
Initial Assessment of Business Plans (IAP) queries

Water companies have asked questions of Ofwat since the publication of IAP on 31st January and the answers below may be relevant to all companies.

We will update this list regularly.

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Published 25/03/2019

Adding PSR PC information into App1. How should companies provide information about the two elements of the PSR PC in App1?

This performance commitment should be represented in App1 with one entry. Please enter performance targets in App1 as a composite number in the format [percentage PSR Reach]/[percentage PSR Data Checking]. For example the performance commitment levels for 2024/25 would appear in table App1 as “7.0%/90.0%”.

Population growth in PSR reach. To help aid consistency across APP 4 data tables can you advise if companies should include population growth in the calculation of PSR reach?

Yes, companies should include population growth in this calculation.

Revenue adjustments feeder model. Does the revenue adjustments feeder model incorrectly describe the price base of the inputs on rows 88, 89, 96 and 97 as “2017/18 FYA”?

We confirm the Revenue adjustments feeder model incorrectly describes the price base of the inputs on rows 88, 89, 96 and 97 as “2017/18 FYA” instead of 2012/13 FYA prices. We will correct the model in due course. Please make an adjustment to the model input value to the financial model when resubmitting your business plan.

RORE sharing mechanism. Technical appendix 1 refers to a proposed sharing mechanism where incremental outperformance payments are above 3% of RORE. Please confirm whether the intent is for the 3% threshold to apply having deducted (i.e. net) of any underperformance penalties suffered in the same price control. For instance, if outperformance payments totalled 4% of RORE but underperformance penalties totalled 2% of RORE in the same year, would the mechanism apply?

We have not made a decision on whether the RORE sharing mechanism should be made solely on the gross outperformance payments or on the net payments taking any underperformance payments into account. We will consider the issue and set out our approach in our draft determinations.

Published 18/03/2019

App4 Customer Metrics. App4 has a number of lines which are costs per customer and have units of £m and 3 decimal points. Can you confirm that these should be units of £ and 2 decimal points?

10 Cost of social tariff cross-subsidy (per customer) £m 3

11 Cost of company contribution to social tariff (per customer) £m 3

14 Cost of WaterSure and WaterSure Plus cross-subsidy (per customer) £m 3

21 Cost of company contribution to payment matching support (per customer) £m 3

We can confirm that App4 lines 10, 11, 14 and 21 should have the units of £ and to 2 decimal points. Please complete these lines on that basis.

Transience variable coefficient. The transience variable (totalmigration) included in one of the retail models has a negative coefficient. The explanation given for its impact states that higher transience results in higher debt management costs. This is inconsistent with the sign on the variable. Please confirm Ofwat's position on the inclusion of this variable.

We recognise that the sign of the coefficient is not consistent with the narrative in the text. We will reconsider the appropriateness of this model for draft determinations.

Justification of optioneering approach. Where Ofwat has requested more information on the justification of options selected, is there a preferred format to capture the optioneering undertaken?

We expect a proportionate approach, with evidence proportional to the materiality of the investment proposals. We seek a clear and concise summary of the material decisions that led to selecting the proposed option. This should include a brief description of the decision making framework the company uses, which by preference will be quantitative, but may include qualitative elements as appropriate. We expect companies to set out the planning horizon, levels of confidence in cost estimates, and assumed discount rate for any whole life cost calculations, as well as how benefits are assessed. We expect to see evidence of considering a wide range of options (including those eliminated early in the process), reasons for narrowing this selection for further investigation and a clearly presented concise summary of selecting the preferred option from a valid shortlist. The concise summary explaining a preferred option may take the form of a table or spreadsheet comparing the

shortlisted valid options through a number of appropriate metrics which may include a number of the following example categories: capex and opex expenditure; whole life cost; monetised benefits of approach; assessment of uncertainty on delivery or changing needs; customer preferences; environmental impact; use of innovation; and impact on company resilience. We expect the reasons for selecting the preferred option to be concisely articulated. We set out at the IAP in annex 6 of the Technical appendix 2: Securing cost efficiency, what we would look for in assessing cost adjustment claims for the "best option for customers", and this is the same approach that we use for enhancement assessment where we have no benchmarking analysis.

RAGs and business plan reporting consistency. The consistency of Ofwat's definitions between the RAGs and the business plan reporting requirements have been questioned in a response to the RAG consultation for the 2018-19 reporting year.

We have looked again at our definition for wastewater non-price control income in table App28 line 28. We do not think that the exclusion of sewer adoption fees from the price control is consistent with our view of price control activities as defined in licence condition B. Therefore "Also should include Inspection and supervision fees (2.5% of construction cost based on WRC 'Sewers for adoption')" should be recorded in App 28 line 26 as a price control item. We set out the revised definitions for line 26 and 28 below.

App28 – Block C Grants and contributions received – wholesale water service

26 Total other contributions received from organisations towards the construction of specific capital projects which were included in the price control. Also should include Inspection and supervision fees (2.5% of construction cost based on WRC 'Sewers for adoption').

28 Total other contributions received from organisations towards the construction of specific capital projects which were not included in the price control.

Ofwat definition of diversions. Clarification of Ofwat's definition of 'diversions' which appears in table App28 has been requested.

We have looked again at our definition for 'diversions' in table App28. We do not think that the exclusion of particular types of diversions in order to distinguish between price control and non-price control diversions is consistent with our view of price control activities as defined in licence condition B. Therefore "Contributions from local and highway authority schemes under the New Roads and Street Works

Act 1991” should be included in App 28 lines 11 and 27. We set out the revised definitions below.

App28 – Block C Grants and contributions received – wholesale water service

11 Total contributions received from local authorities, highway authorities and private companies to divert water mains (Water Industry Act s185).

App28 – Block C Grants and contributions received – wholesale water service

27 Total contributions received from local authorities, highway authorities and private companies to divert sewers (Water Industry Act s185).

Published 11/03/2019

Data table Wn2 Line 31. Can Ofwat please confirm how sites which are 'direct lift' from borehole into supply are to be treated for the purposes of a site count? These are sites where a borehole pump has a dual function - to abstract from borehole to ground level but also to supply the necessary head of pressure to perform the 'high lift' function as well.

Any site that boosts potable water into the distribution system from that site should be counted in Wn2 Line 31 'Total number of booster pumping stations'.

Data table FM_RR4. Can you confirm that, when calculating business plans modelled totex in the 'final allowance' tab of FM_RR4, the codes BM9033 + BM9019 are outdated?

We confirm that the codes BM9033 + BM9019 are outdated and therefore they are not in the PR19 business plan data tables. The corresponding codes in the PR19 business plan tables are R1003 + R1004.

Board assurance large investment proposal threshold. In actions relating to Board assurance, please can you clarify the threshold that you consider "large" investment proposals applies?

The provision of this statement is intended to demonstrate that Boards are accountable for their business plans and business planning processes. Consequently companies should identify their large investments which we would expect to be informed, for example, by the scale and scope of companies' individual historical and proposed investment programmes.

Data table WWS2 Line 6 clarification. (Relevant to WASCs only) We are going to remove the costs of permits from line 6 of WWS2 and reallocate them to a freeform line so that they are visible to you. Please can you confirm that you will re-apply the modelling with the new information?

We are aware of instances where a number of companies have included costs for permits within the event and duration monitoring (EDM) enhancement line (table WWS2, line 6) alongside costs for installing event duration monitors. We assume the number of permits has also been included in the EDM explanatory variable line (table WWS4, line 7). WINEP3 and our business plan table line definitions ask for costs and numbers associated with monitor installations only. However, we will consider reassessing our EDM unit cost model taking into account EDM permits, where applicable. To do this we will need to understand the breakdown of costs and numbers for both EDM permits and installations reported in companies' tables. The

most helpful way of doing this is for all companies to provide the breakdown within any resubmitted table commentary, rather than reallocating permits to a new or different enhancement line. Please ensure this breakdown is clear for EDM costs in WWS2 and numbers of sites in WWS4 in the 1st April resubmission.

Strategic regional solution timeline. (Relevant to 6 companies (Affinity Water, Anglian Water, Severn Trent Water, Southern Water, Thames Water and United Utilities)) We have a clarification question on the expected timing for Strategic regional solution development. Our company specific actions set out a deadline for 1 April 2019 for a series of actions to be completed; whereas slide 20 of the supply-demand summary sets out that companies should develop joint proposed “pre-DD”. Can you confirm the intension for “pre-DD” as opposed to 1-April? We will provide a commitment to regional solution development pre-DD in our IAP response.

We expect companies to provide robust proposals in relation to the regional strategic solution development programme, including the list of schemes and proposed development gates, by 1 April. This should include responding to the related actions that we have identified. We will assess the proposals and make decisions for Draft Determination.

Updated 04/03/2019

Water quality compliance deadband rationale. What is Ofwat's rationale for setting the deadband for water quality compliance (CRI) at 1.5?

The methodology set out that if we expect all companies to have service levels that are to be 100% compliant it may be appropriate to have a deadband. We did not identify a reason that the deadband should be different between companies. It has been calculated as the mid-point between the upper quartile of 2017/18 performance (0.5) and the upper quartile of the forecast deadband values from all companies (2.5). We consider that this strikes the balance between allowing for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures.

Treatment works compliance deadband rationale. What is Ofwat's rationale for setting the deadband for treatment works compliance at 99%?

The methodology set out that if we expect all companies to have service levels that are to be 100% compliant it may be appropriate to have a deadband. We did not identify a reason that the deadband should be different between companies. It is the upper quartile of all proposed deadbands. It is also in line with the Environment Agency guidance for the environmental performance assessment, where performance less than 99% attracts an Amber rating.

Financial modelling approach for new buildings and structures. Should the new buildings and structures 2% allowance pool be modelled on a straight-line basis, rather than a Reducing Balance basis?

We can confirm that the financial model will be updated to calculate the allowance on a straight line basis.

Data table App27. When populating App27, has Ofwat modified the performance commitment splits entered into App5?

We set out in the final methodology that

“It would be time consuming and complex to allocate these adjustments across the water resources, bioresources and network plus controls. This additional complexity would appear to offer little benefit to the operation of the separate binding controls. We will, therefore, apply all the revenue adjustments from the reconciliation of the wholesale incentives to the water and wastewater network plus controls, except where it is clear that a specific outcome delivery incentive is wholly attributable to water resources or bioresources. We expect companies to provide clear reasoning

where they consider that revenue adjustments (not RCV) should apply to the water resources and bioresources controls.”

In “Final methodology queries and answers 22 February 2018”, reference number 112, we set out that we have adapted App 5 to allow allocation between controls in response to a company request to do this.

In the IAP we worked bottom up and allocated PR14 ODIs to only one control. We did not review in detail companies’ reasons for allocating between controls and this did not affect our grading of companies. The models that we published contained the results of these bottom up calculations. In revised business plans companies must have compelling and clear reasons to allocate PR14 ODIs between controls.

Data table App10 row 33 RORE calculation approach. We have noticed that there appear to be discrepancies between the guidance notes for App10 lines 11 & 33 relating to RORE and the calculations applied in the Financial Model. The differences are the use of the gearing from the actual capital structure and not taking into account the impact of any legacy adjustments to revenue within the Financial Model. The following items are also not included in the model for the actual capital structure:

The base RORE should then be adjusted for the following factors net of any tax impact. 1) the company share of totex out or under performance. This should reflect genuine out or underperformance only. Any totex over or underspend which is due to timing (i.e. re-profiling of expenditure within the AMP) should not be recognised as out or under performance for the purpose of the calculation of RORE. 2) The company share of any out or underperformance on retail costs. 3) The impact of any ODI or other penalties or rewards earned in the year, even if they are not payable/receivable until the following AMP. 4) The difference between the actual average interest rate charge on borrowings (in real terms) and the allowed interest rate (real) on notional debt. This should be calculated based on the notional capital structure i.e difference in actual interest rate and allowed interest rate multiplied by notional net debt.

Can you please provide further guidance on the correct approach to the RORE calculation?

RoRE is a ratio that is primarily associated with the notional financial structure. Therefore companies are not required to apply the adjustments referred to in the guidance for row 33 of APP10. Row 33 should simply be populated with the base RoRE values calculated by the company’s financial model in the actual financial structure configuration.

RORE graph integrity check. The "RORE graph integrity check" has been added to the revised version of the financial model. When the model is run on an 'un-notionalised' basis there is a risk that the model will show a Check (as the calculated RORE range is increased when the actual gearing is higher than the notional gearing). Given that RORE is only relevant for the 'Notional' basis, should we exclude the input RORE data from the 'un-notionalised' basis model, in order to avoid the model generating a check?

The RoRE graph integrity check has been added to ensure that output ranges plot properly. However, since RoRE risk assessment analysis is primarily associated with notional financial structures, companies are not required to include RoRE sensitivity values (from APP26) in the company's financial model in the actual financial structure configuration. It is only necessary to include them in the financial model in the notional financial structure configuration.

Econometrics rationale and data. Do you plan to publish the model statistics and the selection criteria for the models, such as the level of transparency that was available with the CEPA report for the March 2018 efficiency model consultation?

We have published our Econometrics Technical Appendix which explains in detail the rationale behind our selection of our costs drivers to explain modelled base costs. We also provide an explanation on our selection criteria for model specifications. The statistical tests can be found when you replicate our models using the Stata do file and feeder model 1 (ie the dataset) published in our website.

Enhancement aggregator. Could we please have a file which pulls together all the enhancement allowances and reconciles them with the numbers in the bottom table on the final allowances tabs on FM_WW4.xlsx and FM_WWW4.xlsx?

The [enhancement aggregator file](#) published on our website splits out the enhancement allowances by expenditure category for both water and wastewater.

Strategic regional solution development action clarification. A number of companies have an action to bring forward proposals on strategic regional solution development jointly with other companies. For the relevant companies categorised as Significant Scrutiny and Slow Track, the action is "Required" by 1 April 2019. For the relevant Fast Track companies, the Action type is "Agreed" and the Date required "N/A".

As this action entails the companies to work collaboratively on their schemes or on developing an ODI-type mechanism and consistent assumptions across all companies it would be good to understand what has been “Agreed” with the Fast Track companies so that all companies can work consistently to work up these proposals.

We have agreed that the action which applies to fast track, slow track and significant scrutiny companies alike did not require completion by the fast track companies before 10 February, which was the date required for us to progress to draft determination. The fast track companies have committed to work with other companies and submit their proposals for the joint work by 1 April, to align with the actions of the slow track and significant scrutiny companies.

Non-totex benefits calculation. Please could you provide further details of the calculation of the non-totex benefits used in the valuation of company specific adjustments to the cost of capital.

A high level description of our approach to calculating non-totex benefits is set out on pages 35 and 36 of Appendix 4: Company Specific Adjustments to the Cost of Capital. We will provide the relevant companies with the workings we have used in assessed benchmarking benefits for 2020-25.

Grants and contributions assumptions in cost allowances. The cost efficiency appendix makes reference to Ofwat's assumptions of recovery rates for Grants and Contributions (e.g. For the water service Ofwat assume a recovery rate of 100% for new connections costs i.e. all of those costs are offset by developer contributions. Please can you explain how these assumptions (100% of new connections costs) have been reflected in the IAP cost allowances.

They are not reflected in the cost allowances. Our allowances are all set out at a gross level - ie before the deduction of grants and contributions. For draft and final determinations we will use an additional feeder model to incorporate our view of the levels of contribution in to the financial model. For IAP purposes we used the company view of income from grants and contributions in the financial model.

Enhancement feeder model lead pipe replacement. The lead pipe replacement enhancement feeder model uses the total capex of the lead strategy including from the Water Treatment price control, for orthophosphoric acid dosing. Will Ofwat remove this capex from the efficient unit rate of lead pipe replacement and if so how will it's efficiency be assessed?

The PR19 assessment followed the PR14 approach. We will consider the wider industry implications of splitting out Water Treatment price control costs as we move into draft determinations.

Leakage enhancement allowance assessment. Cost assessment - Leakage enhancement allowances (Water S/D feeder model) Ofwat's stated policy is: If a company will be UQ by 2024-25 in both normalised measures (by km main and per property) – assume MI/d of leakage reduction beyond UQ level is funded at the minimum of the industry forecast median unit cost (£1.6m/MI/d) or the company's proposed unit cost. If a company is both UQ and reducing leakage by >15% then the company is allocated the greater of these. Ofwat have used industry median cost rather than company specific cost to derive our cost allowance. Can Ofwat confirm if this is an error.

We can confirm that this is not an error. The assessment rule is applied where companies propose to both reduce leakage by greater than 15% (test A) and to achieve beyond upper quartile performance by 2024-25 (test B). In such a case the amount of leakage reduction greater than 15% identified in test A is likely to vary from the amount leakage reduction beyond upper quartile in test B. Both test outputs calculate a leakage enhancement allowance using the minimum of the industry median or company-proposed unit costs and therefore two different cost allowances may be generated. The company is provided with the greater of the two leakage enhancement allowances calculated. The detail of this calculation is included within the tab 'Leakage enhancement assessment' of the Wholesale Water Supply-demand balance enhancement – feeder model.

Updated 25/02/2019

Econometric approach technical appendix. What has changed in the technical appendix on the econometric approach v2?

We have corrected table 3: Econometric models for wholesale wastewater to make the coefficients negative. Page 17 (models SWC1, SWC2, SWT1, SWT2, BRP1 and BRP2.)

Efficient cost approach. Should companies adopt Ofwat's view of efficient costs when considering financeability?

We expect companies to set out their view of efficient costs across all price controls in the data tables and assess financeability on that basis.

In draft and final determinations, the cost allowances for the purposes of financeability will be based on our view of efficient costs in the assessment of notional financeability.

However, in assessing financeability in the revised business plan submission, a company may want to provide alternative scenarios that consider financeability impacts based on Ofwat's IAP assessment of efficient costs.

PSR common performance commitment. For water and wastewater companies, is the target for the proposed common performance commitment for customers on the PSR based on total connected households or water connected households?

This should be based on total connected households.

PSR contact requirement rationale. Is the requirement to contact 90% of PSR customers every two years based on best practice observed in other industries?

One company submitted a performance commitment to Ofwat that outlined its aspiration to check 100% of data for customers on its PSR every two years. Several other companies indicated they would do this as part of their activities in 2020-2025.

PSR register approach. If a water company receives an update from another company's PSR register, would this meet the criteria of "customer contact"?

It is up to the company to satisfy itself that customer data has been checked and to assure its processes around this requirement. The common performance commitment outline is available [here](#).

Water resource planning enhancement funding. How has Ofwat assessed requests for enhancement funding for water resource planning including regional groups?

We outlined our approach relating to assessing water resource planning and regional group expenditure within the Supply-demand balance enhancement feeder model summary. In summary, we consider these to be recurring operating activities and associated costs, and as such are part of company base allowances. Planning and co-ordination is and has always been efficient company activity to meet statutory requirements to undergo water resources management planning. The majority of companies have not requested a sudden increase or enhancement funding for any of these activities.

Several regional planning groups have been operating for a number of years and the remaining groups were set up over the last two years. There is no clear evidence that operating these groups is an enhancement activity or that any future requirements to consider regional planning or joint working goes beyond any baseline activities. Instead it may signal a change in emphasis away from within company area planning to a more coordinated regional approach. Our decision in the IAP to allow for the investigation and development of strategic regional solutions will enable appropriate regional solutions to be identified, through the companies working together where necessary.

Data tables WR3 and WN3 diversions in grants and contributions. Can you please clarify the following the aspects of Tables WR3 & WN3?

Line 27: The revised guidance indicates that the total on this line should be equivalent to App28 lines 7-10 but should this refer to line 12?

Lines 27 & 28: Diversions income included within App28 Line 11 has not been included within either subtotal for price controlled or non-price controlled Grants & Contributions. Is there a discrepancy in total Grants and Contributions between tables App28 & App17?

In the IAP documents we published on 31st January, it may have appeared that income from diversions (reported in App28 lines 11 and 27) was not included in the grants and contributions (section F) reported in App17 due to the line definitions in tables Wr3, Wn3 and WWn5 being incorrect. Income from diversions is not listed as

an excluded charge under licence condition B and as such should be included in the price control. For the 2015-20 period we had exceptionally allowed companies to report such income as being outside of the price control [RAG4.07 appendix 1 footnote refers to this] because some companies had classified income in this way in their business plans. For 2020-25 we require that such income should be recorded as being inside the price control for all companies.

When you resubmit your business plan tables, please take the following corrections to line definitions into account:

Wr3

Line Definition

Block F Grants & contributions

25 Projected operating expenditure grants and contributions covered by the wholesale water resources price control. The sum of lines 25 and 26 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.

26 Projected capital expenditure grants and contributions covered by the wholesale water resources price control. The sum of lines 25 and 26 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.

27 Projected operating expenditure grants and contributions not covered by the wholesale water resources price control. The sum of lines 27 and 28 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.

28 Projected capital expenditure grants and contributions not covered by the wholesale water resources price control. The sum of lines 27 and 28 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.

Wn3

Line Definition

Block F Grants & contributions

25 Projected operating expenditure grants and contributions covered by the wholesale water network plus price control. The sum of lines 25 and 26 represents the wholesale water network plus element of the total grants and contributions received for the wholesale water service contained in App28 lines 7 to 11.

26 Projected capital expenditure grants and contributions covered by the wholesale water network plus price control. The sum of lines 25 and 26 represents the wholesale water network plus element of the total grants and contributions received for the wholesale water service contained in App28 lines 7 to 11.

27 Projected operating expenditure grants and contributions not covered by the wholesale water network plus price control. The sum of lines 27 and 28 represents the wholesale water network plus element of the total 'other' non-price control grants and contributions received for the wholesale water service contained in App28 line 12.

28 Projected capital expenditure grants and contributions not covered by the wholesale water network plus price control. The sum of lines 27 and 28 represents the wholesale water network plus element of the total 'other' non-price control grants and contributions received for the wholesale water service contained in App28 line 12.

WWn5

Line Definition

Block F Grants & contributions

25 Projected operating expenditure grants and contributions covered by the wholesale wastewater network plus price control. The sum of lines 25 and 26 represents the wholesale wastewater network plus element of the total grants and contributions received for the wholesale wastewater service contained in App28 lines 24 to 27.

26 Projected capital expenditure grants and contributions covered by the wholesale wastewater network plus price control. The sum of lines 25 and 26 represents the wholesale wastewater network plus element of the total grants and contributions received for the wholesale wastewater service contained in App28 lines 24 to 27.

27 Projected operating expenditure grants and contributions not covered by the wholesale wastewater network plus price control. The sum of lines 27 and 28 represents the wholesale wastewater network plus element of the total 'other' non-

price control grants and contributions received for the wholesale wastewater service contained in App28 line 28.

28 Projected capital expenditure grants and contributions not covered by the wholesale wastewater network plus price control. The sum of lines 27 and 28 represents the wholesale wastewater network plus element of the total 'other' non-price control grants and contributions received for the wholesale wastewater service contained in App28 line 28."

Published 18/02/2019

Data table App23 inflation forecasts. Do companies need to update data tables (App23) for inflation forecasts?

No need to do this.

Data assurance requirements for 1 April. What assurance do companies need to undertake for the data in their resubmitted data tables?

Assurance requirements for resubmitted data tables and models are the same as those for the original business plan. We expect slow track and significant scrutiny companies to continue to work with their CCG as they prepare to resubmit their business plans, as set out in the actions from the IAP assessment, using the PR19 methodology as the overarching guide for where we expect to see evidence of customer support. In our IAP publications, we say that companies should indicate the assurance that they have undertaken for all changes to data tables, where this is requested as part of an action, and where CCGs have provided assurance.

Data table App1 row24 new PSR PC. In App1, guide row 24, do companies need to add the new common performance commitment on PSR?

Yes, please include PSR as a common PC when completing the data tables.

Ofwat policy position comments. If a company wants to make a comment on a policy position Ofwat has taken, what is the format this should take?

A company or other stakeholder can provide comments on our policy positions. Any comments should take into account our PR19 final methodology and Putting the sector in balance position statement, and our assessment of responses in these documents. Any comments should directly indicate what part of our policy the comment applies to, include evidence to support the comment and where relevant set out why the comment was not made earlier.

PSR reporting requirements. Should companies report the total number of individuals or the total number of households added to or removed from the PSR?

In relation to the requirement for companies to report the total number of individuals that have been added to or removed from the register, companies can report the number of households added and removed from the register if the data is not

available to report numbers of individuals. Where possible, we encourage companies to report the corresponding figure for individuals alongside this.

Data table publishing. Will Ofwat publish the data submitted in the data tables?

We will publish populated financial models as part of draft determinations and this will include lines from the new tables submitted. Similarly, it is likely we will publish much of the information on outcomes in the tables submitted as part of draft determinations.

1 April company response expectations. How should companies set out their response to Ofwat?

It is up to companies how they set out their response to us. However companies are required to complete the action tracker, business plan data tables and financial model. Alongside the action tracker the company should provide supporting documentation setting out the changes made to the business plan, with supporting evidence where needed. Where requested companies should also set out the assurance that they have undertaken, alongside relevant evidence of this assurance. The company should also make any consequent changes to appointee level information such as bills analysis and RoRE. Companies will also need to decide how best to present these changes and communicate them to customers and other stakeholders.

Board assurance expectations for 1 April. What are Ofwat's expectations for board assurance statements as part of the April submission?

The company Board should issue a separate assurance statement in support of its April submission. The revised statement needs to contain only the assurance statements for which actions are identified in the company's 'Securing confidence and assurance detailed actions' document. The Board is not required to reiterate its support of the assurance statement provided in the September submission.

Econometric model council tax data. There is a difference in the council tax collection rates used in the econometric modelling data and the values used to forecast forward expenditure. Please can you confirm whether the forecast cost drivers should be the same as those in the model and whether the forecast cost drivers will be updated?

We acknowledge there are differences and this is due to council tax data being sourced from different releases. For slow track and significant scrutiny companies' draft determinations we will align the data across RR1, RR2 and RR3. Fast track companies will be able to see the impact of the changes which would apply to them when we publish the slow track draft determinations. At the final determination stage we will ensure data is consistent for all companies, following our review of models in the light of updates to input data.

Historical expenditure approach. Could you explain how the historical values were calculated in the “Historical Expenditure Companies Forecasts and Ofwat’s Challenge” and how they reconcile to AMP6 expenditure?

We assume you are referring to [this file](#). The historical values are derived not by taking the AMP6 period but by taking actual reported data for the period 2013-14 to 2017-18. All costs have been converted from nominal to real terms using the CPIH index, which can be found in our published feeder model 1.

Data table WS1 and WWS1 grants and contribution approach. In the revised tables of WS1 and WWS1, lines 20-22, Grants & Contributions are now required to be broken down between capital and operating expenditure. Can the definition be confirmed, as there are two interpretations:

- 1) Grants and contributions received to support capital or operating expenditure that is being incurred - which for these purposes would refer to the cash spend being incurred; or
- 2) Definition consistent with RAG 4 table 2E definitions where contributions are shown as either fully recognised in the income statement, or capitalised and amortised.

We intend that this be interpreted as per option 1, i.e.

1) Grants and contributions received to support capital or operating expenditure that is being incurred - which for these purposes would refer to the cash spend being incurred.

In tables WS1 and WWS1, lines 20-22, the revised guidance indicates that breaking down the Grants and Contributions between operating and capital expenditure is in line with RAG4 tables 4D/4E. We do not understand this to be the case as we believe RAG 4.07 requires only a single subtotal. Can it be confirmed if our understanding is correct?

We agree that there is a single line in the RAGs and separate lines in these BP tables. However we would expect that, when aggregated, the net totex will be equivalent between the APR (for example for water table 4D line 21, wastewater

table 4E line 21) and the BP tables (water table Jan 2019 WS1 line 22, wastewater table WWS1 Jan 2019 line 22).

IAP grade rationale. Which test areas could not get an A grade in Ofwat's Initial Assessment of Plans?

As set out on page 3 of our [Summary of test area assessment](#) document published on 31 January, an A grade is not possible for 'aligning risk and return' and 'accounting for past delivery' test areas as these test areas are compliance based.