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21 August 2020

Dear Regulatory Director,

Bioresources price control allowed revenue: clarification

I am writing about the price control for bioresources activities, following a number of enquiries that we have received about the relationship between our final determination, which set out the price control, and the PR19 financial model. We want to clarify that the revenue allowed to the Appointed Business in relation to bioresources activities is that calculated in accordance with the price control set out in our final determination and to inform you of our proposed next steps in relation to the PR19 Reconciliation Rulebook.

For relevant companies, our final determination will of course be replaced by the CMA's determination in due course.

Background

Our final determination (the document entitled 'Notification of the PR19 final determination of Price Controls' for your company) sets out the price control for bioresources activities and the allowed revenue. We are conscious that the PR19 financial model incorporates an additional step – a Net Present Value (NPV) adjustment. This adds a degree more complication, but generally makes very little difference to allowed revenue. That is why for companies' draft and final determinations we used a simplified approach which did not include this adjustment.

Although our draft PR19 Reconciliation Rulebook was clear that our intended approach was that companies should take inputs from their final determination, it also proposed calculations which included an NPV adjustment.

As part of our post-final determination query process and our consultation on draft PR19 Reconciliation Rulebook some companies told us they found our approach unclear and that it appeared to be inconsistent. We are therefore sending this letter to clarify the position.

Next steps for the PR19 Reconciliation Rulebook

We also consider that the approach in our forthcoming PR19 Reconciliation Rulebook should be different from that in our draft PR19 Reconciliation Rulebook. The change will be to make it clear that the reconciliation at PR24 will be based on your final determination and that there will be no NPV adjustment. This less complicated approach is appropriate and proportionate because it is consistent with your final determination and an NPV adjustment will in this case generally make very little difference to allowed revenue.

We hope that the above clarification is helpful. If you have any comments or concerns, please let me know by **5pm 4 September 2020**.

Yours sincerely,

Alex Whitmarsh

Principal Economist