Draft determinations - Common questions and responses

Contents

Published 22 August 2019

Publication of draft determination representations

Question

What is your expectation on us publishing documents we have submitted to you on the 30 August on our website? We anticipate some practical issues with publishing documents by 10am on the day. When are you expecting us to publish documents on our website and which documents do you expect us to publish?

Response

As stated in 'PR19 draft determinations: [Company] draft determination', to ensure transparency, we expect companies to publish their representations in full. Consistent with our approach to business plans and our PR19 methodology we also expect companies to publish their representations at the same time as they submit them to us. We will publish the representations in December when we make our final determinations. If a company considers some information should not be published – because it is commercially sensitive information, for example – then the company will need to provide its stakeholders and us with strong, robust reasons that are specific to the information concerned. We will take such explanations into account, but we cannot give an assurance that information included in representations will not be disclosed.

Outcomes tables

Question

The team are currently completing the OC1-4 tables. The table guidance states that companies should take the draft determination parameters as fixed but we note the ODI rates within the document have been rounded. This is inconsistent with our previous table submissions. Please could you confirm that we are not required to round the rates as per our company specific Draft Determination outcomes performance commitment appendix and should use our rates as previously submitted?

Response

We can confirm that companies are not required to round ODI rates for the purposes of completing Tables OC1-4 and can use the rates provided in previous data table submissions (to 6 decimal places) when calculating their P10/P90 payments, where those rates were not subject to intervention at draft determinations.

WINEP delivery profile

Question

A number of water companies asked about how we had estimated the WINEP delivery profile for performance commitments.

Answer

Our estimates of the WINEP and NEP delivery profiles at draft determination were based on the best information that we had, including query responses and the annual update of the WINEP spreadsheet dated 29 March 2019 and which aligns with the performance commitment (PC) definition. Where you are making representations concerning the delivery profile, we expect you to provide an annex setting out the names of the included schemes, the relevant driver codes, completion dates as well as any other pertinent information

Definition of attempted contact in PSR performance commitment

Question

Having read Pg 5 of your guidance on the Priority Service Register common performance commitment, we are unclear on the list specifying what is not an 'attempted contact' - is it allowable to send a request to update PSR details alongside a bill?

Answer

Page 5 of the Priority Service Register performance commitment guidance states the following as one example of what is not considered to be 'attempted contact' –

An indirect attempt to contact the customer is made. An indirect contact could be one where the company has included additional information on the bill.

We can confirm that this references only information included on an actual bill, rather than information sent alongside but separate from the bill (I.e. a second letter inside the same envelope).

Treatment of unfunded pension contributions

Question

Ofwat has removed pension contribution costs stating: ""Where business plans include pension contributions that are not funded through the price control, we consider these a matter for companies and their investors and not customers. Therefore, we have excluded the movement in pensions provisions from our financial model when assessing notional financeability."" The pension deficit repair allowance is still included in the model (F_Inputs, rows 203 and 247), but pension contribution costs have been removed (F_Inputs, rows 123 and 250).

Answer

We set out in section 6.2 of the PR19 draft determinations: aligning risk and return technical appendix that we consider unfunded pension payments to repair pension scheme deficits to be a matter for companies and their shareholders and not customers. Therefore in assessing financeability for the notional company we have removed cashflows related to movement in the pension provision from our calculation of financial metrics. To the extent that a company considers the cashflows relate to allowed PAYG revenue for pension deficit recovery cost, it should reflect this in its representations and we will consider this for the final determinations.

Forecast new connections and unit rates – developer services

Question

Ofwat states that the “tables...supersede table A1 and A2 of the developer services technical appendix”. A1 and A2 contain two blocks of information:

1. Ofwat forecast new connections per draft determination – The numbers of new connections that were used by Ofwat to calculate the cost allowance in the DD
2. The unit rate to be used in the Developer Services reconciliation model – The rate to adjust revenue for any differences between actual connections and the forecast number of connections that underpinned the revenue allowance.

Can you confirm that only the unit rate will be superseded and that the number of new connections that will be published as the basis for the true-up will be the Ofwat forecasts?

Answer

The forecast of new connections estimated by Ofwat and published in tables A1 and A2 of the document 'PR19 draft determinations: Our proposed approach to regulating developer services' will be the basis for the developer services true-up mechanism, but these figures are subject to change at final determinations (i.e. after consideration of 2018-19 APR data).

Unit rates estimated in the same tables A1 and A2 are superseded by those published in the document 'Supplementary information for all companies' that was sent to all companies by email on Tuesday 13 August. This document sets out our intended approach to grants and contributions efficiency challenge for final determinations. These unit rates are subject to change if companies resubmit new data on developer services revenues and/or the modelled base cost efficiency challenge changes.

Developer services request

Clarification

In the "Submitting App28 as part of representations" Q&A published on 19 August, we stated that, "in the case of developer services data request, we are happy to receive the updated table if there has been data changes."

To confirm, the developer services standalone data request means that we should not need companies to resubmit App28 with their DD representations. We explained this to companies on a teleconference on Friday 16 August.

Published 20 August 2019

Multiplier values for setting collars

Question

During the Outcomes Webinar you showed the multiplier values used in your Standard Approach for setting collars in line with the guidance set out in "Delivering Outcomes for customers policy appendix". Please can you provide supporting evidence (identified as recent historical performance across the industry) behind these multiplier values?

Response

We chose multipliers that would lead to collars that generally included the worst performance across the industry for each performance commitment. We consider that this is an indication of the performance level under plausible circumstances against which a company should ensure that it is resilient. This analysis was based on the historical performance data that companies provided in their business plan submissions for each performance commitment. Companies provided data for varying numbers of years and we used the information provided. In a small number of cases there were clear company performance outliers for particular years, and we excluded this information from the industry dataset. We chose multipliers to the nearest 0.5 that would include poor performance from across the industry.

If you consider that it is not appropriate to have financial incentives to provide services that are resilient in such circumstances you should set this out in your representation, setting out evidence why it is not appropriate.

Base cost modelling with growth

Question

We have been struggling to understand how the base cost modelling with growth in takes into account SLP and NAV growth, where the expenditure in terms of an asset payment has historically been received, but this is reflected in a reduction in infrastructure charges (income offset) from 2020. Could you explain how you have taken into account this variation in competitive market activity by company, and if not the rationale for this?

Response

Please refer to the developer services technical appendix titled ‘PR19 draft determinations: Our proposed approach to regulating developer services’, which sets out how we will consider SLP and NAV new connections in the developer services end-of-period reconciliation (see section 2).

You will also be aware that historically we have not collected information on the impact of SLP and NAVs on growth assumptions. Therefore the developer services data request that you should submit with your representation will help us to inform the impact of this. Additionally we welcome any suggestions you have in this area which you can make in your representation.

Tax adjustments for PR14 reconciliation adjustments

Question

The 'Adjustments log' tab of the financial model notes that the "tax switches should be on for a control when the company pays tax within that control". However, in the financial model the switches are on for the water network plus price control, even though this price control does not have any tax. The 'Adjustments working sheet' tab of the financial model describes the tax paying controls as Wastewater network plus and Bioresources. However, the Bioresources adjustment looks to be incorrectly linked to the Water Network plus tab of the financial model (rows 58, 59, 66 and 67 of the 'Adjustments working sheet' tab). Is this intended?

Response

We agree that on the water network control, switches should be switched off as the control does not pay any tax. We will make this change at final determinations subject to any further changes which may impact tax payable.

Grants and contributions model

Question

Grants-and-contributions-model_WSH_ST_DD.xlsm

The worksheet <InpActive> references the model “FM_E_WW_growth.” (Row 141)

We are unable to find this model on the website. Can you either send us a link or a copy please?

Response

The reference to the feeder model ‘FM_E_WW_growth’ is a mistake in the current version of the grants and contributions model at draft determinations. The growth feeder model was used at initial assessment of plans but not at draft determinations, as growth expenditure is now analysed within modelled base costs. Our approach to grants and contributions efficiency challenge is explained in the supplementary information for all companies that was sent by email on Monday 12 August.

Best practice for tax assurance processes

Question

Please could Ofwat provide examples of best practice with regards to tax assurance processes?

Response

Please see page 117 of the PR19 initial assessment of business plans: Summary of test area assessment (https://www.ofwat.gov.uk/wp-content/uploads/2019/01/PR19-initial-assessment-of-plans-Summary-of-test-area-assessment.pdf), which set out examples of good practice and poor practice in this area.

WINEP uncertainty mechanism

Question

We are seeking clarification on Ofwat’s proposals for the WINEP uncertainty mechanism as stated on page 13 of the “Cost efficiency draft determination appendix”, as to whether it is a two-way adjustment. We note that Severn Trent’s DD has this mechanism applied as a two-way adjustment and in Anglian’s DD it states;

“Since Anglian Water’s plan includes all its amber WINEP schemes, it is not necessary to have an adjustment mechanism that allows for additional schemes to be added. We only make a unit cost adjustment mechanism two way when a company does not include all amber WINEP schemes in its business plan.”

As we excluded a number of amber WINEP schemes, as highlighted in both our Sept 2018 submission and our April 2019 submission, we believe that this two-way uncertainty mechanism should also be extended to us, in line with the commentary in

Anglian's DD. We anticipate that this is an error, but would like Ofwat to clarify this point.

Response

We confirm that the WINEP uncertainty mechanism set out in section 4 of our "Cost Efficiency Draft Determination Appendix" for Thames Water is "two-way". That is, should they be confirmed as being required, it is also intended to apply to schemes categorised as 'Amber' in WINEP3 (March 2019 release) but which were excluded from the company's business plan and, consequently, for which no allowance has been made in our draft determination.

We further confirm that the unit costs set out in Table 7 of the appendix apply equally to both sets of schemes, ie 1) Amber P removal schemes included in our draft determination but which are later confirmed as not required, and 2) Amber schemes excluded from our draft determination but which are later confirmed as being required. The title of the table is misleading and will be corrected for final determination.

We take this opportunity to highlight a typographical error in the 3rd sub-heading in Table 7. Instead of being a repeat of the 1st sub-heading ('Permit >0.7 mg/l annual average') it should read 'Permit <0.4 mg/l annual average'.

Forecasting new connections

Question

We cannot reconcile the forecast of new connections per draft determination in Tables A1 and A2. They do not match the values in App28. Ofwat have used the App28 connection numbers in calculating the unit rates in the table, so the tables appear inconsistent.

Could Ofwat confirm how the forecast new connections in these tables have been derived?

We assume these figures are the ones to be used in the DSRA model, so it is important that these are set at the correct level.

Change to Table App28

While reviewing this area, we noted that our App28 submission included forecasts for requisition income net of an income offset. The new charging rules prohibit the application of the income offset for requisitions. As such, we have amended our Table 28 for this per attached spreadsheet and summarised the impact below.

Response

Firstly, Ofwat's forecasts of new connections reported in tables A1 and A2 are derived from Ofwat's forecast of total connected properties in Feeder model 3, which in turn was estimated using the growth rate of households projections produced by the Office of National Statistics (ONS). These forecasts are shown to illustrate the developer services revenue adjustment factor (DSRA) in page 9 of the paper 'PR19 draft determinations: Our approach to regulating developer services'.

Ofwat's forecasts of new connections represent the FC_t component of the DSRA formula presented below:

$$DSRA = \sum_{t=1}^{5} (AC_t - FC_t) \times \text{Unit Rate}_t$$

Where:

t = each charging year of the price control period with the first year starting on 1 April 2020 and the last year starting on 1 April 2024;

AC_t = the actual number of new properties connected for the relevant service occurring in charging year t;

FC_t = Ofwat forecast number of new properties connected for the relevant service occurring in charging year t, which are estimated from 'Feeder model 3: Wholesale water: Forecast of water cost drivers' and 'Feeder model 3: Wholesale wastewater: Forecast of wastewater cost drivers' (e.g. new properties connected in 2020/21 is calculated as Ofwat forecast of total connected properties in 2020/21 minus Ofwat forecast of total connected properties in 2019/20); and

Unit Rate =
(Company forecast price controlled gross grants and contributions $_t$ / Company fore cast number of new connections $_t$) x Modelled Base Cost Efficiency Challenge

We acknowledge that the presentation of the data in tables A1 and A2 could be misleading given that the unit rate is not calculated based on the forecasts presented in the same table (as explained in the footnote). Following a number of queries from companies, we revised our approach to unit rates in the developer services revenue adjustment factor (DSRA) and provided revised tables in the supplementary information for all companies that was sent by email on Monday 12 August.

Secondly, we would like to refer to the developer services data request https://www.ofwat.gov.uk/publication/pr19-draft-determinations-developer-services-data-request/ to resubmit data on number of connections and properties as well as reporting revenues in gross basis. We will use the revised App28 table and these new data to inform our decision on developer services at final determinations.

Calculating enhanced thresholds

Question

In section 5.4.2 of the Delivering outcomes for customers policy appendix, Ofwat explains its approach to calculating Enhanced thresholds. Please can you provide the detail of the calculations to show how the enhanced outperformance thresholds have been calculated for leakage?

Response

When calculating the enhanced outperformance threshold for leakage, we have used two different normalisation methods to inform our view of frontier shift. We have used both leakage values normalised by km of mains and number of properties in our calculation.

As an example the normalised frontier levels from companies' business plans are 71.53 litres/household/day and 4.40 m^3/ km/ day for leakage in 2020/21. The values are calculated with our standard methodology set out in the outcomes policy appendix using the best performing company level plus an upward adjustment based on the historical annual percentage change in the (standard) upper quartile industry performance for the related service from 2014/15 to 2017/18.

The final enhanced outperformance threshold weights each of these values 50:50 (162.38*0.5 + 171.75*0.5). Note that the threshold is calculated as an absolute value and converted into a percentage reduction on a company by company basis.

P90 to PCL ratios

Question

In relation to P90 to PCL ratios, how do companies navigate from the numbers used in April plans to the numbers in the DD?

Response

We refer to section 7.4 of the Outcomes policy appendix, which describes our approach to adjusting the P90 levels. On page 114, we explain that we first adjust the P90 levels to align with our interventions on the performance commitment levels. For example, we are intervening to set Thames Water's mains repairs performance commitment levels from 281 to 231.3 repairs per 1,000km of mains in each year, and are adjusting the P90 levels accordingly from 228 to 178.3 repairs per 1,000km in each year, retaining the same distance between the company's P90 levels and performance commitment levels. This adjustment is not affected by the P90 to PCL ratios.

The P90 to PCL ratios become relevant in our second step, in which we review the ratios for common and comparable bespoke performance commitments against reasonable ranges. We calculate a range of one standard deviation around the mean of the P90 to PCL ratios for each year, which we then use to identify outliers as values outside the range and adjust their P90 levels so that the resulting P90 to PCL ratio equals the nearest bound of the range. For example, Thames Water's properties at risk of receiving low pressure P90 to PCL ratio in 2020-21 was 0.15 (based on the proposed P90 level = 5 properties, PCL = 34 properties, 5 / 34 = 0.15), which is outside the range of 0.26 to 0.92 for that year (based on the average = 0.59, standard deviation = 0.33, using the 2020-21 data provided in the published table). We are setting the P90 level to 8.72 properties, corresponding to the P10 to PCL ratio of 0.26 (the nearest bound of the range; 8.72 / 34 = 0.26).

This second step only results in adjustment if the P90 to PCL ratio is outside the reasonable range.

Outcomes DD representation data template - OC1

Question

Thank you for sight of the company-specific outcomes DD representation data template (pro forma). For table OC1 in the '[Company] Table Guidance' it states "Table OC1 should be used to record any changes to P10 and P90 data (levels and payments), taking the PC/ODI parameters set at draft determinations as fixed. Companies should not take into account any proposed changes to these parameters on which they are making representations when completing this table." For clarification, is the expectation that this table be completed as per the published draft determinations, or should we take into account errors highlighted as part of the query process?

Response

Please provide the values that account for any corrections that have been provided through the queries process.

Outcomes DD representation data template - OC2.3

Question

Thank you for sight of the company-specific outcomes DD representation data template (pro forma). For table OC2.3 for 'ODI type' when 'NFI' is selected we would expect the majority of the line to then automatically turn to white (to reflect the design of App1 for NFI PCs) as the financial cells are not then applicable.

Response

Where a PC is (or is being proposed as) non-financial, we do not require the financial information such as ODI rates to be completed.

Reporting guidance on common PC on PSR

Question

We have a number of questions on the "Reporting guidance – Common performance commitment for the Priority Service Register".

1. The commitment refers to 'based on one year's data' within actual and attempted contact – please can you clarify on the definition of one year's data. Is this the data at 31 March of each reporting year?

2. Is there guidance on what could be included in each category within PSR reach to ensure consistency amongst companies?

3. Page 4 paragraph: For the avoidance of doubt, households that have been put on the PSR within the last two years up to 31 March will be excluded from this exercise. This means that if a household was registered in year 1 (2020-21), we would not expect this household to be contacted until year 3. This does not, however, preclude contact being made within these types of households during this period, if their circumstances warrant more frequent contacts, only from recording these households for the purposes of this metric.

Questions on this paragraph are:

a) The last two years up to 31 March – 31 March when? Is it 31 March 2020?

b) What if there are some households that were registered prior to last two years 31 March that have not had contact yet. Are these to be reported on in year 1?

c) For annual reporting in 2020, 2021, 2022 does that mean that we are not expected to provide a figure as paragraph states excluded from exercise?

d) If contact is made with year 1 registrations before year 3 – do we report or not as paragraph states exclude? If not – when should they be reported?

Response

1. The first reporting year runs from 1 April 2020 to 31 March 2021.

2. There is no further guidance on this at present. You can provide commentary with your submission if you wish to explain your categorisation further.

3.

a. It is the two reporting years preceding the reporting year in question. So for the first year of the price control (1 April 2020 – 31 March 2021), no household placed on the register after 31 March 2019 would be included in the measure. For the second year (1 April 2021 – 31 March 2022), no household placed on the register after 31 March 2020 would be included in the measure and so forth.

b. Yes, these households should be reported in year 1.

c. You are expected to provide figures for these years. After a customer has been on the priority services register in two reporting years they should be included in the measure for the following year.

d. It is not necessary to make contact with these households for the purposes of satisfying the 'attempted contact' measure.

Resilience action plan response date

Question

With our revised business plan, we produced an updated section which formed a significant step towards our resilience action plan. We wonder whether there is any merit in considering the date of the resilience action plan response date of 22 August compared to the DD response of 30 August. It may be helpful for consistency if they had the same date, and whether there had been any thoughts of aligning the dates at 30 August for the resilience action plan?

Response

While there may be interactions between what is submitted as part of the action plan and as part of DD representations, these are different documents which need to be submitted by the 22 and 30 of August, respectively. Action plans should respond to the company's commitment to develop an in-the-round approach to resilience, which the company confirmed in April 2019.

Submitting App28 as part of representations

Question

Do we still need to submit an updated App28 as part of our representation, assuming there have been data changes, in light of the new developer services data request published as part of the Draft Determination?

Response

We expect companies' views for 2020-25 to remain largely unchanged from the views provided in the 1 April 2019 (or 11 February / 3 September 2018 for fast track companies) business plan submissions and we are not expecting large scale updates to business plan tables to reflect 2018-19 actual performance data.

However, as stated in our query responses, if companies do change their view for 2020-25 in light of:

a) our draft determination and interventions; and/or

b) their 2018-19 actual performance (and the impact this has on their updated forecast in 2019-20)

then they should update the affected business plan tables and resubmit these along with clear commentary in support of the change in company view.

In the case of developer services data request, we are happy to receive the updated table if there has been data changes.

Representations format

We previously stated in the common Q&A (see "Making representations" below) that "companies should provide their draft determination representations using the templates that we have provided. However, companies are able to provide their representations in any form and we will consider them."

We want to clarify that our requirements have not changed and remain as stated in the Water 2020 methodology. Companies' documents and files should be submitted in file formats that can be opened in Excel, Powerpoint and Word (as well as in a readable pdf format) and be capable of being used by multiple teams. We use standard Microsoft software.

Published 12 August 2019

Real price effect adjustment

Question

Page 144 of the “Securing cost efficiency technical appendix” states that Ofwat will “…include a real price effect adjustment for wages based on OBR real wage forecasts with a true up for manufacturing wages at the end of the period”. The Europe Economics report refers to the ONS “All Manufacturing” wage index. Please could Ofwat provide a specific hyperlink/reference to the index that it intends to use for the true up. We require this information to comment meaningfully on the proposed true up mechanism.

Response

We are yet to make a decision on which index we will use to index manufacturing wages. We consider that it will be important that any index is reliable, timely and accurately measures input costs. We are therefore keen to understand views on which specific manufacturing wages index would be most appropriate and why. This should encompass whether this should cover annual, weekly or hourly pay, whether this should include or exclude bonus payments and/or whether this is based on the average weekly earnings (AWE), annual survey of hours and earnings (ASHE) or the index of labour costs per hour (ICLH).

Board assurance and financeability

Question

In their representations on the Draft Determination, companies are expected to provide Board assurance of the financeability of the Business Plan, under a number of scenarios. On what basis should this assurance be provided? We have been asked to consider changes to the expenditure tables as against the Draft Determination. Should we also resubmit the full financial model so as to calculate allowed revenues against this revised expenditure? If not, it is not clear how the Board could provide assurance on the financeability of the plan.

Response

The PR19 methodology sets out our expectations for companies for providing Board assurance that its plan is financeable on both its actual capital structure and on the notional capital structure specific to their circumstances. As set out in the 'PR19 draft determinations: Aligning risk and return technical appendix', we expect companies to provide further Board assurance to confirm that they can maintain long-term financial resilience, taking account of the interventions we have made to their plans and the reasonably foreseeable range of plausible outcomes of their final determination including evidence of further downward pressure on the cost of capital in very recent market data.

Making representations

Question

Should companies provide representations in a particular format?

Response

Companies should provide their draft determination representations using the templates that we have provided. However, companies are able to provide their representations in any form and we will consider them.

Overwriting material in data tables

Question

Do you expect companies to overwrite the Data Tables file we submitted in conjunction with April 2019 business plan?

Response

Where companies are making changes, we expect companies to overwrite the tables and mark these changes in red formatting in the tables.

Data tables to submit as part of representations

Question

Can you clarify the data tables you are expecting companies to submit? For example, changing WS1 would impact on many other tables whose output is from the financial model.

Response

The tables we expect companies to submit are set out in table RP4 of the 'PR19 draft determinations - Company representation pro forma' published on our website. As confirmed in the guidance, companies can provide additional tables in support of their representations.

Information to submit as part of representations

Question

We previously queried Ofwat's guidance note that stated that 'companies were required to only resubmit tables where changes have been made from their 1 April submission by 10am on 30 August 2019.' We wanted to clarify whether these changes included changes to 18/19 forecasts to actuals.

The answer we received on 30 July stated ' Apart from in past delivery where we received updated data on 15 July, we expect company views to remain unchanged from their view on 1 April 2019 (or 11 February 2019 / 3 September 2018 for fast track companies) unless otherwise stated. If companies change their view, for example due to an updated view on costs following our draft determination, or to reflect 2018-19 annual performance data, companies should update their data tables accordingly. Any updated data tables should be reflected in their representations.'

However on 2 August in your published DD Q&As, we noted the following query 'Do companies send back the data tables requested, including APR actuals and updates where there are knock on effects on other tables?'

The answer to this query was 'Companies should provide the tables we have requested. APR actuals were submitted in July, so we can use data from there. If there are knock on effects and the company believes other tables need to be updated, they should submit these with a clear commentary as well. We are not expecting largescale updates to business planning tables to reflect 2018- 19 actual data.'

We believe these answers conflict with each other. Please can you confirm which is correct? We would appreciate an urgent response.

Response

We clearly set out in table RP4 of the PR19 Draft Determination company representation pro forma, the tables and information we require companies to submit, as a minimum, for the final determination as part of their representations.

To reiterate, we expect companies' views for 2020-25 to remain largely unchanged from the views provided in the 1 April 2019 (or 11 February / 3 September 2018 for fast track companies) business plan submissions and we are not expecting large scale updates to business plan tables to reflect 2018-19 actual performance data.

However, as stated in our query responses, if companies do change their view for 2020-25 in light of:

a) our draft determination and interventions; and/or
b) their 2018-19 actual performance (and the impact this has on their updated forecast in 2019-20)

then they should update the affected business plan tables and resubmit these along with clear commentary in support of the change in company view.

If, for completeness, companies wish to also update their tables to reflect their actual performance in 2018-19 as reported in their 2019 Annual Performance Report then that is acceptable.

Setting collars for multiplier values

Question

How did Ofwat determine the size of the multipliers it used to set collars for the common PCs?

Response

We chose multipliers that would lead to collars that generally included the worst performance across the industry for each performance commitment. We consider that this is an indication of the performance level under plausible circumstances against which a company should ensure that it is resilient. This analysis was based on the historical performance data that companies provided in their business plan submissions for each performance commitment. Companies provided data for varying numbers of years and we used the information provided. In a small number of cases there were clear company performance outliers for particular years, and we excluded this information from the industry dataset. We chose multipliers to the nearest 0.5 that would include poor performance from across the industry.

If you consider that it is not appropriate to have financial incentives to provide services that are resilient in such circumstances you should set this out in your representation, setting out evidence why it is not appropriate.

Priority service register performance commitment

Question

In relation to the common performance commitment for the Priority Service Register, please can you confirm that the following is considered to be an attempted contact; a letter that is individually addressed to the customer(s), which includes full instructions on how to contact the company to reconfirm their details or any change in their circumstances, that is sent in the same envelope as the bill

Response

Please refer to the following statement in the reporting guidance for this common performance commitment (pg4), 'We have not set out in detail what we consider an 'attempted contact' to be. This is because we consider it the company's responsibility to ensure its approach is tailored to customer preferences (e.g. method of contact) and that it satisfies itself that it is using reasonable endeavours to make contact with relevant households.'

Cap on enhanced rewards

Question

Within the PR19 draft determinations: Delivering outcomes for customers' policy index it states: "Beyond that threshold (enhanced performance threshold), we set a cap on the outperformance payments that can be earned from any one enhanced ODI in any year equal to 1% of ether water or wastewater regulated equity as relevant."

Our query is to confirm whether that 1% cap applies to the value of the enhanced element of rewards only, or does this include the value of the standard rewards earned before reaching the enhanced threshold as well.

For example, if we had a water based measures with a total standard reward value up to the enhanced threshold for enhanced rewards of £2m, and the 1% of regulated equity for the water based enhanced measures was £5m, then would the potential enhanced rewards available equal £3m or £5m.

Response

The 1% cap applies to the enhanced element of the rewards only. In the case described, the reward available would be £5m.

Legacy mechanism decisions

Question

Will we have the opportunity to make representations on legacy mechanism decisions, given that we only submitted updated information on 15 July, so the DD does not incorporate our latest view? If so, please confirm when we should do so.

Response

We set out our views on past delivery interventions as part of the draft determinations. In the initial assessment we also set out our view on where additional data was required from companies as part of the 15 July 2019 submission.

We will be updating our view of the PR14 reconciliations taking into account our draft determination interventions and any representations made on these, together with the past delivery update information (15 July 2019 submission) and whether the updated information has addressed any concerns we previously raised. We will consider whether the interventions we made at the draft determination remain appropriate for the final determination. We will provide full details in the final determination.

We consider that there should be no need for companies to make representations on our final determination legacy mechanism decisions. Using published models, the PR14 reconciliation rulebook and our IAP and draft determination assessments, we consider companies can confidently predict how their updated information will affect the various revenue and RCV reconciliation adjustments. On that basis, we do not expect new issues to arise requiring consultation.

Sludge disposal

Question

Can you please clarify the definition for Bio1 line 18 and if the intent is to capture all work done for sludge disposal, or only for that done by tanker?

Response

Bio1 line 18 is only intended to capture all work done for sludge disposal by tanker only (by volume transported). Since you only transport by truck, line 18 is not applicable to you and therefore should contain a zero value. Lines 16 and 17 are applicable to you. We collect the work done in tankers by volume as well as by tonnes of dry solids as it helps to understand the thickness of sludge transported by tanker. It gives an indication of the number of tanker journeys transporting wet sludge, which is not revealed to the same extent with the information on work done by tonnes of dry solids.

Econometric model reruns

Question

In the technical appendix, it is mentioned that the econometric models will be re-run using 2018-19 data. When will you publish/share the new master data including this year?

Response

We are in the process of updating our model data for 2018-19 with the recent companies' APR submissions. During this process, it is likely we will send queries to companies. Provided that we receive timely responses to any of our queries, we intend to publish the updated data by 16th August.

Cost to serve for measured and unmeasured customers

Question

The DD financial model we received has the same cost to serve for both measured and unmeasured customers. Can you please advise on if this differentiation is found somewhere in the publications/models or do we receive this only at FD?

Response

Our approach to residential retail at PR19 is different to that of PR14. We have a single cost to serve figure for all customer types. We do not provide different cost to serve figures for metered and unmetered customers.

WINEP phasing

Question

We have a query relating to WINEP phasing and would like to include some graphics to support our query however, they do not lend themselves to this excel spread sheet. We have therefore also sent this query as an email with the graphics included. I hope this is acceptable to Ofwat.

In our call on 24 July, we provided Ofwat with further detail of a potential WINEP rephasing and outlined our concerns that the current Phosphorous enhancement modelling would underestimate the efficient level of costs if scheme delivery was split across two price control periods. Ofwat requested that we submit a formal query outlining this issue for consideration. This query is outlined below.

We are proposing to phase the completion of 15 of our WINEP Phosphorus schemes into year 1 of AMP8 (2025/26). Our intention is to phase the bill impact whilst maintaining compliance with the designated UWWTD dates of May 2026.

The phasing shifts the delivery of the schemes forward by one year. These are complex construction schemes and the full duration can last up to five years dependent on scale and scope. The diagram provided shows a typical spend profile for a 4 year scheme and the phasing impact. The majority of the spend remains in AMP7 however the output is now delivered in the first year of AMP8.

Ofwat's modelling (Wholesale Wastewater Enhancement feeder model: P-removal) uses the following inputs:
• P removal cost data from WWS2 (AMP7)
• Population Equivalent values from WWn4 lines 18-19. (AMP7 years only)
• Numbers of sites with improved P total and Number of sites with improved P <=0.5mg/l, calculated from WWN4 (AMP7 years only)

By phasing the delivery of schemes into AMP8, the inputs into Ofwat’s models (both the P.E values and ‘the number of sites with improved P’) are affected. If the current model is re-run, there would be no cost allowance for the rephased schemes in AMP7, despite the bulk of the expenditure being required in AMP7 in order to deliver the scheme for an AMP8 compliance date.

The table provided sets out the issue for an indicative single scheme example below – highlighting that the current approach would give zero AMP7 cost allowance for a phased scheme.

Could Ofwat provide guidance as to how we best ensure that your modelling will result in an efficient allowance for the enhancement expenditure required, if we choose to phase schemes?

For example, we have identified two possible solutions below.

1. We resubmit the tables apportioning the outputs by the spend profile in our plan. Eg. If x% of the spend in our plan is in AMP7 then we would include x% of the outputs in WWN4.
2. Populate the tables as in the original submission, but Ofwat complete a bespoke

adjustment, post modelling, to ensure efficient cost allowances in the periods in which expenditure is incurred.

We have considered whether transition expenditure for AMP8 would be appropriate mechanism to address this. However, due to the scheme durations, (as per diagram) a large proportion of the expenditure will be required before the final year of AMP7 which is, under the current transition methodology, the only year in which transition expenditure would be allowed.

Our aim is to minimise the cost impact on customers in the period, however we are keen to ensure we are allowed appropriate costs within AMP7 to achieve the AMP8 outputs.

Response

We recognise the potential issue you have highlighted concerning schemes that are re-phased so that their capex profiles extends across two price control periods.

Please submit any evidence to support your claim for a bespoke adjustment (as per your option 2), including forecast capex and opex profiles for each P removal scheme you propose to re-phase with a delivery date in AMP8 and the forecast p.e. served by each scheme. Please note that a revised table Wwn4 should be populated according to the stated definitions (so that any re-phasing of completion dates into AMP8 will result in reductions to the reported p.e. numbers in the AMP7 period).

A transition programme has featured in the price review methodology at both PR14 and PR19, and it is likely that we will consult on one at PR24 as well. This would give you an additional year to complete any re-phased P removal schemes under PR24 funding. In view of this, please make sure to justify the expected lead-in time to deliver any re-phased schemes for which partial funding is sought at PR19. We expect you to take into consideration potential efficiency gains in delivering re-phased P removal schemes, which could shorten the required lead-in time, from the delivery of your AMP7 programme.

Totex sharing

Question

In last week's Outcomes webinar, it was suggested that final company specific cost sharing rates would be used to adjust ODI rates at Final Determination.

While we are aware that a default 50% sharing rate is used in the equations for determining ODI rates, we would like to seek further clarification of what the above suggestion might mean in practice.

Are you able to clarify the nature of any FD adjustments, perhaps with a worked example?"

Response

For the draft determinations, we have we kept totex-sharing rates at 50:50, but will consider further whether this is appropriate in all cases for final determinations. The decision on this issue has not been made yet.

Company specific efficiency factor

Question

"Technical Appendix-Securing cost efficiency" outlines the approach to applying the 'Company specific efficiency factor' to enhancement expenditure for the deep and shallow dives. Could you please provide the calculations of how the 'Company specific efficiency factor' is calculated from the Botex+ models in "FM_WW4_ST_DD.xlsx" and "FM_WWW4_ST_DD.xlsx

Response

We refer you to our published "Company efficiency factor" feeder model published with draft determinations where the calculation of the company efficiency factor is done.

Published 2 August 2019

Revised cost sharing rates weighting 1

Question

In section 8.1 of the securing cost efficiency technical appendix you state the revised cost sharing rates, will these be used for the weighting of both the September cost gap and the revised cost gap for the DD representation?

Response

We propose to use the revised cost sharing rates instead of the original rates. We will use it in reference to a single gap, namely the gap between our final view of totex and the company view of totex, where the latter is calculated as the average of the company's view of totex in its September business plan and its view of totex at DD representations.

Revised cost sharing rates weighting 2

Question

In section 8.1 of the securing cost efficiency technical appendix you state the cost sharing rate will be 50/50 weighting on the September business plan and the final business plan. Will this weighting be applied to the percentage cost gaps, not on the weighting on the cost sharing rate percentage?

Response

Neither. The weighting will apply as follows: 50% on the company's view of totex per its September business plan and 50% on its view of totex per its final submission at DD representation. The cost sharing rates will then be determined by the ratio of the company (average) view of totex to our final view of totex. As fast track companies accepted our cost baselines, as long as they continue to do so they will be awarded 50:50 sharing rate.

Revised cost sharing rates across price controls

Question

In your calculation of cost sharing rates for water resources and network plus, you have based the cost sharing rates on the total gap of water as opposed to separate gaps for each price control and separate sharing rates, will this be applied in the same way at final determination?

Response

In section 9.3.3 of our PR19 final methodology we state "For the water resources and water network plus controls, we will set the same cost sharing rates. That is, the same outperformance sharing rate across the controls, and the same underperformance sharing rate. The sharing rates will be determined on the basis of the totex ratio, where totex is the combined totex of the water resources and water network plus controls."

We will apply the same methodology for final determinations.

Diversions and new connections

Question

We have a number of queries relating to the data tables.

Wastewater sheet

PR19 Data request, July 2019 – Developer Services – Wholesale water

Block A. Line 1.

The guidance says 'Totex expenditure on diversion works requested under section 185 Water Industry Act 1991.'

Please could you confirm if developers pay 100% of the cost of the diversion should we report:

- the full cost of the diversion borne by developers or the 'developers expenditure' or,
- zero if no expenditure is incurred

Block A. Line 2.

The guidance says 'Totex expenditure on diversion works requested under New Roads and Street Works Act 1991.'

Please could you confirm, where we contribute x% of the cost of diversions, under NRSWA, should we report:

- the net x% cost which is the company's contribution or
- 100% of the cost of the diversion for NRSWA schemes

Block D. Line 25.

The guidance says 'The total cost of new connections (excluding NAVs) where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity).'

Please could you confirm should the data we report be

- the total value of the network that has been built, or
- the total value of only the adopted parts of the network that have been built

And should the cost of new connections also be inclusive of the developer fees that are charged for adoptions?

Response

Block A lines 1 &2: The request is for expenditure – the full totex expenditure incurred by the water company before consideration of any offsetting income.

Block D L25: You should consider the total value of the network that has been built. Developer fees that are charged for adoptions should not be netted off costs. The fees you receive from developers are inside the price control and as such need to be considered as an income stream, ie an element of grants and contributions.

Adjustments to efficient base opex final allowance

Question

Please can you explain what adjustments are made to Efficient base opex - NPW (final allowance) £m on Financial Model inputs in Feeder Model WW4_ST_DD prior to Water network operating expenditure (amount for totex CR) - real (reference C_WNOPEXFM_PR19FM008) on F_Inputs in the Financial Model.

Response

The totex figure does not change between what is reported in feeder model 4 and in the financial model. Please ignore the “financial model inputs” tab in feeder model 4. The base opex/capex split figures in feeder model 4 are not used in the financial model. The correct capex/opex split is implemented in the financial model through the cost sharing model and these figures should be used for reference. We explain how we have calculated the capex opex split of our totex allowance for the financial model in section 8.5 on page 102 of the securing cost efficiency technical appendix.

Resilience investment

Question

Where can we find more information about where we have not provided you with sufficient evidence to justify our resilience investment proposals?

Response

Our criteria for assessing resilience expenditure is explained within PR19 draft determinations: Securing cost efficiency technical appendix, section 4.4 and we provide company specific assessments of resilience expenditure within the deep dive tabs of the feeder models, Wholesale WaterEnhancement feeder model: Resilience and WholesaleWastewater Enhancement feeder model: Resilience. For freeform expenditure requests please see the models, Wholesale Water Enhancement feeder model: Freeform and WholesaleWastewater Enhancement feeder model: Freeform. These models will detail the assessment or indicate where the expenditure was reallocated to for assessment.

Where relevant, the key details of our assessments of your cost adjustment claims is included in Cost adjustment claim feeder model [company]. This information will provide details on our challenges to your resilience expenditure that you can review.

Outcomes representations data submission pro forma

Question

We cannot find the “PR19 draft determinations - Outcomes representations data submission” that you refer to in RP4 of the representation pro forma. Can you direct us to it please?

Response

This pro forma is not yet available but will be released very shortly.

Rates used for RORE ranges

Question

There appears to be inconsistencies between the company specific outcomes appendix incentive rates where interventions have taken place, the company specific outcomes and actions interventions and the graphical indications from page 148 of the "Delivering outcomes for customers" policy appendix. Would it be possible to publish the rates used and how this relates to the P10 : P90 RORE ranges in the Draft Determination?

Response

We note that the graphical indication on page 148 of the policy appendix is normalised, whereas the figures presented in the company specific documents are not. We will shortly publish the data underpinning the charts in Annex 2.

We have explained how we have adjusted p10 and p90 estimates to take into account our interventions at a performance level and how we have applied a scaling methodology to move from these revised estimates at a performance commitment level to an estimate at the overall company level for outcome delivery incentives. However, the company should form its own view of P10 and P90 performance and the interdependencies between different aspects of performance and interrelations (if any) between different years to calculate its overall outcome delivery incentive RoRE range.

ODI rates and targets

Question

The outcomes policy document refers to the checks on the different types of ODI rates and targets, and the consequences of these. It is not always clear to us which of these have applied (or not) from the outcomes policy appendix. Is it possible to provide an overall summary for these interventions and which applied to which ODI and why?

Response

The outcomes policy appendix lists the performance commitments to which the different types of checks apply. Where the results of our checks led to interventions, this is set out in the action intervention appendix.

Leakage and PCC target

Question

It was verbally confirmed during the outcomes webinar on 24 July that for leakage and PCC the 19/20 baseline is based on a three-year average (i.e. an average of 17/18, 18/19 and 19/20 performance) and not an annual declaration (i.e. 19/20 performance only). We would however like to re-confirm this is the case.

Response

The 2019-20 baseline for companies for leakage and per capita consumption will be the actual performance, not forecast. It will be calculated on the three year average of 2017-18, 2018-19 and 2019-20.

Pro forma and accepting Ofwat interventions

Question

In the pro forma and any accompanying documentation, should we only address areas of challenge or should there also be written confirmation of agreement with any applicable interventions from Ofwat as required? For example, should we include in the pro forma interventions which we accept?

Response

The primary purpose of the representations pro forma is to make it clear what the areas of disagreement are in companies' representations. We have not asked for a complete list of where companies agree with our interventions, so that companies can focus their representations on key issues. Companies are however free to include confirmation of agreement with our interventions where they consider it useful to do so.

Action tracker

Question

Are companies to update and send the action tracker back on the 30th August as well as the pro forma?

Response

We do not need the action tracker. The pro forma uses the reference numbers from the action trackers. Companies can respond in the pro forma to the key issues for them. They can also flag agreement with our interventions here.

Providing data tables

Question

Do companies send back the data tables requested, including APR actuals and updates where there are knock on effects on other tables?

Response

Companies should provide the tables we have requested. APR actuals were submitted in July, so we can use data from there. If there are knock on effects and the company believes other tables need to be updated, they should submit these with a clear commentary as well.

We are not expecting largescale updates to business planning tables to reflect 2018-19 actual data.

Data table requirement clarification

Question

In the PR19 draft determination company presentation pro forma - PR19 draft determination representation table (DP4), the guidance note requests companies to only resubmit tables where changes have been made from their 1 April submission by 10am on 30 August 2019.

We are not clear on the type of changes the note refers to and would be very grateful if you could clarify whether:

- this relates to changes for 18/19 data from forecast to actuals

- or changes relating to our representations

You have also requested for any data changes to be highlighted in red, but we are unable to do this as the data table file formatting is locked.

Response

Apart from in past delivery where we received updated data on 15 July, we expect company views to remain unchanged from their view on 1 April 2019 (or 11 February 2019 / 3 September 2018 for fast-track companies) unless otherwise stated.

If companies change their view, for example due to an updated view on costs following our draft determination, or to reflect 2018-19 annual performance data, companies should update their data tables accordingly. Any updated data tables should be reflected in their representations.

We are not expecting largescale updates to business planning tables to reflect 2018-19 actual data.

DPC

Question

What is expected from companies on DPC, what may be required by 30th August, and what may be required “in life” as schemes are developed?

Response

We expect companies to process the projects that Ofwat signalled should be progressed as DPC projects unless they intend to challenge Ofwat's decision in this area. If companies are not challenging our DPC decisions on specific projects, we do not expect them to submit further info on 30 Aug.

Next steps: Companies should develop business cases for relevant projects to determine whether DPC represents value for money for customers. Companies should also provide a timeline for the relevant project life; including points at which they intend to interact with Ofwat (this will form the basis of further discussions between Ofwat and the company).

Following the DPC conference held in April, Ofwat issued a process note to attendees setting out our proposed DPC approach. We intend to consult on this in September.

There is a DPC inbox that companies can submit any DPC queries to (dpc@ofwat.gov.uk).