

Information notice

IN 20/04 April 2020



This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

Expectations for PR19 blind year reconciliation of PR14 incentive mechanisms

This information notice sets out the way in which we expect the largest water companies in England and Wales to update their reconciliation of the 2015-20 incentive mechanisms to reflect their actual performance in 2019-20.

Potential impacts of COVID-19 pandemic

As Rachel Fletcher set out in her [letter](#) to company chief executives of 19 March 2020, all water companies are working extremely hard at the absolutely critical work of providing customers with reliable water and wastewater services, while protecting their employees' welfare as the UK contends with the effects of COVID-19.

We are very much aware that this will have consequential impacts across companies' businesses, some of which are uncertain at this time. At present, we expect that companies are likely to be able to proceed with submitting their annual performance reports and accompanying submissions by 15 July without impacting on the provision of essential services. However, we recognise that the situation is fast moving.

Consequently, if a company considers that it may not be able to deliver a complete and/or appropriately assured 2019 price review (PR19) blind year reconciliation submission (or more generally the annual performance report and accompanying submissions) by the deadline because of the impacts of the COVID-19 pandemic, it should contact us. We will then engage with the company to understand what issues it faces and how we can ensure that there is no impact on the delivery of essential services as a result of the submission of information to us. Companies should initially contact us by email at FinanceAndGovernance@ofwat.gov.uk clearly setting out what they expect the impacts to be and why, and their proposed options for an appropriate way forward.

Background

The reconciliation for performance over the 2015-20 period included in the PR19 final determinations was based on 2019-20 forecasts, since outturn data was not available at that time. In our [PR19 reconciliation rulebook – proposed approach and policy consultation](#) we explain that we treat this year as the ‘PR19 blind year’ and set out our proposed approach for the blind year adjustment. This requires companies to refresh their PR14 reconciliations to replace the 2019-20 forecast performance with 2019-20 actual performance.

Reporting requirements

For the ‘blind year’ update we require companies to update their reconciliations by replacing the 2019-20 forecasts with 2019-20 actual performance data which they will report in their 2019-20 annual performance reports; and, take account of the interventions we made in the PR19 final determinations. We explained our interventions in the past delivery final decisions documents and implemented them in the past delivery models. The final determination documents and models are published on [our website](#).

We confirm in ‘[PR19 reconciliation rulebook – proposed approach and policy](#)’ (section 2.3, table 4) that 2010-15 reconciliation, residential retail SIM and business retail SIM do not require further adjustment.

The reconciliations covered by the PR19 blind year adjustment of 2015-20 reconciliations are:

- land sales;
- outcome delivery incentives (ODIs) – more information on the process is provided below;
- residential retail;
- totex menu;
- wholesale revenue forecasting incentive mechanism (WRFIM); and
- water trading incentives (where appropriate).

For the PR19 blind year update we will repeat the process we used in PR19 for the “July 2019 past delivery update”. The information we expect companies to provide is comprised of:

- data tables;
- populated reconciliation models;
- populated RCV adjustments feeder model;
- populated revenue adjustments feeder model; and
- supporting commentary.

We provide a [table template](#) to collect the 2019-20 performance data and recalculated reconciliation adjustments from companies. The tables are not pre-populated. The columns for the years 2015-16

to 2018-19 are not active in the template because companies have already submitted the actuals data to us in the July 2019 past delivery submission.

Companies should ensure the actual 2019-20 performance data used in their reconciliations is identical to their 2019-20 annual performance reports and that the 2019-20 performance data is consistent in the completed tables and models.

We do not expect companies to change values for 2015-19 performance data in the published final determination models or to modify the model calculations. If companies consider that data for years prior to 2019-20 should be amended, then this should be set out clearly in the table commentary with an appropriate level of explanation.

Companies should include a summary of the key movements compared to the PR19 final determinations in their supporting commentary. They should also provide positive confirmation that they have not made changes to the historic 2015-19 performance data in the models or to the main calculation and outputs sheets of the models.

Blind year in-period determination for ODIs

In the PR19 final determinations we designated all PR14 performance commitments as in-period for the purposes of the blind year adjustment for 2019-20. We set out that we would make an adjustment based on the difference between the revenue we allowed based on forecast performance in 2019-20 and what it would have been if actual performance in 2019-20 had been known.

In order to calculate this, we will use two versions of a new [PR19 blind year ODI performance model](#) (based on the 2020-25 ODI performance model we are proposing in '[PR19 reconciliation rulebook - reconciliation model guidance](#)'). Companies should complete this new model in respect of 2019-20, with:

- one version for performance assumed at PR19 so that the model calculates values as at the PR19 final determination; and
- one version for actual performance and resulting ODI payments.

At PR19, companies did not provide their detailed calculations for ODIs payments at a performance commitment level in a prescribed standardised format. Companies only provided the resulting payments. We completed the relevant calculations independently and where we found a difference we set out our calculation in detail in the ODI model that we published on [our website with the final determinations](#).

We will work with each company to agree and finalise before June 2020 the version of the PR19 blind year ODI performance model with the performance assumed at PR19. As mentioned in '[Expectations for monopoly company annual performance reporting 2019-20](#)' we ask companies to provide an initial

copy of the version with the performance assumed at PR19 by 30 April 2020. For models submitted by 30 April, we will review and either confirm that the model reflects the final determination accurately, or suggest changes by 29 May 2020. Companies should then use the agreed version to create the second version of the model in which they replace the 2019-20 forecast performance with 2019-20 actual performance to update the resulting ODI payments.

Companies should provide the version completed with actual performance and resulting ODI payments and a completed [PR19 blind year ODI difference model](#) in their PR19 blind year information alongside their annual performance reports in July 2020.

Where underperformance or outperformance payments cannot be calculated using the calculations within the ODI performance model from reported performance, and must be entered into the model as a value, we provide a [non-standardised ODI calculation pro forma](#) for companies to set out the calculations that they have used.

If a company believes that it may not be able to provide an initial version of the ODI performance model that reflects the PR19 final determination by 30 April because of the impacts of the COVID-19 pandemic, it should contact us by email at FinanceAndGovernance@ofwat.gov.uk.

Next steps

We will upload the blank table template and new PR19 blind year ODI performance model for each company to complete in a folder for the 'PR19 blind year reconciliation' on our SharePoint DCS website.

We expect companies to provide their:

- initial version of the ODI performance model with performance assumed at PR19 by 30 April; and
- PR19 blind year information by 15 July 2020 (at the same time as their annual performance reports).

Companies should upload these submissions to our SharePoint DCS website in the folder for the 'PR19 blind year reconciliation'.

More information

[IN 20/03: Expectations for monopoly company annual performance reporting 2019-20, April 2020](#)

[Data table template for the PR19 blind year submission](#), [Excel template](#)

[PR19 blind year ODI performance model](#)

[Non-standardised ODI calculation pro forma](#)

[PR19 blind year ODI difference model](#)

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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