

July 2022

Creating tomorrow, together: Consulting
on our methodology for PR24

PR24 Glossary

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Company acronyms

AFW	Affinity Water
ANH	Anglian Water
BRL	Bristol Water
HDD	Hafren Dyfrdwy
NES	Northumbrian Water
PRT	Portsmouth Water
SES	SES Water
SEW	South East Water
SRN	Southern Water
SVE	Severn Trent Water
SWB	South West Water
SSC	South Staffs Water
TMS	Thames Water
UUW	United Utilities
WSH	Dŵr Cymru
WSX	Wessex Water
YKY	Yorkshire Water

Acronyms and terms

Term	Acronym	Definition
Adjusted cash interest cover ratio	AICR	<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. 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>
Affordability		<p>The ability of customers to pay their water bill. We propose a two-part approach for PR24:</p> <ul style="list-style-type: none"> • Customers receive services that are affordable and provide value for money. • Residential customers who are struggling to pay or who are at risk of struggling to pay their bills receive easy access to assistance.
Aggregate sharing mechanism		<p>Our proposed mechanism that reduces the financial impact of very high or very low performance beyond certain thresholds on customers and companies.</p>
Allowed return		<p>The allowed return on capital is applied to the RCV to provide a revenue allowance for efficient financing costs. It is set in real (CPIH) terms, with respect to the notional capital structure.</p>
Bioresources		<p>Bioresources refers to wastewater sludge transport, treatment, recycling and disposal.</p>

Term	Acronym	Definition
Basis point		A basis point (often abbreviated to 'bp') is one hundredth of a percentage point. It is commonly used as a unit to describe differences in the yield of financial instruments.
Bespoke performance commitment		Performance commitments that do not apply to all water companies. Some companies may have the same bespoke performance commitments as other companies.
Business customer and retailer measure of experience	BR-MeX	Performance commitment designed to improve outcomes for business customers in England. See 'Measures of experience'.
Caps and collars		Caps and collars are the limits on outperformance and underperformance payments for each PC, respectively.
Catch-up challenge		Efficiency savings required by the least efficient companies in the sector to catch-up to the most efficient companies
Collaborative customer research		We are working collaboratively with CCW and companies to do research that will inform common parts of business plans, including to determine overall customer priorities, to inform setting of initial ODI rates (see below) and a common approach for companies to test customer views of the affordability and acceptability of business plans and our draft determinations.
Collaborative approach in Wales		Working with key Welsh stakeholders, we have a collaborative approach to identifying the high-level outcomes to be achieved for PR24 and the phasing of these outcomes across the long-term delivery strategies for Welsh companies.

Term	Acronym	Definition
Common performance commitment		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	CCW	The Consumer Council for Water, known as CCW, is the independent representative of household and business water consumers in England and Wales.
Customer challenge group	CCG	Ofwat required each company to have a CCG during preparation for PR14 and PR19. For PR24 we have set standards for high-quality research, customer challenge and assurance of customer engagement that we expect all companies to meet. Each company is determining its own solution to meeting these standards – some companies have decided to retain their CCG, which brought together 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.
Customer measure of experience	C-MeX	Common performance commitment designed to improve outcomes for residential customers in England and Wales. See 'Measures of experience'.
CCW's 'challenge oversight group'	COG	The COG brings together representatives of each company's customer challenge arrangements, aiming to improve standards of customer engagement and customer challenge across the sector, led by CCW.
Deadband		Deadbands are a specified range around a performance commitment level where no financial incentives apply.

Term	Acronym	Definition
Department for Environment, Food and Rural Affairs	Defra	Defra is the UK government department responsible for improving and protecting the environment. It aims to grow a green economy and sustain thriving rural communities in England.
Environment agency	EA	The Environment Agency, established in 1996 has responsibilities to the protection and enhancement of the environment in England.
Natural resource Wales	NRW	Natural Resources Wales was formed in 2018 and is the largest Welsh Government Sponsored Body and receives a remit from Welsh Government each year.
UK government Strategic policy statement	UKSPS	The Strategic policy statement sets out the government's priorities for Ofwat's regulation of the water sector in England.
Welsh Government's strategic objectives and priorities		The Strategic policy statement sets out the government's priorities for Ofwat's regulation of the water sector in Wales.
Developer services measure of experience	D-MeX	Performance commitment designed to improve outcomes for developer services customers in England and Wales. See 'Measures of experience'.
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
Drinking Water Inspectorate	DWI	The DWI is the independent regulator of drinking water supplies in England and Wales, ensuring that water companies supply safe drinking water that is acceptable to customers and meets the standards set down in law. The DWI also ensure the resilient delivery of wholesome and sufficient drinking water.
Enhanced incentives		First introduced at PR19, they are designed to encourage companies to innovate to deliver major performance improvements beyond the best level currently achieved by any company.
		Companies with enhanced incentives start to earn higher payments if their performance exceeds stretching enhanced thresholds that have been set for specific performance commitments.
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 sewerage companies (WaSCs) operating wholly or mainly in England.
Financeability		The financeability assessment is a test of the sufficiency of cashflows from the price control package as a whole. It allows us to assess whether the determinations provide sufficient cash flows to service debt interest and repayments for a company with the notional capital structure for the period of the price control.
Funds from Operations / net debt	FFO /net debt	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 percentage of a company's regulatory capital value that is financed by debt 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.
iBoxx indices		Bond indices compiled by IHS Markit and commonly used as a regulatory benchmark for the cost of debt.
Interest cover		Interest cover measures the ability to meet interest payments from operational sources of cash generation.
Long-term delivery strategies	LTDSs	With a focus on the 'long-term' for PR24, companies now need to submit, alongside their business plans, a long-term (25-year) delivery strategy that outline the long-term outcomes the company aims to deliver, and the key investments and activities that form the best pathways to achieving them.
Long-term financial viability statement	LTVS	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.

Term	Acronym	Definition
Measures of experience		Performance commitments that measure the experience of residential customers (C-MeX), developer services customers (D-MeX) and business customers in England (BR-MeX). Incentive payments are based on companies' relative performance each year.
National Environment Programme	NEP	Sets out the requirements expected of companies to meet their environmental outcomes in Wales
Natural capital		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.
Nature-based solutions		Actions to protect, sustainably manage and restore natural or modified ecosystems, that address societal challenges effectively and adaptatively, simultaneously providing human well-being and biodiversity benefits. ¹
Nominal bills		Nominal bills are bills that capture the impact of inflation or the amount prices rise year-on-year. Customers pay bills in nominal terms.
Notional capital structure		We set an allowed return and test financeability using an assumed capital structure for the notional company. We make assumptions for notional gearing, share of new debt, and share of index-linked debt.
Notional regulatory equity		Regulatory capital value x (1 - notional gearing)

¹ Definition from the International Union for Conservation of Nature (IUCN).

Term	Acronym	Definition
Outcome delivery incentive	ODI	Outcome delivery incentives are the financial consequences for companies associated with their performance commitments. Incentive payments are determined by multiplying a company's performance relative to its performance commitment level by an incentive rate.
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, it balances the recovery of costs between different generations of customers.</p> <p>The choice of PAYG and RCV run off rates affects bills for current and future customers.</p>
Performance commitment	PC	Performance commitments are the measures of performance that we hold companies to account for when delivering outcomes for customers and the environment.
Performance commitment level	PCL	Performance commitment levels are the levels of performance for each performance commitment that efficient water companies are funded to deliver through our price review.

Term	Acronym	Definition
Price Control Deliverable	PCD	Price control deliverables will be used to ensure that customers receive the performance and outputs they have funded through enhancement allowances. PCDs are appropriate where investment is material, and the outcome cannot be easily or directly linked to a performance commitment. PCDs will set out the key outcomes or outputs of enhancement expenditure, so that stakeholders and customers know what to expect from the funding provided. This includes presenting the likely impacts on outputs and outcomes (eg PCLs) for beyond 2030 where applicable.
Priority services register	PSR	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.
Real bills		Real bills are bills which do not reflect the impact of inflation or the amount that prices rise year-on-year. They are measured in the prices of an initial or base year.
Regulatory capital value	RCV	The 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.
		Expenditure not recovered in the current period through PAYG is added to the RCV and recovered in future periods through RCV run-off. The RCV is inflated each year to maintain the RCV at current prices.

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>The choice of PAYG and RCV run-off rates affects bills for current and future customers.</p>
Retail margins		<p>The retail margin is an allowed return which funds risk and financing costs associated with our retail controls. A gross margin is a mark-up over wholesale costs, while a net margin is a mark-up over wholesale costs plus cost-to-serve. We cap the level of margin charged at the level of the overall control, however the underlying margins faced by different customer groups may vary.</p>
Retail margin adjustment		<p>An adjustment we make to the appointee-level allowed return on capital to avoid double-counting compensation for risk embedded in the appointee-level allowed return as well as the retail margin. The adjusted figure is the wholesale allowed return which is applied to the wholesale RCV.</p>
Regulatory equity		<p>Regulatory equity is the regulatory capital value less net debt.</p>
Return on regulatory equity	RoRE	<p>RoRE is a post-tax measure of return that is calculated with reference to the notional capital structure. RoRE is often calculated and presented as a variation from the allowed return on equity based on performance against our price review incentives.</p>
Total expenditure	Totex	<p>Total expenditure is capital expenditure and operating expenditure.</p>

Term	Acronym	Definition
Wales PR24 forum		The specific forum that will drive the collaborative approach in Wales between public bodies and the water companies that is laid out in the Welsh SPS. Core attendees are Welsh Government, Natural Resource Wales, CCW, the Drinking Water Inspectorate and the Welsh water companies
Water Industry National Environment Programme	WINEP	Sets out the requirements expected of companies to meet their environmental outcomes in England
Welsh Government	WG	The devolved government for Wales
Vulnerability		A customer who due to personal characteristics, their overall life situation or due to broader market and economic factors, is not having reasonable opportunity to access and receive an inclusive service which may have a detrimental impact on their health, wellbeing or finances.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
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