

# Information notice

28 April 2022

## IN 22/02 Cost assessment data requests

This information notice is relevant to all large appointees.<sup>1</sup> This information notice sets out requests for data, to inform and support the development of cost assessment and related areas for PR24. The areas are set out in Table 1 below.

**Table 1: Areas of data request**

No	Data request	Purpose	Deadline	Template & guidance
1	Base modelling data	To help inform the assessment of base costs at PR24.	15 July 2022	<ul style="list-style-type: none"> <li>• <a href="#">Base and residential retail data request</a></li> </ul>
2	Residential retail bad debt data	To help inform the assessment of residential retail costs at PR24.	15 July 2022	<ul style="list-style-type: none"> <li>• <a href="#">Base and residential retail data request</a></li> </ul>
3	Water balance data	To help inform development of PR24 performance commitments relating to reduction in demand.	15 August 2022	<ul style="list-style-type: none"> <li>• <a href="#">Enhancement and water balance data request</a></li> </ul>
4	Enhancement modelling data	To capture outturn cost and benefit data for enhancement activities currently underway	15 August 2022	<ul style="list-style-type: none"> <li>• <a href="#">Enhancement and water balance data request</a></li> </ul>
5	Leakage reporting data	To help inform our approach to assessing company proposals in water resource management plans and PR24 business plans.	15 August 2022	<ul style="list-style-type: none"> <li>• <a href="#">Leakage data request</a></li> <li>• <a href="#">Leakage information request – supporting guidance</a></li> </ul>
6	Developer services site-specific information	To help inform our approach to regulating developer services at PR24.	15 August 2022	<ul style="list-style-type: none"> <li>• <a href="#">Developer services site-specific data request</a></li> <li>• <a href="#">Developer services information request – supporting guidance</a></li> </ul>
7	Growth expenditure data	To help inform the assessment of growth costs at PR24.	15 August 2022	<ul style="list-style-type: none"> <li>• <a href="#">Growth expenditure data request</a></li> </ul>

<sup>1</sup> By "large appointees" we mean companies holding appointments as water undertakers and /or sewerage undertakers under the Water Industry Act 1991 for whom we set individual price limits.

We highlighted these data requests in the [IN 22/01 Expectations for monopoly company annual performance reporting 2021-22](#) published in March 2022. The following sections set out briefly further background and context on the reasons we are requesting the data for each area. The data requests have been discussed extensively with water companies and in many cases reflect direct requests from water companies to consider additional data in our cost assessment approach.

We are mindful of the regulatory burden of responding to multiple requests at the same time. Therefore, we are taking a **staggered approach with two deadlines**:

- By no later than **15 July 2022** to respond to the data requests 1 and 2 alongside the annual performance report (APR) submission; and
- By no later than **15 August 2022** to respond to the data requests 3 to 7 (inclusive).

**We ask companies to provide accompanying commentary alongside the completed data request**, to set out:

- the approach/methodology taken to complete each table and any assumptions that have been applied; and
- an indication of the level of confidence behind the data provided in each table (eg RAG ratings).

**Please provide accurate and complete data**, ensuring that you have undertaken appropriate assurance of the data so that it can be used alongside other data in the APR. Please state in your response the assurance process you have followed for the submitted data.

Please email the completed data requests and any accompanying commentary to [CostAssessment@ofwat.gov.uk](mailto:CostAssessment@ofwat.gov.uk).

If you have any issues with completing the data requests by the required dates or wish to discuss any aspect of the data requests, please contact us using the same email address.

## **1. Base modelling data request**

This data request includes the data lines we propose to collect to inform the assessment of base costs at PR24. We considered a total of 30 data lines proposed by companies in response to our December 2021 consultation '[Assessing base costs at PR24](#)' including:

- water cost drivers;
- wastewater cost drivers; and
- data to support PR24 cost adjustment claims.

The data request follows company requests to consider additional cost drivers and factors in our PR24 cost assessment approach, which requires the consideration of comparative data. We have selected these data lines after considering company feedback through a number of different forums:

- in response to the December 2021 consultation '[Assessing base costs at PR24](#)';
- further stakeholder engagement undertaken at the 16 March (base data) Cost Assessment Working Group (CAWG); and
- further written responses by companies setting out their feedback on collection for each of the 30 data lines.

Annex 1 sets out the full list of 30 data items we considered, the items we selected and a summary of the rationale for selection. As part of this process, we considered whether data items have good company support. We then assessed the items across a set of criteria aligned to our cost assessment principles:

- exogeneity;
- clear engineering and economic rationale;
- materiality;
- data availability; and
- data quality.

## **2. Residential retail data request in relation to bad debt**

This request for information relates to companies' residential retail data. We want to understand the extent of any over- or under-provisioning for bad debt, in particular in relation to the impact of the Covid-19 pandemic.

We consulted on our intention to collect additional information in our December 2021 consultation '[Assessing base costs at PR24](#)'. We discussed this issue at the CAWG on 16 March 2022.

We are grateful for stakeholders' engagement on this issue. We have considered this in finalising this request.

## **3. Water balance data**

This data request includes the data lines we propose to collect to help inform development of PR24 performance commitments relating to reduction in demand. The collection of this data aligns with Defra's proposed long-term statutory environmental targets and Defra's strategic

policy statement for Ofwat.<sup>2</sup> The strategic policy statement specifically expects us to account for any relevant statutory targets when assessing water efficiency measures in water companies' business plans, and monitoring water company performance. The data pulls together existing information from annual performance reporting and water resource reporting and therefore we do not consider it represents a significant additional reporting burden.

We have developed these data lines after considering company feedback provided in response to the 17 March 2022 base modelling data feedback request.

#### **4. Enhancement modelling data**

We want to consider if the PR19 enhancement models can be improved for PR24. This includes whether we can make greater use of historical data in our benchmark models, and how we can better incorporate nature-based solutions into our benchmarks. We discussed this topic with companies at CAWG sessions in February and March 2022. Meeting presentation material and meeting notes are published on the PR24 working group website: [PR24 working groups and workshops - Ofwat](#).

We have developed the enhancement modelling data request following these sessions and subsequent feedback from companies. This will capture outturn cost and benefit data for enhancement activities currently underway which may be used to help inform PR24 benchmarking models.

#### **5. Leakage data**

We are requesting more granular data relating to the costs and benefits of maintaining and reducing leakage levels to inform our approach to assessing company proposals in water resource management plans and PR24 business plans. Companies are generally supportive of collecting more granular data to support a more detailed review of leakage requirements at PR24. The Competition and Markets Authority (CMA) also supported further leakage data collection in the PR19 redeterminations.<sup>3</sup>

This data will allow us to assess the efficient costs of leakage management and to understand the effectiveness of leakage management strategies adopted by companies. This data can be

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<sup>2</sup> Defra, ['The government's strategic priorities for Ofwat'](#), February 2022 and Defra, ['Consultation on environmental targets'](#), May 2022

<sup>3</sup> Competition and Markets Authority, ['Ofwat Price Determinations'](#), March 2021

used by companies to explain why they have adopted their preferred leakage management approach.

This data request is based on collaboration with companies through the cost assessment working group and a consultancy project to develop and define leakage data requirements to support more granular and consistent reporting across the industry.

We have focused on the collection of data that we expect to be readily available and that are used by companies to manage and prioritise their leakage activities. We have also drawn upon data items that are currently already shared between some companies on an informal basis. Through the collaborative working process the dataset has been refined to provide a balance between the minimum necessary to adequately inform improved understanding of leakage, while minimising the additional regulatory reporting burden on companies.

We have set out additional supporting guidance for this data request. The link is provided in Table 1.

## **6. Developer services information request**

This information request will collect additional site-specific developer services data from incumbent water and wastewater companies for the 2021-22 charging year.

Combined with the 2020-21 data already collected, this information request will provide two years of developer services data. This will help to inform our approach to regulating developer services at PR24 that we will set out in our PR24 final methodology in December 2022. More specifically, the data we receive will help us to:

- better understand the state of competition in the developer services market;
- improve developer services cost assessment; and
- refine existing uncertainty mechanisms within the price control.

We have simplified the 2021-22 information request based on our analysis of 2020-21 developer services data. This should reduce the regulatory burden on companies.

We set out supporting guidance in a separate document, which describes the simplifications we have made to request and includes data definitions. The link is provided in Table 1.

## **7. Growth expenditure data**

At PR19, we included costs driven by population growth (ie growth expenditure) in our wholesale base cost models. One of the reasons for this approach was related to the inconsistencies in historical reporting of growth expenditure, particularly between operating and capital expenditure, and between growth and capital maintenance expenditure. These

reporting inconsistencies would distort the results of standalone growth models. In its PR19 redetermination, the CMA agreed with our assessment and assessed growth expenditure as part of our base cost models.<sup>4</sup>

Some companies have suggested we should explore the assessment of growth expenditure separately from base costs at PR24. We are open to considering this. But we can only consider it if we can robustly separate growth expenditure from base costs. This criterion was included in our proposed criteria for adjusting the scope of wholesale modelled base costs at PR24 in our December 2021 consultation '[Assessing base costs at PR24](#)'.

This data request will therefore collect historical outturn developer services expenditure data between 2011-12 and 2021-22 in the same format as APR Tables 4N and 4O. We discussed collection of this data with companies at the 7 April CAWG session and in a follow up feedback request. Companies demonstrated good support for collecting it, to support our assessment of growth expenditure at PR24. APR Tables 4N and 4O were only collected for the first time in the 2020-21 APR. Previously, developer services expenditure data was not separately identified in the APR or other company cost submissions. We ask for the data to be provided back to 2011-12 to align with our PR19 wholesale base cost models, to enable us to consider adjusting the scope of modelled base costs.

Expenditure reported should align with the same categories of expenditure used to calculate developer services charges for English companies, according to Ofwat's charging rules for new connection services (English Undertakers) effective from 1 April 2018.<sup>5</sup> All expenditure should be reported before the deduction of any discounts offered to developers (eg income offset).

We also ask companies to outline where these costs were included in their historical cost data so that we can make appropriate adjustments. For example, we understand that some companies report growth expenditure in operating expenditure and third-party services.

We recognise this data request may be time consuming to complete for some companies. But we consider this information is crucial in providing confidence to us and customers that water companies are reporting growth expenditure consistently. This should increase confidence that growth expenditure can be robustly separated from base costs and reduce

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<sup>4</sup> Competition and Markets Authority, '[Ofwat Price Determinations](#)', March 2021, pp. 298-299.

<sup>5</sup> Ofwat, '[Charging Rules for New Connection Services \(English Undertakers\) issued by the Water Services Regulation Authority under sections 51CD, 105ZF, 143B and 144ZA of the Water Industry Act 1991](#)', October 2021.

the risk of double funding. The additional years of data may also support the development of standalone growth benchmarking models.

We are in the process of evaluating written responses from companies on their assessment of growth cost driver lines discussed at the 7 April (growth data) CAWG. We will follow up with a separate data request to companies in May 2022 if we consider it is appropriate and necessary to collect additional growth cost driver information for PR24.

## Annex 1: full list of base modelling data items considered

Item	Collected	Rationale
1 Average aggressivity of soil types in operating area	No	Potentially endogenous; unclear materiality; limited support for collection from companies; data available from third-party sources.
2 Seasonality - ratio of peak to average water demand volume	Yes	Readily available; could allow examination of potential cost driver/cost adjustment.
3 Average summer temperature, Average winter temperature – water	No	Data available from third-party sources (MetOffice); engineering rationale unclear.
4 Water Resources costs - expanding the information previously reported at PR19 in Wr2 to account for capex	No	Limited company support; potentially disproportionate - increases complexity of reporting and data quality likely to be poor at this level of granularity.
5 Load and consent levels for band 6 STWs in 2013-14, 2014-15 and 2015-16 (based on a subset of data in table 7B in the APR)	Yes	Good company support; proportionate - only three years of missing data.
6a Load and number of STWs subject to a UV treatment consent (table 7D extension) – breakdown by categories of permit	Yes	Good company support; ensures consistency of data collection on UV (UV data already collected in table 7B for large STWs).
6b Average number of days that UV permit applies per year	Yes	Good company support; readily available information; needed to capture actual UV permit where permits are seasonal.
7 Percentage of load treated at coastal STWs	No	Limited company support; definitional issues; capturing data on UV consent alongside other consent information can potentially account for key variances between coastal and non-coastal sites; potentially more endogenous than UV consent or kilometres of bathing waters.
8 Seasonality - ratio of peak to average waste load volumes	No	Limited company support; no readily available metrics.
9 Average summer temperature, Average winter temperature – wastewater	No	Data available from third-party sources (MetOffice); engineering rationale unclear.
10 Total number of mechanical assets (Sewage Collection)	No	Limited company support; potential endogeneity.
11 Total number of civil assets (Concrete and GRP) (Sewage Treatment)	No	Limited company support; potential endogeneity.
12 Proportion of sewage that flows through combined sewers	No	Limited company support; potential correlation with existing base cost drivers; data quality concerns.
13 Whole-life cost information relating to incurred enhancement costs expenditure	No	Limited data available; data quality concerns; can only be collected on a forward-looking basis.
14 Base totex by size band and phosphorus consent level	No	Limited data available; data quality concerns; opex data already collected in APR tables 7A and 7B so potentially disproportionate.
15 Operating and capital maintenance information by water treatment works (or assemblages of works). Analogous to Large STW table	No	Limited data availability and quality; potentially disproportionate - increases complexity of reporting and unclear how information can be used.

Item		Collected	Rationale
16	Biodiversity net gain – activities delivered and totex	No	Limited company support; limited data available; data quality concerns as biodiversity net gain was voluntary historically; some endogeneity concerns.
17	Lengths of trunk main by diameter (18"; 24"; 36"; 42+")	No	Limited company support; unclear engineering and economic rationale; potentially correlated with density; information on mains by size already collected in APRs.
18	Base totex to maintain trunk mains by diameter	No	Limited company support and concerns regarding data quality; unclear engineering and economic rationale.
19	Number of customers connected by diameter of trunk main	No	Limited company support; unclear engineering and economic rationale; potential definitional issues and data quality concerns.
20	Number of large reservoir assets by type	No	Limited company support; unclear engineering and economic rationale for 'large' reservoirs; potential overlap with existing scale drivers.
21	Base totex to maintain large reservoir assets	No	Limited company support; unclear engineering and economic rationale.
22	Total number of impounding reservoirs with each impounding reservoir within a chain counted separately	Yes	Readily available.
23	Average age of the reservoir fleet, measured from first construction	No	Limited company support; potential endogeneity.
24	Internal sewer flooding events caused by severe weather	No	Potential endogeneity; risk of perverse incentives.
25	Sewers with diameter between 925mm and 1500mm and above 1500mm	No	Limited company support; unclear engineering and economic rationale; potentially correlated with density.
26	Sewers with diameter between 925mm and 1500mm and above 1500mm within 3km of coast	No	Limited company support; unclear engineering and economic rationale; potentially correlated with density.
27	Proportion of connected properties with a cellar	No	Limited company support; limited data available; data quality concerns.
28	Proportion of flooding events that occur in cellared properties	No	Limited company support; limited data available; data quality concerns.
29	Lengths of main by age, material and pressure, material	No	Limited data available for pressure; data quality concerns; potential endogeneity.

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	Item	Collected	Rationale
30	Mains bursts per km by age, material of main and pressure, material of main	No	Limited data available for pressure; data quality concerns; potential endogeneity.