

PR24 draft methodology webinars: Setting expenditure allowances – questions and answers

13 July 2022

- 1. In figure 1.1 of the main consultation document, it states that an early submission on “cost claims” is due by May 2023. Today (on the "Providing an efficient cost allowance" slide) and in section 2.3.6 of Appendix 9 (Setting expenditure allowances) Ofwat states "we propose an early cost claim submission and publication in summer 2023". Could Ofwat please clarify whether the reference to "summer" is meant to be May 2023 or vice versa? (Bristol Water)**

We are aiming to publish the base cost modelling consultation at the end of March 2023, which will allow companies to submit cost adjustment claims to us by June/July 2023. We will ensure companies have sufficient time to prepare and submit quality cost adjustment claims. We aim to allow companies two months to prepare cost adjustment claims following publication of the cost model consultation.

- 2. Could you please expand on what you mean about resilience including power outages? (South East Water)**

We've set out in the document, some examples of potential areas where we think there are gaps in the current regime (see section 3.2 of Appendix 9 – Setting expenditure allowances). A lot of resilience risks are already covered under base expenditure and through the strategic planning frameworks. It is for companies to come forward when they think they need resilience enhancement expenditure. We want to emphasise that is about increasing risks and this is meant to be based on an overall company risk assessment. We are trying to make sure that we've given companies a mechanism to apply for funding where there are gaps in the current regime.

On power resilience, we would expect companies to discuss with their power company as to who is best placed to manage the risk, reflecting their respective responsibilities. If companies require further clarification on the application of resilience enhancement, it will be best to put this into their consultation response. We may not be able to provide full detail on each case as it may depend on the specifics and require looking into the details which will require us to assess company business plans.

Further information: [Appendix 9: Setting expenditure allowances](#), p61-64

3. Could you please elaborate how you will support a move towards a more outcomes-focused WINEP/ NEP? (Bristol Water)

We think our outcomes and totex framework already provides a good framework for moving towards a more outcomes-based Water Industry National Environment Programme (WINEP) / Welsh Environment Programme (NEP). For example, we are proposing to include new performance commitments on river water quality and bathing water quality, which should assist an outcomes-based approach.

If there are bespoke outcomes which companies consider are needed to pursue an outcomes-based WINEP/NEP in their area, then we are happy to consider those on a case-by-case basis going forward.

Further information: [Appendix 9: Setting expenditure allowances](#), p90–91

4. Regarding price control deliverables (PCDs), is the intention to have only a one-way adjustment to return funding to customers where outputs are not achieved? Or is there potential to design a two-way adjustment for companies to recover efficient costs (with customer protection considered) when additional outputs are delivered? (Thames Water)

One-way adjustment – we are providing enhancement funding, and this is a way to claw back that funding if things are not delivered. We incentivise companies to deliver more through outcome delivery incentives where it is efficient to do so.

Further information: [Appendix 9: Setting expenditure allowances](#), p115–118

5. Please can Ofwat provide clarity on whether and when it would set PCLs? (South Staffs Water; Wessex Water)

We expect companies to set out their view of stretching but achievable PCLs in their PR24 business plans. We will then set PCLs at the price review based on companies' views, historical performance and other external factors.

To assist companies, we will consider what further information could be provided in our final methodology when we have two years of outturn data available for the 2020–25 period. However, we expect to use all information available at PR24 final determination to set an appropriate level of performance to be delivered through base allowances. The further information may simply be additional information on historical performance.

Further information: [Appendix 9: Setting expenditure allowances](#), p79–80

6. Please can you clarify what types of enhancement schemes for net zero will be considered in the usual way and which will be considered through the net zero challenge? (South Staffs Water)

We are looking for companies to propose what they think they can do to reduce carbon emissions through enhancement funding for net zero. Based on companies' proposals, we will set a common level that we will fund all companies up to. For companies that want to go further than the common level, we will consider bids on a competitive process, looking at which companies have the most efficient costs and provide those with more funding based on the additional amount asked for.

Further information: [Appendix 9: Setting expenditure allowances](#), p94-99

7. Could PCDs be two-way for activities such as lead pipe replacement and meter installation? (Severn Trent Water)

Refer to previous answer – no we intend for them to be one-way.

8. On the 20 average spills by 2025 expectation. you may have answered this to one of my colleagues previously but is this the average annual spill at each overflow (i.e. over a certain period of time) or the average number of spills across all of a company's overflows (i.e. total spills /total overflows) in a given year? (Yorkshire Water)

Our intention is that this is the average number of spills across all of a company's overflows (i.e. total spills/total overflows) in a given year.

9. For bioresources the legacy assets are excluded for the application of the catch-up factor. Can I ask will they also be excluded for the application of the frontier shift? (Dŵr Cymru)

We will confirm this response through the query process.

10. To follow up on my previous question. You were clear that companies should submit PCLs and Ofwat will then assess / amend. Normally when asking customers about priorities and WTP/ODI rates etc you would also ask about PCLs. However, it doesn't seem to clear that the Ofwat research is covering this and it is not listed in the types of research you expect companies to do. I'm trying to get clarity so there is not duplication of research (South East Water)

We expect companies to continually challenge themselves to deliver more from base expenditure for customers and the environment, as they did at PR19.

Enhancement investment should be included in business plans if customers support more stretching performance than what can be delivered from base expenditure. Where possible, companies should use the valuations identified by the collaborative research on initial outcome delivery incentives for this purpose. Otherwise, to produce this information, you need to provide customers with information on how much it will cost to deliver the performance improvements beyond what can be delivered from base expenditure to enable them to form an informed view.

Beyond enhancement investment, we agree that the ODI rates research, being delivered within the collaborative customer research, will not provide information that will inform PCLs. Our list of suggested areas for company-specific research includes company-specific outcomes involving investment proposals/schemes and any bespoke performance commitments and related ODI rates (see [section 4.3.2](#)). We provide guidance on producing valuations for bespoke performance commitments using the collaborative customer research methodology in Box 2.2 of [Appendix 8 – Outcome delivery incentives](#).

11. Have you got any overall views on input price pressure and whether you'll be doing any of your own studies on this or rely on companies' submissions? (South Staffs Water)

We do not have any views on this currently.

Further information: [Appendix 9: Setting expenditure allowances](#), p45-46.