

PR24 draft methodology webinars: Design and implementation of price controls – questions and answers

13 July 2022

1. I see why you might want to keep protection for customers in small developments, but why does it need to be part of the single till? (South East Water)

We haven't said firmly that will be the case. As part of our consultation, we are seeking views on how to appropriately protect developer services customers if small developments are outside of the price controls. We invite proposals on how to achieve this.

Further information: [Appendix 3 - Developer services](#), pages 3-4, 26.

2. Any early thoughts on whether storm overflows would qualify as direct procurement for customers (DPC) or are they too integrated? (Northumbrian Water)

They would need to meet the £200m threshold. If any did, we would assess on a case-by-case basis.

3. Could you expand more on the rationale for increasing DPC threshold please – as you say it will lead to fewer schemes being eligible, are you thinking they would be more appropriate and attractive to the market? (Dŵr Cymru)

The procurement process carries a certain amount of costs, so there has to be a margin and they have to be investable. Speaking to a number of people the recommendation is to raise the threshold – the 5 years inflation would have eroded some of the original threshold. The higher threshold will make schemes more investable and therefore more attractive for investors.

4. I was surprised at your decision on indexation of retail. Surely the current spike in inflation shows why this is not a good idea (South East Water)

We are not making significant changes for our approach to residential retail or business retail. Allowed revenue will be tied to the number of customers that companies serve.

As at PR19, we would not index companies' allowed revenue for retail activities. Instead, we would provide an allowance for expected input price pressure at the

outset of the price control. This approach provides an incentive on retailers to manage input costs given they are best placed to do so.

Further information: [PR24 draft methodology consultation document](#), page 35.

5. If Ofwat believes that small developers need price protection that goes beyond charging rules, would a price control (eg weighted average charge increase) be more effective than a revenue control which tries to make total recovery align with a forecast? (Severn Trent Water)

We are happy to receive suggestions in response to the consultation. The developer services appendix details why we are not proposing a separate developer services price control.

Further information: [Appendix 3 – Developer services](#), pages 18, 23–28.

6. On the Developer Services control, you say the decisions in relation to Wales assume that the New Connection charges rules will be issued by April 2025. Is there a timescale for when that needs to happen by in order to be applied in the PR24 methodology? (Dŵr Cymru)

We will look at this issue in time for final methodology, in coordination with our Welsh colleagues.

7. For network plus control, why do we still have K factors? They add complexity. You do not have them for retail or bioresources. (Severn Trent Water)

K factors are a longstanding and well-understood feature of price controls in the water sector. Water company licences require us to set price controls for Network Plus Activities using a CPI(H)+K form of control and we do not currently have any plans to change this. While we recognise the potential opportunities for simplification in relation to parts of Condition B, including the form of control for price controls for Network Plus Activities, this is not a priority at this point in time.

8. Can you confirm the price base you expect for wholesale price controls please? (Wessex Water)

The price base for business plans will be 2022–23 prices.

Further information: [Appendix 13 – Data and modelling](#), p11.

9. What will excluding developer services site specific costs from the price control mean in practice for totex allowances? (Thames Water)

It means it will not be part of the single till and allowed revenue, it will be down to companies to manage associated risks accordingly.

10. Can you provide any clarifications to deriving the DPC procurement costs? (Anglian Water)

It will feature in the revised guidance documents on contracts and procurement principles. If this does not provide sufficient clarity, then please come back via the PR24 mailbox: PR24@ofwat.gov.uk.

11. Is there any view on the use of November CPIH and the impact on k when the inflation is volatile? (Yorkshire Water)

We would be interested in getting your thoughts on this in response to the draft methodology. In the past we have always used November. The use of November data is set out in the licence and so would require a licence change to use something different for network plus controls.

12. Can you elaborate a bit more on what "no automatic indexation" means for retail price control? (SES Water)

We will set a nominal control, set in the pounds that are actually charged rather than indexing for CPIH each year. This is the approach that we use in the existing residential retail price control.

13. Will the rationale for increasing the threshold to £200m for DPC be detailed? (Wessex Water)

It is set out in appendix 5, where we have assessed a number of scenarios and considered the best approach forward. £200m is our proposal, but if stakeholders consider an alternative threshold is more appropriate then we welcome supporting evidence in consultation responses.

Further information: [Appendix 5 – Direct procurement for customers](#).