December 2022

REC22 December 2022 decision: Guidance for using Ofwat models

Ofwat

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1. Introduction

This document provides guidance to Retailers on how to use the spreadsheet models used by Ofwat for the purpose of our decision on future revisions to the price protections in the Retail Exit Code (REC). We have removed all input data from the spreadsheets to ensure the commercial confidentiality of Retailer data. We have however provided the spreadsheets in a format that will enable Retailers to input their own data into the models in order to understand the detailed calculations behind our proposals.

We have set out instructions for each spreadsheet model to allow Retailers to input their own data and understand the specific calculations behind our consultation proposals.

2. REC22 decision – Group One cost allocation model

This spreadsheet utilises inputs from Retailers' latest Request for Information (RFI) submissions to allocate Retailer total costs to Group One customers. It also converts the nominal costs to real costs by adjusting for inflation. This model outputs a data sheet that sets out, for each Retailer, the allocation of top down costs to Group One in real terms (2021–22 prices) and the allocated number of unique services for Group One customers.

Retailers can enter their own data and output the resulting allocation using the following steps. Each step refers to a specific tab within the REC22 Decision: Group One cost allocation model and sets out the steps needed to input the relevant information. The steps are as follows:

Input – RFI Data

1. Sheet TD_1: Locate the relevant Retailer data table within the sheet. Each table is labelled in the top left with the name of the eight Retailers used in our analysis.

2. Sheet TD_1: Copy and paste the relevant top down cost data from sheet TD1 (historic data) and TD2 (forecast data) of the Retailer RFI taking care to paste data as values to avoid copying over any formulas used in the RFI submission. The data items in table TD_1 of the allocation model should align with the tables in sheets TD1 and TD2 of the Retailer RFI submission.

3. Sheet TD_3: Locate the relevant Retailer data table within the tab. Each table is labelled in the top left with the name of the eight Retailers used in our analysis.

4. Sheet TD_3: Copy and paste the relevant top down cost data from sheet TD3 of the Retailer RFI taking care to paste data as values to avoid copying over any formulas

used in their RFI submission. The data tables in table TD_3 of the allocation model should align with the tables in sheet TD3 of the Retailer RFI submission.

5. Sheet TD5_BU4: Locate the relevant Retailer data table within the tab. Each table is labelled in the top left with the name of the eight Retailers used in our analysis.

6. Sheet TD5_BU4: Copy and paste the relevant top down debtor data from sheets TD5 and BU4 of the Retailer RFI taking care to paste data as values to avoid copying over any formulas used in their RFI submission. The data tables in table TD5_BU4 of the allocation model should align with the tables in sheets TD5 and BU4 of the Retailer RFI submission.

7. Sheet TD6_BU5: Locate the relevant Retailer data table within the tab. Each table is labelled in the top left with the name of the eight Retailers used in our analysis.

8. Sheet TD6_BU5: Retailers should use the revised TD6 and BU5 templates in our Retailer RFI that separated SPIDs by service type and by metered/unmetered. The revised TD6 and BU5 templates were issued to Retailers on the 20 June 2022 and 27 May 2022 respectively. Copy and paste the relevant top down data from sheets TD6 and BU5 of the revised RFI templates taking care to paste data as values to avoid copying over any formulas used in their RFI submission. The data tables in table TD6_BU5 of the allocation model should align with the tables in sheets TD5 and BU4 of the Retailer revised meter reading RFI submission.

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9. Tab Nominal_cost_aggregation: Locate the relevant Retailer data table. Tables are separated for each of the eight Retailers used in our analysis and set out each top down cost item separately. Table 1 sent to Retailers via email sets out the specific figures for each adjustment and lists the relevant row that the adjustment should be applied.

10. Tab Nominal_cost_aggregation: Paste the relevant data from table 1 into the relevant rows, as per the rows listed in table 1.

The specific calculations for allocating Group One costs for each Retailer are available in the individual Retailer calculation sheets. The final output of this model is available in sheet **Output_G1costs_drivers**.

3.   REC22 decision – Cost to serve allowance model

This model uses the output from the REC22 decision Group One cost allocation model to calculate an average cost per unique service for the following cost items:

1. Running costs
2. MOSL, CCW and Ofwat fees
3. Allowance for demand-side water efficiency costs

Retailers can enter their own data and output the resulting average cost to serve per unique service using the following steps. Each step refers to a specific sheet within the REC22 decision cost to serve allowance model and sets out the steps needed to input the relevant information. The steps are as follows:

Input – Group One allocation

1. Sheet Allocation_output: This sheet matches the output sheet of the REC22 decision – Group One cost allocation model.

2. Sheet Allocation_output: Retailers should copy and paste the relevant cost data and unique services from Output_G1costs_drivers into the relevant cost columns in the Allocation_output sheet.

Outputs – average cost per unique service

The specific calculations for calculating average Running costs, MOSL, CCW and Ofwat costs and water efficiency costs are set out in the cost output sheets.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

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