings' is using lines 3 (business retail – 'Total depreciation on assets acquired between 1 April 2015 and 31 March 2020') and lines 12 (household retail – 'Total depreciation on assets acquired between 1 April 2015 and 31 March 2020') in the calculation. Should this not be using line 4 (business retail – 'Total depreciation on assets acquired after 1 April 2020') and line 13 (household retail – 'Total depreciation on assets acquired after 1 April 2020') as this will be the depreciation on assets in the period post 2020 and related to the RPE calculated in the table? As such we are proposing that the formula in the cell should be (changes shown in red): Household retail:	from all companies in September. We will then review all company weightings so that the correct weights are used in our assessment.

Ref No.	Topic	Query	Response
		=AVERAGE('R1'!CI24/('R1'!CI25+'R1'!CI19),'R1'!CR24/('R1'!CR25+'R1'!CR19),'R1'!DA24/('R1'!DA25+'R1'!DA19), 'R1'!DJ24/('R1'!DJ25+'R1'!DJ19), 'R1'!DS24/('R1'!DS25+'R1'!DS19)) Business retail: Line 24: =AVERAGE(('R5'!O8+'R5'!O12)/'R5'!O13, ('R5'!P8+'R5'!P12)/'R5'!P13, ('R5'!Q8+'R5'!Q12)/'R5'!Q13, ('R5'!R8+'R5'!R12)/'R5'!R13, ('R5'!S8+'R5'!S12)/'R5'!S13) Line 25: =AVERAGE('R5'!O11/'R5'!O13,'R5'!P11/'R5'!P13,'R5'!Q11/'R5'!Q13,'R5'!R11/'R5'!R13,'R5'!S11/'R5'!S13) Could you confirm that this is correct or advise what the formula should be for in relation to the weightings for the retail elements of APP24a.	
635	Data tables	**App24a** We have a further query regarding App 24a, building upon the query we sent yesterday (03/07/18);	Thank you for highlighting this issue. We agree there are errors in the way the weightings are calculated in blocks B, C, D and E. The denominator to calculate the weightings should be the sum of Total operating expenditure in line 11

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		In the column 'weightings' the calculated cell aren't being adjusted for 'infrastructure reinforcement expenditure' and 'grants and contributions' this is meaning that when the tables WS1 and WWS1 are populated the calculated weightings are summing to more than 100% which would seem incorrect. Should the formulas in the 'weightings' column for all sections adjust the dividing amount by subtracting the 'infrastructure reinforcement expenditure' and adding in the 'grants and contributions' to make the sum of the expenditure types divide by the total amount they sum to?	plus Total gross capital expenditure excluding third party services in line 17 from tables WS1 and WWS1. We will change the formulae for these lines in table App24a on receipt of the completed templates from all companies in September. We will then review all company weightings, including those for network reinforcement which we can calculate separately, so that the correct weights are used in our assessment.
644	Data tables	I am writing in response to IN 18/09 which is the 'Guidance for reporting operating leases in PR19 business plans' issued in May 2018. We account under the reporting standard FRS102, and we have reported our operating leases in AMP6 in accordance with this standard. For AMP7 we understand that you are seeking to ensure consistent treatment of leases for price setting purposes for the comparison of industry information, and your	IN 18/09 confirms our proposal for the consistent treatment of finance leases for price setting purposes, this applies to all companies including those that report under FRS102. This is to ensure we are able to apply a consistent treatment for cost assessment. We expect you to complete App33, in accordance with the reporting guidance, and to follow the reporting guidance we have set out for the cost assessment tables WS1/WS1a and WWS1/WWS1a.

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		guidance in IN 18/09 applies to all companies. We understand that WS1(a) and WWS1(a) will exclude for all companies the impact of IFRS16 allowing industry comparability. However, using FRS102 as our reporting standard we do not intend to apply IFRS16 in PR19 and its effect will not be reflected in the information for our current and future reporting in our PR19 data tables. We are proposing that the our submission for Table App33 will not include information on our operating leases, however we will provide you with this information in a separate commentary and explain how IFRS 16 would have impacted our submission. Therefore the data in tables WS1 and WS1(a), and WWS1 and WWS1(a) will not be impacted by IFRS16. I am submitting this e-mail as a proposal for our reporting of operating leases in PR19 under FRS102. We are confident that by adopting this approach we will be able to give you full visibility of our operating lease commitments during	We note that the theoretical application of the policy set out in IN 18/09 would mean an efficient company would receive equivalent revenue allowances as under the previous approach, all else being equal. In 2020-25, you will still be able to report operating leases in accordance with FRS102 in your annual accounts, however, we will amend reporting guidance for the APR from 2020 and the totex reconciliation tables for 2020-25 to exclude the finance lease costs that would be capitalised under IFRS 16.

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		AMP7. Our approach will also deliver consistency in our reporting against the Final Determination and remove the requirement for adjustments to our detailed reporting during the AMP7 reporting period. I would be grateful if you would give our proposed approach due consideration and confirm whether our treatment can be applied to our PR19 submission.	
645	Financial modelling	We have another question, this time regarding how the financial model incorporates grants and contributions data into the totex number. I've tried to describe the issue below for the Water resources price control, although there's an equivalent issue for the other wholesale controls. • The totex used to set the revenue requirement is calculated in the Water Resources tab row 421. • This includes the net capital expenditure in row 420, which is the gross capex (row 415) less the grants and contributions (row 416).	We agree that this is currently an error in the financial model. We will amend the financial model and mapping tool to bring grants and contributions (non-price control) into the financial model as part of totex for the respective wholesale control sheets. The approach agrees with your proposed assumption of using the sum of rows 25 & 26 from Wr3.

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		• The grants and contributions are coming from F_Inputs row 232, "Water resources grants and contributions (price control)". • Given the input Reference, and the latest Mapping tool, this appears to be sourcing the data from Wr3 row 25. This row only includes those grants and contributions that are included within the price control, rather than all the grants and contributions. • While this appears to be correct for the final adjustment to the allowed revenue (i.e. the calculation in Summary_Calc rows 86 – 90), it appears to leave the totex value used to set the revenue requirement overstated, leaving customers paying more than they otherwise would do. • For example, where we have costs as part of our gross capex plan, but have corresponding non-price control income to offset this (for example, costs and income associated with HS2), we would not expect this to generate additional customer revenue. However, the way the model is currently drawing inputs from the data tables would lead to an increased	

Ref No.	Topic	Query	Response
		totex, and so an increased revenue allowance. • An alternative would be for the inputs to the grants and contributions used in the totex calculation to draw either from WS1 row 20, or to use the sum of rows 25 + 26 of Wr3. Doing this would also be consistent with the totex approach in AMP6 (for example APR tables 2B, 2E and 4B).	
646	Past delivery	During completion and assurance of the Totex Reconciliation Model for PR19 – which is required to be submitted early – we have identified that the reconciliation is not calculating the Revenue and RCV totex adjustments as expected. The methodology for sharing totex outperformance was: - shared between the company and consumers based on the cost sharing rate (of 50-55%) - split between the RCV and the revenue adjustment based on the PAYG rate. Therefore simply the reconciliation would expected to be:	The approach to totex reconciliation is set out in the PR14 reconciliation rulebook and associated spreadsheets. The examples you provided are using a different approach. Your example applies the cost sharing factor to the RCV calculation. However, the cost sharing factor does not apply to the RCV adjustment (it only applies to the revenue adjustment). This is outlined in the rulebook (P.25, para. 2) and P.36 (4.PR19 adjustments, Calculations no.34).

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		• RCV adjustment = totex outperformance * (1- PAYG rate) * cost sharing factor • Revenue adjustment = totex outperformance * PAYG rate * cost sharing factor Assuming £100m of totex outperformance over the 5 years, 50:50 customer sharing and PAYG of 60% the following adjustments would be expected: • RCV adjustment = 100 * (1- 60%) * 50% = £20m P0 midnight adjustment to RCV (+ indexation) • Revenue adjustment = 100 * 60% * 50% = £30m revenue adjustment over PR19 (+ indexation) When actual and forecast information has been input into the totex model the output from the model 'Totex menu adjustments' does not appear to be calculating the adjustments in this way – the total appears to be fully recognised in RCV. Given the significant impact on PR19 financial modelling (as the output is required for both the RCV and Revenue	

Ref No.	Topic	Query	Response
		Feeder Models) and the requirement for early submission please could you review and consider the calculations within the model.	
647	Financial modelling	We have a few queries relating to the Financial Model Mapping Tool. 1) On the F_Input Mapping tab, rows 21-30 link to Business Plan Table R4 to pick up the Retail Cost per customer for each Business Retail Tariff Band. These values in R4 are in Outturn prices, whilst the mapping tool states that the values should be in 2017/18 FYA CPIH deflated prices. These inputs are later inflated in the Financial Model. Should the inputs be deflated? 2) On the F_Input Mapping tab row 201 ”CPIH: Financial year average indices” picks up line 29 of App23 in the Business Plan tables. It is used as a percentage in the model, should it pick up line 34 of App34 and be re-labelled “CPIH: Assumed percentage increase for unpopulated monthly values”? 3) In the revenue tabs of the BPT (Wr3, Wn3, WWn5, Bio4), the charges in lines	1) We will amend the mapping tool to deflate the data table numbers to 17/18 prices. 2) Yes the cell should link and pull through the % from line 34 in data table rather than row 29, we will amend the mapping tool and financial model for this. 3) We agree that the order is different, the financial model currently links to the correct lines, we will however amend the mapping tool reflect the appropriate order. 4) We will amend the mapping tool to deflate the data table numbers to 17/18 prices.

Ref No.	Topic	Query	Response
		20-23 have been grouped as 'unmeasured charges' first, then 'measured charges'. This is consistent with the mapping tool, with the exception of water network, which has been grouped as 'residential charges' first then 'business charges'. Should row 235 of F_Inputs Mapping link to line 22 of WN3 and row 236 of F_Input Mapping linked to line 21 of WN3? 4) In the mapping tool 'F_Inputs Mapping' tab, rows 484 and 485 pickup Capital expenditure of assets principally used by retail from R1 line 15 and R4 line 7. The values in the Business Plan Tables are in outturn prices, but the mapping tool states 2017/18 CPI deflated prices and the values are subsequently inflated in the Financial Model. Should the inputs be deflated?	
648	Financial modelling	We have not as yet received a response to our query on how various income lines flow through the business plan tables and the financial model. The original query was sent in on 8th March i.e. "We have been mapping the flow of the various income lines that are input into	We will amend the financial model and mapping tool for the following; • Bulks supplies for Wastewater and Bioresources will be brought into the financial model as part of the 'Total third party services and principle service revenue' (row 32 of the wastewater and bioresources sheet respectively).

Ref No.	Topic	Query	Response
		the business plan tables through the financial model and have been unable to fully trace a small number of lines. Please could you explain where the following income items are included in the financial model: • Non-price control income (principal services) in each Wholesale price control (Business Plan Tables WN3, WR3, WWN5 and Bio4, line 23) • Grant and Contributions (non-price control) in each Wholesale price control (Business Plan Tables WN3, WR3, WWN5 and Bio4, line 25) We would expect these to appear in the financial statements for the appointed business, but they do not appear to feed into the model. Also, please could you confirm how Diversions (s185) (Business Plan Tables App28, line 11, Developer Service Grants and Contributions) is treated? The guidance and line definitions of WN3,WR3,WWN5 and Bio4, explain that line 24 should represent the grants and contributions contained in App28 lines 7 to 10 and Line 25 should represent the grants and contributions contained in App28 line 12, so it is not	• Grants and contributions (non-price control) will be brought into the financial model as part of totex for the respective wholesale control sheets (see query 645). In relation to the Wholesale price control the starting point should be that all revenue for those activities should be included when we set the relevant price controls "except for those activities for which there are Excluded Charges". Income from charges for the diversion of pipes etc (in accordance with section 185 of the Water Industry Act 1991) are not currently Excluded Charges (as defined in paragraph 2 of Condition B). Therefore the charges for those activities should be included in the price control. In practical terms this means the following; - Grants & Contributions Price control' should be the sum of App28 lines 7-11 The new guidance for row 25 should read Projected grants and contributions covered by the wholesale water resources price control. This represents the wholesale water resources element of the total grants and contributions received for the wholesale water service contained in App28 lines 7 to 11.

Ref No.	Topic	Query	Response
		clear how or where App 28 line 11 (Diversions (s185)) is utilised." We note that there have been new versions of both the business plan tables and financial model since our query was raised, however we still cannot trace a small number of lines. These lines are not picked up by the mapping tool and therefore do not appear to flow into the financial model: • WWN5 Line 14 Bulk supplies • Bio4 Line 14 Bulk supplies • WR3 Line 26 Water resources grant and contributions (non-price control) • WN3 Line 26 Water network plus grant and contributions (non-price control) • WWN5 Line 26 Wastewater network plus grant and contributions (non-price control). Should these be included in the mapping tool or input elsewhere in the model? The diversion (s185) Grants and Contributions received in line 11 and 27 of App28, is excluded from lines 25 and 26 of WR3, WN3, WWN5 and Bio4 25 Projected grants and contributions covered by the wholesale water resources price control. This represents	At PR14 our guidance was less clear on what we intended to include in the price control so we agreed, following inconsistent approaches by companies in their business plans, that for the period from 1 April 2015 to 31 March 2020 to treat income form diversions as if they were excluded charges. The footnote in appendix 1 of RAG 4 then sets out the expected accounting treatment for this income for that period.

Ref No.	Topic	Query	Response
		the wholesale water resources element of the total grants and contributions received for the wholesale water service contained in App28 lines 7 to 10. 26 Projected grants and contributions not covered by the wholesale water resources price control. This represents the wholesale water resources element of the total 'other' non-price control grants and contributions received for the wholesale water service contained in App28 line 12. Therefore diversions income does not appear to flow into the financial model. Should the guidance to tables WR3, WN3, WWN5 and Bio4 be updated or should this income be input elsewhere in the financial model?	
649	Financial modelling	**Exited company checks – Financial Model** The check on FinStat_Business gives a false alert, which then feeds into the Check worksheet due to a hard coded “1” value in cell F107. Should this be “0” for a company that has not exited the retail market and therefore linked to F55 “Company exited the retail market switch” on InpActive?	We agree this is an error, the cell (FinStat Business F107) should link to InpActiveF55.

Ref No.	Topic	Query	Response
650	Past delivery	Would you clarify if Ofwat expects companies to submit the past delivery information to Ofwat and publish it on their websites by the July deadline, or does the July deadline relate to the submission to Ofwat?	We expect companies to submit the information to Ofwat by the July deadline. We also expect companies to publish the past delivery information and populated PR14 reconciliation models on their own websites but we are flexible on when companies publish - ideally it would be at the same time as they submit to Ofwat in July but it could be later with the backstop being the September business plan deadline.
651	Retail	**R5** The queries I have are in relation to the following 4 line items within Table R5. My queries/observations are bulleted in the right hand column. Line 11 - Looks at retail cost per customer in each tariff band block below. The tariff band blocks are in £ so I think this formula needs to include a divide by 1,000,000 to get in £millions. Line 13 - £ and £millions are being mixed from the input rows and the calculation does not adjust for this. If calculation formula is wanting to derive full revenue (wholesale and retail (cost and margin) components) I think it needs to add “1+” each time before it refers to the net margin % cells. Or is this wanting to calculate the retail only (cost and margin)	We have reviewed your queries and agree that we need to make the following changes to table R5 in your company specific template: • Line 11: The tariff band blocks are in £ so we need to divide by 1,000,000 to get in £millions; • Line 13: The calculation formula is intended to derive full revenue (wholesale and retail (cost and margin) components). We therefore agree with the proposed formulae changes in your amended table R5 submitted 12/07/18 that we need to add “1-” each time before it refers to the net margin % cells. We also recognise that the calculations in line 13 could require different formulae depending on whether the tariffs being summed are gross or net. For that reason, we consider the best thing to do is to convert the line to an input line in which you can include the appropriate formulae; and

Ref No.	Topic	Query	Response
		component of the full revenue, in which case additional changes to the existing calculation need to be made. Line 14 - Seems to be trying to calculate gross profit, if row 13 is trying to calculate full revenue. The appropriate formula to derive the net retail margin is dependent on what line 13 is supposed to be. Line 15 - Looks at customer numbers in each tariff band block below. The tariff band blocks are in single units so I think this formula needs to include a divide by 1,000 to get in 000s. **Follow-up query 12/07/18** Note that the formula on Line 13 (Excel row 22) has a different calculation, dependent on whether the default tariffs beneath are gross or net (Line 28 of each tariff block) – as this greys cells out and provides different data. We have fixed the formula on Line 13 for our default tariffs and have not tried to flex e.g. by including "If" nests (to look up Line 28 of each tariff block) in the formula.	• Line 15: The tariff band blocks are in single units and therefore the formula needs to include a divide by 1,000 to get in 000s. For line 14 Aggregate net margin, it is up to companies whether to consider having different net margins for different proposed tariff. The cell is the aggregate net margin from the net margins across the tariff bands. We have amended the formulae for these lines in your company specific template when you uploaded this to the secure area in our SharePoint site on 18 July 2018.
652	Financial modelling	**Opening Water Resources RCV**	We confirm that the Opening Water Resources RCV should include the IFRS 16 RCV adjustment. This has been

Ref No.	Topic	Query	Response
		We have a query on the appropriate input to the financial model for the opening Water Resources RCV (row 177 of the F_Inputs tab). • The row label and reference indicate that it should be populated from App8 cell H25 (and this is consistent with where the mapping tool takes the data from). • However, this cell does not include the IFRS16 lease adjustment. • We would expect the opening RCV to include the IFRS16 RCV adjustment (from App8 cell H26), in order to be consistent with the approach for the other wholesale price controls (for example F_Inputs row 277 for the Water network+ price control), and also with the guidance in IN18-09. Would you be able to confirm? **Bulk supplies for Wastewater price controls** • The data tables include rows for bulk supplies for both water and wastewater price controls (section C of tables Wr3, Wn3, WWn5, Bio4, Dmmy7). However, the financial model only looks to include	amended in the mapping tool with the reference and label amended in the financial model. We agree. Bulk supplies have been added into the model for wastewater, Bioresources and dummy control. This follows the same principle as Water resources and water network with the inputs flowing from F_Inputs > Inpactive > Wastewater network as part of the calculation of "Total third party services and principle service revenue - WWN - real". We agree. We have amended the mapping tool to reflect this. See query 647.

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		the bulk supply rows associated with the Water resources and Water network+ price controls. • Should the model also be able to incorporate bulk supplies associated with the wastewater price controls? This is particularly relevant for the Wastewater network+ control, where we expect a non-zero bulk supply value. • (For the water price controls, Bulk supplies look to be treated identically with e.g. Rechargeable works, so as a work-around we could add on the wastewater bulk supplies to the Rechargeable works inputs for the Wastewater price controls) **Mapping tool for allocation of water network wholesale charges** For reference, there also looks to be an inconsistency with how the mapping tool is populating the F_Inputs tab rows 234 – 237 with the allocation of wholesale charges from section E of Wn3. The rows that the mapping tool is picking up from Wn3 don't look to match the descriptions in the F_Inputs tab. (This looks to be just an issue with the mapping tool, with no impact on the Financial model itself).	

Ref No.	Topic	Query	Response
653	Financial modelling	The appointee RORE in calculation for the Base Case, in row 1384 of the 'RoRE_Calc' worksheet (and lines 1463, 1480, 1499,1515, 1533,1549, 1570, 1586, 1604, 1619 for the upside and downside cases), includes residential retail earnings after tax but excludes business retail earnings after tax. Should the Business Retail EAT be included?	We agree and have amended the appointee RORE calculation to include all retail earnings after tax.
654	Financial modelling	The calculation of the alternative AICR ratio. The formulae logic for the excess fast money adjustment is to return a value if total PAYG totex is greater than the appointee opex. This will never be the case as the appointee opex includes retail whereas the PAYG totex is only based on wholesale	We agree. We have amended the excess fast money adjustment to use wholesale opex rather than appointee opex.
655	Financial modelling	I think there might be a signage issue in the model for the adjustment of pension contributions in the tax calculations. Line 1531 rather than 1530 is flowing through the calculation resulting in our taxable profit being higher than it should be. Pension contributions are tax deductible so if we are intending to pay in excess of the pension deficit allowance then the excess contributions over the allowance should be reducing rather than increasing taxable profit.	The model calculations are working as expected and mirror those used at PR14 (for example row 303 of Water Nominal worksheet in the PR14 model). We therefore do not propose changing the calculations. However the text stating [Enter negative values only] for the DB pension cash excess over charge line items is incorrect and we have removed these from the F_inputs worksheet and InpActive worksheet. Excess cash should be entered as a positive, with shortfalls of cash entered as negative.

Ref No.	Topic	Query	Response
656	Financial modelling	The recent changes to the model for splitting the cash balance between wholesale and retail will now result in the gearing for the appointee company being lower (in our case) than the target notional gearing level of 60%. Is this intended?	We recognise that wholesale gearing could be different from appointee gearing because of opening cash balances in retail with no corresponding retail RCV. Companies should explain the approach they have taken regarding their notional capital structure in their business plan submission.