

December 2022

Creating tomorrow, together:  
Our final methodology for PR24

# Appendix 13

## Data and modelling

## About this document

This document is an appendix to [Creating tomorrow, together: our final methodology for PR24](#) and sets out further details of the models that we will use as part of the PR24 process. It covers:

- our approach to modelling at PR24 (section 1); and
- our assessment of reconciliation mechanisms that will be in place for 2025-30 (section 2).

Many of the models have already been shared with stakeholders, for example, we have published a draft financial model alongside our draft methodology. The PR19 reconciliation models, which will be applied as part of the PR24 determinations, have previously been published alongside the PR19 reconciliation rulebook. The further models described in this appendix will become available as we move through the PR24 process with our base cost models due to be published for consultation in spring 2023.

Data populating these models will be primarily collected using business plan tables. More information on the business plan tables is available in chapter 10 of our [final methodology](#).

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## 1. Approach to data and modelling

We will be using a number of models to calculate water companies' price controls. We need information from companies and statistical sources to populate these models.

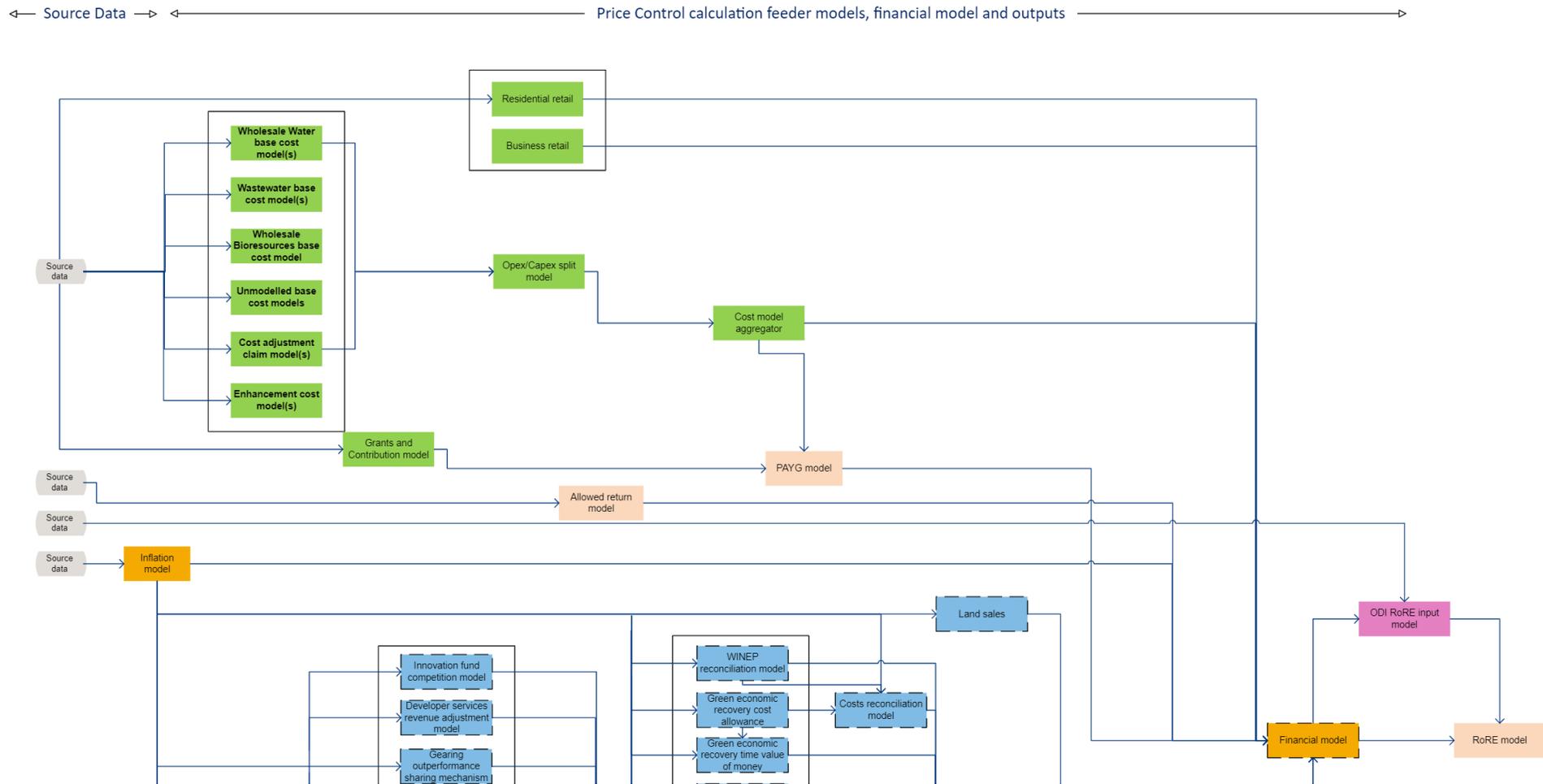
Figure 1.1 below sets out the range of models we anticipate using to set the PR24 determinations for all companies in England and Wales for the 2025–30 period.<sup>1</sup> In particular, it highlights their interactions and dependencies.

We have included additional detail when we anticipate the models described to be published.

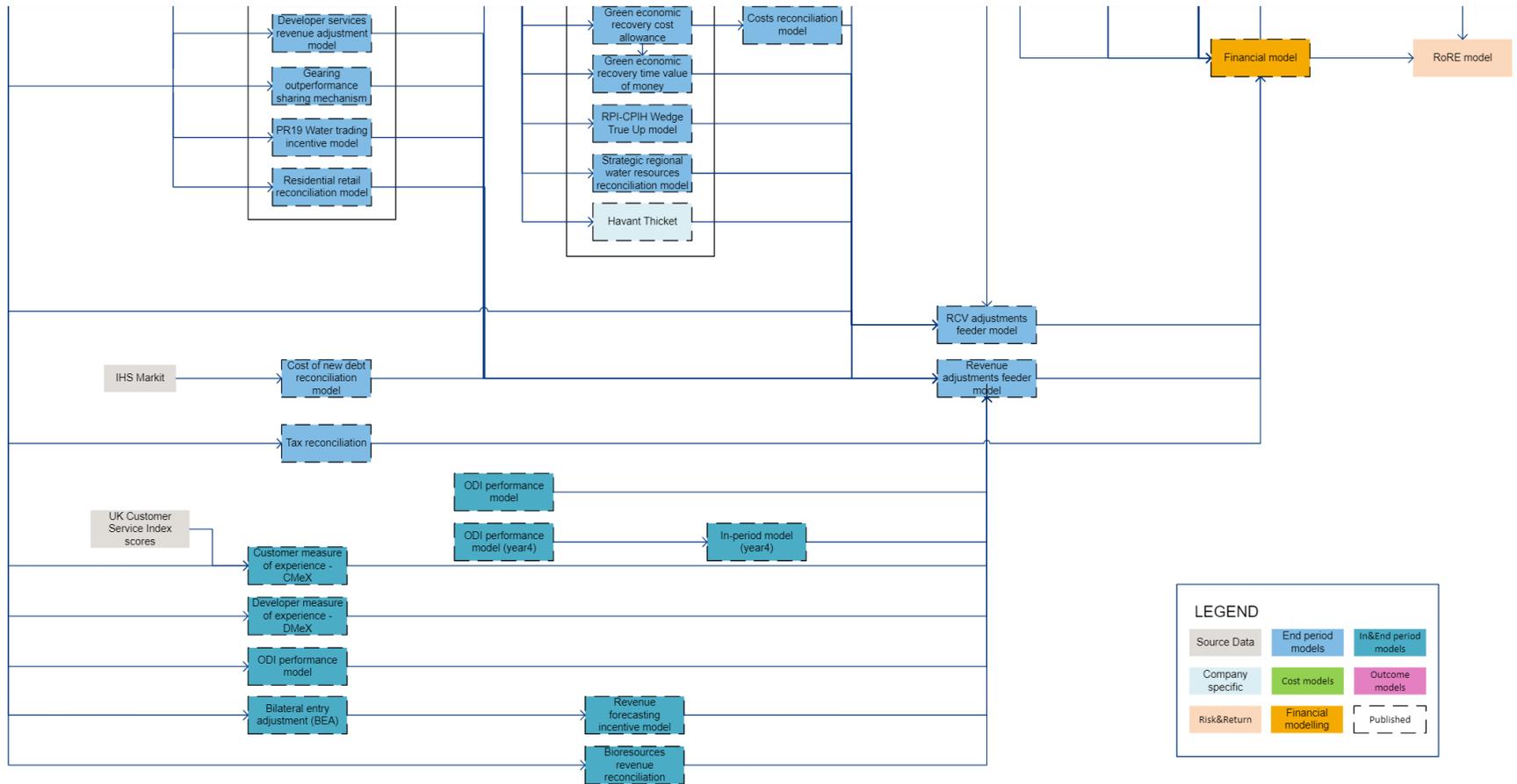
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<sup>1</sup> We have also [published](#) a standalone version of our model suite diagram as shown in Figure 1.1.

Figure 1.1: Overview of proposed PR24 modelling



Creating tomorrow, together: Our final methodology for PR24  
 Appendix 13 – Data and Modelling



## 1.1 Cost assessment models

The aim of cost assessment models is to set efficient totex allowances, informed by companies' business plan submissions.

Table 1.1 below shows the current list of models we anticipate using at PR24, which are also shown in Figure 1.1 above. These models are subject to change. We plan to publish a base cost modelling consultation in spring 2023, which we envisage will include a selection of econometric base cost models and accompanying excel files. The remaining models will be published during the price review process with indicative dates proposed below.

Further details on our approach to cost assessment can be found in Chapter 6 of our [final methodology](#). The models cover different cost types as well as different parts of the supply chain in the water sector.

**Table 1.1 – Summary of cost assessment models**

Cost assessment models		
Model name	Description of model	Proposed publication date
<b>Wholesale water base cost model(s)</b>	Suite of models that produce our efficient wholesale water base cost allowances.	Alongside draft determinations.
<b>Wholesale wastewater base cost model(s)</b>	Suite of models that produce our efficient wholesale wastewater base cost allowances.	Alongside draft determinations.
<b>Unmodelled base costs model(s)</b>	Suite of models that set out our assessment and allowance for operating costs not included in our base cost and bioresources models. For example, business rates. See <a href="#">Appendix 9 – Setting expenditure allowances</a> and <a href="#">Appendix 4 – Bioresources control</a> for more details.	Alongside draft determinations.
<b>Enhancement model(s)</b>	Suite of models that produce our efficient wholesale enhancement cost allowances.	Alongside draft determinations.
<b>Cost adjustment claims model(s)</b>	Suite of models detailing our assessment of companies' cost adjustment claims.	Alongside draft determinations.
<b>Wholesale bioresources cost model(s)</b>	Calculates the efficient revenue allowance per unit of sludge production.	Alongside draft determinations.
<b>Grants and contributions model</b>	Calculates the grants and contributions that input into the financial model.	Alongside draft determinations.

<b>Residential retail model(s)</b>	Suite of models that produce our efficient residential retail cost allowances.	Alongside draft determinations.
<b>Business retail model(s)</b>	Suite of models that produce our efficient business retail cost allowances.	Alongside draft determinations.
<b>Cost model aggregator</b>	Aggregates information from our cost assessment models for use later in our modelling process.	Alongside draft determinations.
<b>Opex/capex split model</b>	Splits our efficient total expenditure allowances into operating expenditure (opex) and capital expenditure (capex).	Alongside draft determinations.

## 1.2 Financial models

Alongside this document we have published an updated [PR24 financial model](#). The new financial model reflects feedback received on our draft financial model published in July 2022 and further developments made since then. We have provided more detail on the changes to the model in the updated [financial model user guide](#).

The model takes inputs from the other models in the suite and converts them into a number of key outputs for the price review. It determines the:

- wholesale price controls;
- revenues arising from the retail price controls;
- financeability of the companies by calculating financial metrics around a notional capital structure; and
- indicative household bills.

The model is built around an efficient company with a notional capital structure. It calculates the financial metrics used in the financeability assessment before taking account of the revenue impact of any adjustments relating to the previous price control periods. The allowed revenues and indicative bills in the model are shown after the application of these revenue adjustments.

In addition to the financial model we will publish a bill waterfall model to allow companies to demonstrate the impact their business plans have on bills from PR19 to PR24. This model will be published early 2023.

Alongside our determinations we will also publish an inflation model showing our view of inflation forecasts and assumptions.

## 1.3 Risk and return models

We propose three models for risk and return. They are an Allowed return model, a Pay-As-You-Go (PAYG) model and a Return on Regulatory Equity (RoRE) model.

**Table 1.2 – Summary of risk and return models**

Risk and return models		
Model name	Description of model	Proposed publication date
<b>Allowed return model</b>	Calculates our allowed return on capital, based on point estimates of parameters. It will provide the inputs for the PR24 financial model to generate the allowed revenue for financing costs in the wholesale controls. Further information on our proposed approach can be found in <a href="#">Appendix 11 – Allowed return on capital</a> .	Alongside draft determinations.
<b>Pay As You Go (PAYG) model</b>	Calculates the PAYG rates taking account of any changes in opex and capex in our totex allowances and financeability. PAYG rates determine the proportion of totex allowances companies recover in each year ("fast money"). For further information on our proposed approach to PAYG see <a href="#">Appendix 10 – Aligning risk and return</a> .	Alongside draft determinations.
<b>Return on Regulatory Equity (RoRE) model</b>	Calculates the forecast RoRE risk ranges against the base return on regulatory equity. At PR19 this was included as part of the financial model but to improve useability we propose to build a standalone model at PR24. Further details on our proposed approach to RoRE can be found in Chapter 7 of our <a href="#">final methodology</a> document and in <a href="#">Appendix 10 – Aligning risk and return</a> .	Spring 2023.

## 1.4 Outcomes models

In line with how we decide to estimate and present ODI risk at PR24 (see Section 5 of [Appendix 8 – Outcome delivery incentives](#)), we may produce an ODI RoRE input model. It would use annual regulatory capital value (RCV) data from the PR24 financial model and feed into the overall RoRE model to generate ODI RoRE ranges.

We may produce additional analytical models that show our policy interventions during the determinations phase of PR24 in 2023 and 2024. We expect that any models developed and used would be published alongside our determinations.

For the 2025–30 period, where appropriate we expect to replicate and revise the reconciliation models that are currently in use for the 2020–25 period, accounting for policy developments and learnings from the in-period determinations process. See Section 2 for further details.

## 1.5 Past performance reconciliation models

At PR24 we will need to reconcile companies' 2020-25 expenditure and performance against the allowances and commitments set in their PR19 final determinations. We set a series of incentive mechanisms and reconciliation mechanisms at PR19 to do this, which we will apply in PR24.

Full details of the reconciliation models can be found in the [PR19 Reconciliation Rulebook](#). Table 1.3 below summarises the purpose of the models and indicates which apply in-period, which are end of period and which are both in-period and end of period.

At the draft methodology we included a reconciliation for Gloucester and Sharpness canal which is no longer required and will not be run at PR24. We also made reference to a business retail reconciliation model. For PR24 we do not propose that a separate business retail reconciliation model will be built and propose to check compliance with the business retail controls through the annual reporting process.

**Table 1.3 – Summary of the PR19 reconciliations models**

Summary of the reconciliations' purpose		
In-period reconciliations		
Model name	Description of model	Publication date
<b>In-period adjustments</b>	This adjusts price controls to reflect in-period outcome delivery incentives including the customer measure of experience (C-MeX) and the developer services measure of experience (D-MeX). It also sets out any allowed deferral, abatements or other adjustments that may have been determined during the in-period determinations.	June 2022.
<b>Revenue forecasting incentive (RFI)</b>	The RFI is a symmetric revenue adjustment applied in-period to reconcile any revenue under- or over-recovery in an earlier year. Where differences between actual and allowed revenues are greater than 2%, the RFI applies a financial penalty. The RFI is applied to the network plus, water resources and Thames Tideway controls. <a href="#">Appendix 7 (wholesale revenue incentives) of our PR19 Methodology</a> provides background information with further changes available in <a href="#">our PR19 final determination</a> .	December 2020.
<b>Customer measure of experience – C-MeX</b>	The <a href="#">customer measure of experience</a> (C-MeX) incentivises companies to provide excellent levels of service to their residential customers. Based on its relative performance, each company can receive outperformance or incur underperformance payments each year.	June 2022.
<b>Developer measure of experience – D-MeX</b>	The <a href="#">developer services measure of experience</a> (D-MeX) incentivises companies to provide excellent levels of service to their developer customers. Based on its relative performance, each company can receive	June 2022.

	outperformance or incur underperformance payments each year.	
<b>Bilateral entry adjustment (BEA)<sup>2</sup></b>	This adjusts relevant companies' revenues should bilateral entry in the water resources market occur during 2020-25.	December 2020.
<b>Bioresources revenue reconciliation</b>	This adjusts bioresources revenue over 2020-25 and applies a forecasting accuracy incentive.	December 2020.
<b>In-period and end-of-period reconciliations</b>		
<b>Model name</b>	<b>Description of model</b>	<b>Publication date</b>
<b>Outcome Delivery Incentive (ODI) performance</b>	This reconciles the outcome delivery incentives (ODI) payments that have been accrued by companies in each year of performance, based on the performance commitments set in the PR19 final determinations.	June 2022.
<b>End-of-period reconciliations</b>		
<b>Model name</b>	<b>Description of model</b>	<b>Publication date</b>
<b>Residential retail reconciliation</b>	This will reconcile residential retail revenues over the PR19 period at PR24, adjusting the total revenue allowance for actual customer numbers	December 2020.
<b>PR19 Water trading incentive</b>	This calculates revenue adjustment at the end of the period for any water trading incentives due for qualifying trades starting in 2020-25.	December 2020.
<b>Developer services revenue adjustment mechanism</b>	This reconciles actual with forecast developer services revenues within the network-plus control at the end of the period.	December 2020.
<b>Water industry national environment programme (WINEP) reconciliation</b>	This adjusts RCV at the end of the period for ministerial decisions on the scale of companies' environmental enhancement programmes where this differs from our assumptions made at PR19 final determinations.	December 2020.
<b>Cost of new debt reconciliation</b>	This indexes the cost of new debt by reference to a market benchmark in 2020-25, with an end of period reconciliation adjustment.	December 2020.
<b>Gearing outperformance sharing mechanism</b>	This calculates an end of period revenue adjustment from gearing outperformance sharing payments for highly-g geared companies.	December 2020.
<b>Cost reconciliations</b>	This reconciles actual company performance against the totex allowances from PR19 and makes revenue and RCV adjustments at the end of the period.	December 2020.
<b>Tax reconciliation</b>	This true-up mechanism makes an end of period revenue adjustment to take account of any changes to corporation tax or capital allowance rates.	December 2020.
<b>Land sales</b>	This calculates the adjustment to the regulatory capital value (RCV) for any disposal of interests in land by the regulated business in the years from 2020-21 to 2024-25.	December 2020.

<sup>2</sup> The published Bilateral entry adjustment (BEA) and Water industry national environment programme (WINEP) reconciliation models are currently illustrative models only.

<b>RPI-CPIH Wedge True Up model</b>	This adjusts for the difference between the actual RPI-CPIH (measures of inflation) wedge observed over the price control period, and the RPI-CPIH wedge included in the final determination.	December 2020.
<b>Strategic regional water resources reconciliation</b>	This reconciles revenue allowances for the strategic regional water resource options, accounting for the efficient spend and extent of progression of strategic options through the gated approval process set at PR19.	December 2020.
<b>Innovation fund and competition</b>	This calculates the total amount of unused funds to be redistributed to individual companies' customers.	December 2020.
<b>Green economic recovery reconciliation</b>	This consists of three models – <a href="#">the Green recovery cost allowance adjustment model</a> , <a href="#">the cost sharing total costs reconciliation model</a> and the <a href="#">Green recovery time value of money adjustment model</a> . These models allow reconciliation of the additional package of investment agreed in July 2021 to support the Green Economic Recovery at PR24.	July 2021.
<b>Company-specific reconciliation</b>		
<b>Model name</b>	<b>Description of model</b>	<b>Publication date</b>
<b>Havant Thicket</b>	<p>This reconciles revenue allowances for the activities related to the Havant Thicket reservoir. The PR19 rulebook envisages adjustments arising from the cost of new debt and tax reconciliations for the 2020–25 period will be applied at PR24 with the remainder of the reconciliation undertaken at PR29. Havant Thicket is also subject to a Cost Adjustment Mechanism, which will adjust certain cost allowances for the project at PR24 following the outturn of the procurement process. The cost of new debt indexation reconciliation, tax reconciliation adjustments and outcome of the Cost Adjustment Mechanism will collectively determine the revised building blocks of the calculation of the Havant Thicket control.</p> <p>We continue to work with Portsmouth Water (PRT) to develop the Havant Thicket reservoir and keep the mechanics of the reconciliation under review.</p>	December 2020.

In Chapter 10 of our [final methodology](#), we set out our proposed approach to applying RCV and revenue adjustments for the PR19 reconciliation models during the 2025–30 control period. Table 1.4 overleaf summarises the adjustments produced by each of the past performance incentive mechanisms and the price controls we propose to apply them to.

**Table 1.4: Applying past delivery adjustment to price controls**

Type of adjustment	Price control						
	Water resources	Water network plus	Wastewater network plus	Bio-resources	Additional control	Residential retail	Business retail <sup>3</sup>
<b>Revenue adjustments</b>							
RFI	✓	✓	✓		✓		
C-MeX						✓	
D-MeX		✓	✓				
BEA	✓						
Bioresources				✓			
Residential retail						✓	
Water trading	✓	✓					
Developer services		✓	✓				
Cost of new debt	✓	✓	✓	✓	✓		
Gearing out-performance		✓	✓				
Green recovery costs	✓	✓	✓	✓			
Tax	✓	✓	✓	✓	✓		
Innovation	✓	✓	✓	✓			
<b>RCV adjustments</b>							
WINEP / NEP	✓	✓	✓	✓			
Land sales	✓	✓	✓		✓		
<b>Revenue and RCV adjustments</b>							
ODIs	✓	✓	✓	✓	✓	✓	✓
Green recovery (TVM)	✓	✓	✓	✓			
Totex costs	✓	✓	✓		✓		
RPI-CPIH wedge	✓	✓	✓	✓	✓		
Strategic regional water resources	✓	✓					
Havant Thicket					✓		

At PR24, we will also make some adjustments for the 2019–20 blind year. Many of the PR14 reconciliation mechanisms in place for 2015–20 needed data for the last year of the price control period, 2019–20, to assess the final benefit for customers or for companies.

When PR19 was completed, the 2019–20 financial year had not finished, so companies made a forecast of 2019–20 performance, which we considered, assessed and included in the PR19 final determination. We then updated our PR14 reconciliation analysis, using the complete information and companies' final audited, actual reported performance for the whole 2015–20 period in 2020. We published our final decisions on the 2019–20 blind year adjustments in 2020 on our [website](#).

Some, but not all, of the required adjustments will be implemented in-period during the 2020–25 period. Table 1.5 summarises which adjustments will have already been made and which will apply at PR24.

**Table 1.5 – When 2019–20 blind year adjustments are applied to price controls**

Type of 2019–20 blind year adjustment	When it applies
ODI revenue adjustments	In 2021–22 via an in-period price control determination.
Water revenue forecasting incentive mechanism (WRFIM) revenue adjustments	Across 2021–22, 2022–23, 2023–24 and 2024–25 applied through the Revenue Forecasting Incentive (RFI) formula blind year adjustment.
Water trading revenue adjustments	
Totex menu revenue adjustments	
Other revenue adjustments	
Residential retail revenue adjustments	At PR24 captured as an end-of-period blind year adjustment in the Residential Retail model.
Totex menu RCV adjustments	At PR24 flowing through the 2025–30 price controls.
Land sales RCV adjustments	
ODI RCV adjustments	
Other RCV adjustments	
2019–20 RPI-CPIH wedge RCV adjustments	

### 1.5.1 Feeder models for 2019–20 blind year and PR19 reconciliation models

We will use two feeder models to take the outputs from the 2019–20 blind year and PR19 reconciliations and convert them for use in the financial model. These are the [revenue adjustments model](#) and [RCV adjustments model](#).

The first will profile the revenue adjustments in the 2025–30 price controls and direct the profiled revenue adjustments to the right price control in the financial model. The second will direct the RCV adjustments from the reconciliations into the right price controls. Illustrative

versions of these models have been published alongside this document, the outputs of these new feeder models will be used to populate opening RCV and post financeability adjustments in the PR24 financial model.

The business plan tables provide the forecast performance data for each of the PR19 reconciliation models. We expect companies to publish their populated PR19 reconciliation models alongside their business plans.

The PR19 reconciliation models use actual expenditure and performance from the APR tables and forecasts from equivalent business plan tables. The APR collects data in outturn (nominal) prices whereas the business plan collects forecasts in 2022–23 base year prices. Where the PR19 reconciliation models require inputs in a different price base to the business plan forecast values, we expect companies to convert the forecasts to the required price base using the inflation details in [business plan table](#) PD1.

Some of the PR19 reconciliation models calculate in 2017–18 prices and others in outturn (nominal) prices. We will convert the adjustments output from the reconciliation models to the correct price base for the financial model in the new feeder models using the inflation details in [business plan table](#) PD1.

## 2. PR24 reconciliation models

This section sets out our currently planned suite of PR24 uncertainty and incentive mechanisms to be in place during the 2025–2030 control period. This section does not apply to the PR19 reconciliation models that are required for reconciling performance across 2020–25 for PR24.

We deal with our overall framework for considering uncertainty mechanisms and the stakeholder responses linked to this appendix within [Appendix 10 – Aligning risk and return](#). Where companies have discussed specific mechanisms, we consider it is more appropriate to address any additional comments alongside the policy position.

### Introduction and background policy

Our regulatory framework assigns risk between customers, companies and their investors, with a view to allocating risk to the entity that is best placed to manage it. They also help to create the right incentives on companies. This has led us over time to develop our existing framework of uncertainty mechanisms, which cover:

- **reconciliations:** which protect companies and customers against the risk of forecasting uncertainties;
- **ODI protections:** such as caps, collars and sharing thresholds which limit ODI performance share risks between companies and customers beyond certain thresholds;
- **totex sharing rates:** which apportion totex performance risk to companies and customers; and
- **interim determinations:** which allow for the re-opening of price controls to protect companies from material changes in defined circumstances.

Uncertainty mechanisms play a key role in supporting the balance of risk and return, reducing the amount of risk borne by companies that might otherwise leave them exposed to uncertain costs or revenues. Uncertainty mechanisms also reduce the need for more complex reopeners that would otherwise be more common.

Over successive price reviews, where it has been appropriate we have introduced new uncertainty mechanisms. Such mechanisms can provide significant additional protections and regulatory certainty, but there can be a risk that they increase complexity and blunt or distort incentives. It is therefore important to ensure that the mechanisms we use remain beneficial by allocating risk appropriately and supporting the right incentives.

## 2.1 Updates on the mechanisms under review at draft methodology

This section sets out the mechanisms we had under review at the draft methodology. In our draft methodology we set out three mechanisms that we were still reviewing, these were the following:

- Developer Services Revenue Adjustment (DSRA) mechanism;
- Water Industry National Environment Programme (WINEP) mechanism; and
- Gearing Sharing Outperformance Mechanism (GOSM).

### 2.1.1 Water Industry National Environment Programme mechanism

At the draft methodology we set out that we were not convinced that a WINEP enhancement uncertainty mechanism, similar to the PR19 mechanism included for amber WINEP schemes, was required for PR24.

**We have decided that we do not need this mechanism at PR24.** The programme is much farther advanced than at PR19 and any uncertainty mechanism is likely to disincentivise companies. We will continue to liaise with the environment agency to review the uncertainty around potential schemes in the environment programme and whether specific arrangements are required.

Further information on this mechanism and our decision can be found in [Appendix 9 – Setting expenditure allowances](#).

### 2.1.2 Developer Services Revenue Adjustment

Our approach at PR19 was to help ensure developers receive good customer service and companies only recover their efficient costs. Therefore, we introduced the developer services revenue adjustment mechanism (DSRA). This adjusts allowed revenue if the actual number of connections is more or less than forecast.

At PR24, site-specific developer services will be removed from the price control.<sup>4</sup> We have subsequently decided that a separate uncertainty mechanism for network reinforcement, which remains in the price control at PR24, is not needed. Instead, network reinforcement will be included in the scope of totex cost sharing at PR24. There will not be a DSRA for the 2025–30 period. More details can be found in [Appendix 3 – Developer services](#).

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<sup>4</sup> Water site-specific developer services will remain in the water network plus price control at PR24 for Welsh Companies.

## 2.1.3 Gearing Outperformance Sharing Mechanism

At the draft methodology we set out that we considered that strengthening the regulatory ring-fence and enhancing monitoring and reporting could serve to increase levels of financial headroom and better protect the interests of customers. This may remove the need for specific incentives at PR24 to encourage companies to adopt more resilient financial structures. We also set out that we may apply an incentive-based mechanism within the price review if we are not satisfied with progress in strengthening the regulatory protections, or in circumstances where companies with risky structures are not delivering tangible improvements in financial resilience.

We have since consulted on modifications to strengthen the financial ring-fencing conditions<sup>5</sup>. Work on these issues remains on-going and therefore we maintain the position that we may apply an incentive-based mechanism within the price review if we are not satisfied with progress. Should we pursue such an option, we would consult on such a mechanism before, or alongside, our draft determinations. We discuss this further in Chapter 9 of our [final methodology](#).

## 2.2 List of uncertainty and incentive mechanisms at PR24.

This section sets out our proposed view of the suite of uncertainty and incentive mechanisms that we will utilise across PR24 (2025–2030). Table 2.1 sets out each of these reconciliations and gives a brief explanation as to why the mechanism is still required at PR24.

We intend to publish these mechanisms alongside draft determinations. If there are further uncertainty and incentive mechanisms we consider necessary, we will consult on these separately.

**Table 2.1: List of PR19 uncertainty and incentive mechanisms we propose to retain**

Uncertainty or incentive mechanism	Reasoning
<b>Outcome delivery incentives (including C-MeX, D-MeX and the newly proposed BR-MeX)</b>	<p>We are keeping this mechanism as it holds water companies to account for the outcomes that companies need to deliver for their customers, society and the environment.</p> <p>We are introducing BR-MeX to incentivise incumbent water companies (wholesalers) to take a customer-orientated approach to help resolve frictions around data quality, wholesaler-retailer interactions and wholesaler performance.</p>

<sup>5</sup> Ofwat, Consultation on proposed modifications to strengthen the ring-fencing licence conditions of the largest undertakers', July 2022.

<b>Revenue forecasting incentive mechanism</b>	We are keeping this mechanism as it mitigates against a material revenue risk between actual and forecasted revenues. It also incentivises timely revenue collection.
<b>Bioresources revenue</b>	We are keeping this mechanism as it mitigates against the difference between allowed and actual revenue. The bioresources control is an average revenue control. Allowed revenue will depend on the amount of sludge produced. The mechanism will take account of any under- or over-recovery of revenue. It will also implement the bioresources forecasting accuracy incentive.
<b>Residential retail revenue</b>	We are keeping this mechanism as it mitigates against a material revenue risk from factors such as changing customer numbers and corrections between allowed and actual revenues.
<b>Water trading incentive</b>	We are keeping this mechanism as it implements our policy of providing a financial incentive to companies to make efficient water trades, which we wish to promote to help customers.
<b>Cost of new debt reconciliation</b>	We are keeping this mechanism as it improves the accuracy of the cost of new debt allowance by passing through outturn movements in economy-wide interest rates through to customer bills.
<b>Cost reconciliations</b>	We are keeping this mechanism as it includes a number of adjustments that share expenditure risks between companies and customers. This enables us to rely less on other uncertainty mechanisms, such as interim determinations, helping to improve regulatory certainty and reduce overall regulatory burdens. In addition, the cost sharing mechanism also strongly incentivises cost efficiency as well as sharing of cost risks.
<b>Tax reconciliations</b>	We are keeping this mechanism as it mitigates a material risk of significant movements in tax that are beyond a company's control.
<b>Land sales<sup>6</sup></b>	We are keeping the mechanism as it shares a portion of the net proceeds from the sale of land for customer, consistent with companies' licence requirements to split net proceeds for any land sale equally between shareholders and customers.
<b>Strategic regional water resources reconciliation</b>	We are keeping this mechanism as it reconciles cost variations for the strategic regional water resource solutions during 2025-30 period and shares them between the company and customers. These cost variances may be because of under or overspend as well as project discontinuance. Current or emerging options identified in an adaptive best value water resources management plan may receive additional development allowances. For the 2025-30 period, we will move towards a portfolio approach to development spend which may require a change in how this model reconciles costs.
<b>Havant Thicket</b>	We are keeping this mechanism as we have committed to mid-period review which is likely to include adjustments following the procurement and planning processes for Havant Thicket in PR24. This will be applied to Portsmouth Water.
<b>Business retail controls</b>	We are keeping this mechanism as it is required to protect the customers of the companies operating in Wales, where there is limited competition. This will still apply to the two companies operating in Wales (Dŵr Cymru and Hafren Dyfrdwy).
<b>Green Economic Recovery reconciliations</b>	We are keeping this mechanism as we will consider if each impacted scheme should transfer into a new price control deliverable (PCD). These PCDs will protect customers against potential non- or partial delivery in the 2025-30 period. <sup>7</sup> Companies that have green recovery investment that stretches into the 2025-30 period e.g. South West Water and United Utilities have planned delivery in 2025-26.

<sup>6</sup> The reconciliation for Thames Water's land sales will be treated in the same way as for normal land sales, except subject to its bespoke sharing arrangement. We haven't proposed any licence changes and therefore we agree that land sales during 2025-2030 should operate in the same way as they currently do.

<sup>7</sup> For further detail on PCDs see [Appendix 9 – Setting expenditure allowances](#).

## 2.3 Uncertainty and incentive mechanisms that will be discontinued for PR24

This section sets out the PR19 mechanisms that we consider are no longer required for the 2025–30 period. Table 2.2 lists out each of these mechanisms and provides our high-level reasoning as to why we consider they will not be needed at PR24.

**Table 2.2: Uncertainty and incentive mechanisms that will be removed for PR24**

Uncertainty or incentive mechanism	Reason for dropping the mechanism
<b>Bilateral market entry mechanism</b>	We are not keeping this mechanism as we do not anticipate that bilateral markets will open in the 2025–30 period. Therefore, this mechanism is not needed at PR24. We intend to reinstate it in future if bilateral markets open.
<b>RPI-CPIH Wedge reconciliation</b>	With a full transition to indexing the RCV by CPIH (see Chapter 7 of our <a href="#">final methodology</a> ), we are not keeping the wedge reconciliation mechanism.
<b>Water Industry National Environment Programme mechanism</b>	We are not keeping this mechanism as we believe the programme is much farther advanced than at PR19 and any uncertainty mechanism is likely to disincentivise companies.
<b>Developer Services Revenue Adjustment mechanism</b>	We are not keeping this mechanism as the changes made to developer services have led to the decision that a separate uncertainty mechanism for network reinforcement is not needed.

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