

December 2019

PR19 final determinations

Glossary

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Company acronyms

AFW	Affinity Water Limited
ANH	Anglian Water Services Limited
BRL	Bristol Water plc
HDD	Hafren Dyfrdwy Limited (NAV comprising former parts of Dee Valley Water and Severn Trent Water in Wales)
NES	Northumbrian Water Limited
PRT	Portsmouth Water Limited
SES	Sutton & East Surrey Water plc (trading as SES Water)
SEW	South East Water Limited
SRN	Southern Water Services Limited
SVE	Severn Trent Water Limited (England)
SWB	South West Water Limited
SSC	South Staffordshire Water plc (South Staffs Water)
TMS	Thames Water Utilities Limited
UUW	United Utilities Water Limited
WSH	Dŵr Cymru Cyfyngedig
WSX	Wessex Water Services Limited
YKY	Yorkshire Water Services Limited

Initial assessment test areas

EC	Engaging customers
AV	Addressing affordability and vulnerability
OC	Delivering outcomes for customers
LR	Securing long-term resilience
CMI	Targeted controls, markets and innovation
CE	Securing cost efficiency
RR	Aligning risk and return
PD	Accounting for past delivery
CA	Securing confidence and assurance

Acronyms and terms

Term	Acronym	Definition
Adjusted cash interest cover ratio	AICR/ ACICR	<p>The adjusted cash interest cover ratio (AICR) is similar to interest cover, but measures the scope to make interest payments after meeting costs that have been expensed and RCV run-off.</p> <p>AICR is a more conservative measure than the unadjusted interest cover and provides an indication of coverage assuming companies could not reduce RCV run-off.</p> <p>This is a key financial ratio for the assessment of financeability.</p>
Bioresources		<p>Bioresources refers to wastewater sludge transport, treatment, recycling and disposal.</p>
Basis point	bp	<p>A basis point is one hundredth of a percentage point. It is commonly used as a unit to describe differences in the yield of financial instruments.</p>
Bespoke performance commitment		<p>Bespoke performance commitments are performance commitments that individual companies may have, based on their own customers' priorities (see performance commitment).</p>
Caps and collars		<p>Caps and collars are the limits on outperformance and underperformance payments for an ODI, respectively.</p>

Term	Acronym	Definition
Customer measure of experience	C-MeX	We are introducing a new customer experience measure, C-MeX (customer measure of experience), to replace the service incentive mechanism (SIM). C-MeX compares the experience of a water company's customers with that of other water companies, and the experience of customers in other sectors. It covers the satisfaction of all water company customers, not only those who have contacted their water company.
Common performance commitment		Common performance commitments are performance commitments that all companies must have, to allow us to make direct comparisons across the sector (see performance commitment).
The Consumer Council for Water	CCWater	The Consumer Council for Water is the independent representative of household and business water consumers in England and Wales.
Cost of capital		<p>The allowed cost of capital is an important component of overall allowed revenue and the customer bill. It is necessary to provide debt and equity investors with a return that is commensurate with the level of risk that underpins their investment. We set the cost of capital with respect to the notional capital structure.</p> <p>Our 'early view' of the cost of capital is 3.4% on a real CPIH basis or 2.4% in RPI terms.</p>

Term	Acronym	Definition
Consumer prices index	CPIH	Consumer Prices Index including owner occupiers' housing costs.
Compliance risk index	CRI	The Compliance Risk Index (CRI) is a measure designed to illustrate the risk arising from treated water compliance failures, and it aligns with the current risk based approach to regulation of water supplies used by the Drinking Water Inspectorate (DWI).
Customer challenge group	CCG	CCGs are groups of stakeholders that challenge companies on the quality of their customer engagement, and how well the company's proposed outcomes, associated commitments and outcome delivery incentives reflect their customer engagement and wider consumers' views and priorities.
Deadband		Deadbands are a specified range of performance levels where the ODI underperformance or outperformance payment is zero.
Direct procurement for customers	DPC	Direct procurement for customers is an alternative approach, through competitive tendering, for water companies to deliver large scale, discrete programmes of work by means of a third party, which potentially may include the design, construction, financing, ownership, operation and maintenance of an asset.

Term	Acronym	Definition
Developer services measure of experience	D-MeX	For the first time, we are setting an explicit incentive to improve experiences for new connections customers called D-MeX (developer services measure of experience). D-MeX encompasses a customer satisfaction survey and performance on key service metrics.
Environmental Performance Assessment	EPA	The Environmental Performance Assessment was introduced by the Environment Agency in 2011 as a non-statutory tool for comparing performance between water and wastewater companies operating mainly in England. It uses measurable environmental indicators to provide a meaningful comparison of performance across the nine water and wastewater companies.
Financeability		Financeability is the ability of appointed water companies to finance their functions through debt, equity or retained earnings.
Funds from Operations	FFO	Funds from operations measures companies' debt burden in relation to operational income. This is a key financial ratio for the assessment of financeability. It is also a key ratio for rating agencies, although each rating agency may make specific adjustments to FFO and/or net debt for its calculations.

Term	Acronym	Definition
Gearing		Gearing measures the capital structure of companies and is therefore critical to the assessment of financeability. This is also a key financial ratio for rating agencies, although each rating agency may have its own definition of net debt.
IAP		Initial assessment of business plans
iBoXX indices		Bond indices compiled by IHS Markit and commonly used as a regulatory benchmark for the cost of debt. Where not spelt out fully, the reference is to the iBoXX GBP-denominated non-financials index of bonds with maturity 10 years or more, rated A (A+ to A-) or BBB (BBB+ to BBB-).
Interest cover		Interest cover measures the ability to meet interest payments from operational sources of cash generation.

Term	Acronym	Definition
Long-term financial viability statement	LTVS	<p>A long-term viability statement (LTVS) sets out a company's Board of directors assessment of whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, taking into account the company's current position and principal risks. The statement should explain the assessment undertaken including an appropriate set of stress tests and over an appropriate forward-looking period. The aim is to provide stakeholders with greater transparency about the steps companies take to ensure long term financial resilience. We require all water and wastewater companies to produce LTVS.</p>
Natural capital		<p>Natural capital can be defined as the world's stocks of natural assets which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of services which make human life possible.</p>
Nominal bills		<p>Nominal bills are bills as they would be charged in prices of the day, and do not require adjustment for inflation.</p>

Term	Acronym	Definition
Notional capital structure		<p>In defining an efficient company, we set a notional capital structure that is consistent for all companies with a proportion of debt to total regulatory capital at 60 per cent for PR19. The notional capital structure also incorporates our view of the mix and cost of new and embedded debt raised by an efficient company. The notional company is used to set the allowed cost of capital, and for the financeability and RoRE assessments.</p>
Notional regulatory equity		<p>Regulatory capital value x (1 - notional gearing)</p>
Outcome delivery incentive	ODI	<p>Outcome delivery incentives (ODIs) are the financial or reputational (non-financial) incentives for companies to outperform and avoid underperformance against each of their performance commitments.</p> <p>Most performance commitments have ODIs that will be assessed and settled on an annual basis during the price control period (an 'in-period' ODI); some performance commitments will be assessed and settled once at the end of the price control period (an 'end-of-period' ODI).</p> <p>ODIs with financial incentives may be structured to be triggered in the event of either outperformance or underperformance (referred to as 'out and under' type of ODI), only in the event of outperformance ('out'), or only in the event of underperformance ('under').</p>

Term	Acronym	Definition
Pay as you go	PAYG	<p>PAYG is the proportion of total allowed expenditure that is recovered in each year of the price review period.</p> <p>Along with RCV run-off, balances the recovery of costs between different generations of customers.</p> <p>A company's choice of PAYG and RCV run off rates affects bills for current and future customers.</p>
Performance commitment	PC	<p>Performance commitments are the level of performance that companies commit to deliver for customers. They are the means to hold companies to account for their service delivery. Each performance commitment has an associated outcome delivery incentive (ODI).</p>
PCC		<p>Per capita consumption</p>
Priority services register	PSR	<p>The priority services register is a register of people that require extra help from their water company. Examples of the help are: bills in braille, more warning of supply interruptions and setting a password that a water company employee will use if they visit the customer's home.</p>
P10		<p>P10 is the PC performance threshold at which there is only a 10% chance of outturn performance being worse.</p>

Term	Acronym	Definition
P90		P90 is the PC performance threshold at which there is only a 10% chance of outturn performance being better.
Real bills		Real bills are bills adjusted for inflation.
Regulatory capital value	RCV	<p>Regulatory capital value (RCV) is a vital component of how price limits are calculated, and represents a measure of the capital base of a company when setting price limits. It reflects the allowed expenditure to be recovered from future customers.</p> <p>Expenditure not recovered in the current period through PAYG is added to RCV and recovered in future periods through RCV run-off. The RCV is inflated each year to maintain the RCV at current prices.</p>
Retained cash flow	RCF	Retained cash flow is a measure of a company's cash flow from operational activities after paying dividends.

Term	Acronym	Definition
RCV run-off		<p>RCV run-off is a measure of the annual depreciation of the RCV to reflect the long-term nature of the benefit to customers of the previous investment a company has made in its assets.</p> <p>Along with PAYG, the RCV run-off balances the recovery of costs between different generations of customers.</p> <p>A company's choice of PAYG and RCV run-off rates affects bills for current and future customers.</p>
Regulatory equity		<p>Regulatory equity is regulatory capital value less net debt.</p>
Retail margins		<p>The retail margin is a component of the overall cost of capital allocated to the retail price controls.</p> <p>As there is no RCV associated with the retail price controls, the retail margin gives a return to investors based on the total costs of each retail price control.</p> <p>For our early view, we use a pre-tax retail margin of 1% for residential retail activities and business retail activities in Wales for customers using up to 50 megalitres of water a year and wastewater customers.</p> <p>An adjustment is made to the cost of capital for the wholesale controls to take account of the retail margins.</p>

Term	Acronym	Definition
Return on capital employed	ROCE	Return on capital employed represents the returns made by the providers of both debt and equity finance.
Return on regulatory equity	RoRE	Return to shareholders as a proportion of the equity component of RCV calculated by reference to the notional capital structure.
RPI		Retail Price Index
Service Incentive Mechanism	SIM	The Service Incentive Mechanism (SIM) is the performance measure used in PR14 to assess and compare the level of customer experience provided by the companies to their customers.
Tonnes of Dry Solid	TDS	Tonnes of dry solid is a measure of the volume of sludge.
Total expenditure	Totex	Total expenditure is capital expenditure and operating expenditure.
Upper-quartile		Upper-quartile is a level that 25% of companies have already achieved, or are forecast to achieve.

Term	Acronym	Definition
Weighted average cost of capital	WACC	The weighted average cost of capital is calculated as the cost of equity multiplied by the percentage of equity assumed for the notional company plus the cost of debt multiplied by the percentage of debt assumed for the notional company. It represents the allowed return for the providers of equity and debt finance.
Water Industry National Environment Programme	WINEP	(WINEP) in England which sets out the measures companies are required to undertake to meet their environmental outcomes.
Water treatment works	WTW	Water treatment works

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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