

## PR24 final methodology queries and responses – 29 September 2023 final update

We published our [final methodology](#) for the PR24 price review in December 2022.

We stated that we will run a queries process for specific questions about the methodology. We also explained that we will publish the query and our response on our website (see [PR24 Final Methodology Questions](#)) if the query is relevant to other stakeholders.

The following table shows a record of the queries and responses processed up to **29 September 2023**. We intend this to be the final update of this document. All future questions relating to PR24 should be sent to [PR24@ofwat.gov.uk](mailto:PR24@ofwat.gov.uk).

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## January 2023 queries and responses

Ofwat ref.	Topic	Query	Response
1	DPC & LTDS	<p>Having reviewed the final methodology along with the final LTDS guidance, we would appreciate some clarification of how to treat potential Direct Procurement in our Long-Term Delivery Strategies.</p> <p>As part of the regional planning and WRMP process, we identified the need for a no-regrets strategic resource option- Fenlands Reservoir- which is currently being reviewed through RAPID. Joint with Anglian Water, this new reservoir will provide water for our Cambridge region. The scale of this project will be well in excess of the DPC threshold of £200m, so based on existing regulation we expect it to be delivered through a Competitively Appointed Provider (CAP). It is projected to be constructed between 2030-37 so within the timeline of the LTDS.</p> <p>There is no reference to DPC in the LTDS final guidance and only a brief comment on ensuring we reflect remaining uncertainty of RAPID schemes within our long-term plan. Furthermore, the LTDS table guidance for LS3a-j refers us to the PR24 cost tables- CW3- for consistency. Therefore, the guidance for treating DPC in the LTDS cost tables would be as follows:</p> <p>“We expect companies to include in their business plans forecasts of expenditure they will incur in the planning and administration of their expected DPC schemes. These are the</p>	<p>Long-term delivery strategies should bring together all enhancement activities that are required to meet a company's long-term goals into a consistent and holistic strategy. Where companies expect a scheme to be delivered via direct procurement for customers this should be clearly communicated as part of the long-term delivery strategy.</p> <p>To ensure consistency between the wholesale expenditure tables and the long-term delivery strategy tables LS3 to LS6, we confirm that companies should not include any costs forecast to be incurred by the competitively appointed provider (CAP).</p> <p>However, companies should include the costs forecast to be incurred by the CAP when presenting the long-term bill impacts as part of their strategy to inform customer engagement. Companies should use our standard set of modelling assumptions to calculate the forecast costs to be incurred by the CAP.<sup>1</sup> Please note these assumptions will be updated in Spring 2023.</p> <p><sup>1</sup> Ofwat, '<a href="#">Anglian Water: Direct procurement for customers detailed action</a>' pp 4-7, January 2019</p>

Ofwat ref.	Topic	Query	Response
		<p>development, procurement and contract management costs. These costs should be included in tables CW1, CW2, CW3 and CW12 as appropriate. Companies should not include in the wholesale expenditure tables any costs forecast to be incurred by the competitively appointed provider.” - Submission table guidance Section 3: Costs (wholesale) water, p5.</p> <p>Based on this, we would only be including the procurement and administrative costs for Fenlands Reservoir, and the associated network adaptation costs required to support the scheme in the LTDS tables. Following that through for the simple calculation of average bill profiles based on enhancement forecasts only would mean that the cost to the CAP is also not reflected here. We agree with this approach due to the high degree of uncertainty regarding costs for CAPs, and future funding mechanisms that may be required for such large schemes. However, this may significantly underestimate bills, and be misleading for customer engagement on bill profiles.</p> <p>Please can you confirm whether our interpretation of the guidance is correct, and if not provide clarity on how we should be including Direct Procurement and SRO schemes in our LTDS.</p>	
3	Document submissions	<p>Please can Ofwat clarify which documents are excluded from the 80 document limit for WaSCS.</p> <p>Within the final methodology (p135) it states that ‘We confirm that the financial models and the 12 commentary documents will not count towards the document limits.’</p>	<p>Yes, we confirm that;</p> <ul style="list-style-type: none"> <li>• financial models,</li> <li>• long-term delivery strategy documents; and,</li> <li>• 12 table commentary documents</li> </ul>

Ofwat ref.	Topic	Query	Response
		<p>However, on page 136 it then mentions: 'The 12 table commentary documents and the Long-term delivery strategy documents are in addition to these limits'</p> <p>Please can Ofwat clarify if all three document types are excluded? That is, both the financial models and Long-term delivery strategy documents are excluded, as well as the 12 table commentary documents.</p>	<p>are not to be considered as part of the 80 document limit for WaSCs.</p>
4	Business Demand PC	<p>We have a couple of queries relating to the new Business Demand PC.</p> <p>In the definition document (published on 22 December), it mentions that companies will be required to report this new measure via the Annual Performance Report.</p> <ol style="list-style-type: none"> <li>1. Please can Ofwat clarify when this reporting requirement will commence from? Will it be from 1 April 2025, or will it be an Ofwat requirement to include in the APR before this date?</li> <li>2. When will we be required to provide Ofwat the baseline performance for 2019/20?"</li> </ol>	<ol style="list-style-type: none"> <li>1. We have not decided yet. But we will consult on this shortly.</li> <li>2. Companies have already provided this. The timeline is: <ul style="list-style-type: none"> <li>• August 2022 – water companies provided data on historical performance, including baseline period</li> <li>• December 2022 – We provided our understanding of these data to companies for their review, which your company has already done.</li> </ul> </li> </ol> <p>We expect companies to inform us if they consider that the data that we provided in December does not align with the business demand PC definition that we published on 22 December 2022 by the end of January 2023.</p>
5	Bespoke PC Submissions	<p>We have an admin query on the bespoke PC submissions if that's ok.</p> <p><i>Chapter 5 contains the text below. Apologies if we have missed text elsewhere, but will there be any further guidance/requirements coming on before then that we have to meet – e.g. templates etc?</i></p>	<p>We expect to provide companies with a template for any proposed bespoke PCs and their definitions in February 2023. The guidance accompanying the template will be based on the information provided in the final methodology.</p> <p>We consider that providing this further information in February, along with the information already provided in</p>

Ofwat ref.	Topic	Query	Response
		<p><i>Companies should provide any proposed definitions for bespoke performance commitments by 14 April 2023. This is to enable companies to take account of feedback on their draft definitions and include fully developed proposals for any bespoke performance commitments in their business plan submissions. The submission should include any evidence of the additional benefits to customers and the environment. The definition of the performance commitment should measure the level of service provided for the particular outcome and be clear, unambiguous, complete and as concise as possible. Companies should demonstrate that the scope of the definition will help to provide appropriate incentives to deliver for customers, communities and/or the environment. We intend to provide feedback on draft bespoke performance commitment definitions in July 2023. Companies should take this into account in their business plan submissions. We will not provide feedback on performance</i></p>	<p>the final methodology, will enable companies to meet the 14 April 2023 deadline for the submission of any bespoke PCs.</p>
6	Financial model	<p>We note that page 115 of the methodology states that “We expect the financial models to be underpinned by official forecasts of inflation, for example as published by the Office for Budget Responsibility (OBR)”.</p> <p>While we understand why Ofwat may want all companies to use consistent inflation assumptions, in practice we think this could be difficult because the OBR only publishes its inflation forecast twice a year (usually around March and October). With the outlook on inflation in the short term expected to be volatile, companies would be submitting their business plan using inflation assumptions compiled by the OBR in March 2023, but economic conditions could have materially changed as was the case on inflation over 2022.</p>	<p>We understand this query relates to inputs to the financial model for the purposes of making calculations that are relevant to bills and metrics relevant to the assessment of financeability. While the methodology states a preference for official forecasts, companies may use other forecasts if they consider them more relevant. Where such alternative approaches are used, companies should clearly explain the assumptions used and the basis of their derivation, and why they have chosen this forecast over the most recent official one.</p>

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		<p>Other issues with using the OBR assumptions are the forecast only tends to span 5 years (last update went out to 2027-28) and there is no forecast for CPIH (RPI and CPI only) - requiring companies to compile their own forecast anyway. We've also looked at whether we could use the Bank of England's inflation forecast published in its quarterly Monetary Policy report, but the forecast is limited to six months.</p> <p>As inflation is one of the key assumptions that underpins many aspects of a company plan (bills, gearing, totex, ILD), we think it's important that companies can use the most recent available data when compiling their business plan. We therefore think that it would be helpful if Ofwat applied the same approach as PR19 where companies could use their own independently derived forecasts of inflation for their business plan submission and Ofwat override with their own view in the DD/FD.</p> <p>Please let us know if you would like any further information.</p>	
7	Open Challenge sessions	<p>I've just been trying to understand your timeline in the draft "Your Water, Your Say" guidance, for what Ofwat expects of companies by way of a 'Written Record' of the Open Challenge Session.</p> <p>Following the steps in sequence, the guidance changes from calendar days to working days, and over a total of 23 days (not including weekends). However the final bullet point says that the final version must be published on the company's website within 14 days of the meeting.</p>	<p>Many thanks for highlighting the problem with our timeline for production of a written record of each Your water, your say session. We will recalibrate the timeline and include a new/correct version in the next iteration of the guidance for your water, your say that we plan to issue again soon.</p> <p>You may be aware that the same question was raised at the meeting we/CCW had with companies on 12 January. We will issue a record of that meeting in the next few days, too.</p>

Ofwat ref.	Topic	Query	Response
		<p>Would you please be able to provide some clarity on this? Perhaps if you provided a visual plan-on-a-page, or suggest activities that we should carry out in parallel, that might be helpful.</p>	
8	Risk & Return	<p>We are seeking clarification on statements made within Appendix 10 to the PR24 final methodology surrounding the RCV run-off rates and their interconnectivity with the PAYG rates. On page 3 of Appendix 10 you state that you ‘would not expect companies to propose RCV run-off rates that are higher than those allowed at PR19’. Also, on page 51 of Appendix 10, in relation to the calculation of PAYG rates, you state that you ‘consider the most appropriate starting point for calculating PAYG rates is operating costs as a proportion of totex’.</p> <p>At PR19 we were one of the companies which included capitalised IRE, in addition to Opex, within our PAYG rates and not in our RCV runoff rates.</p> <p>Our query arises in that for PR24 we are considering aligning with the majority of the Industry by excluding capitalised IRE from PAYG and instead recovering capitalised IRE with an increase to PR19 RCV run-off rates. Please could you confirm that Ofwat would accept this change in cost recovery approach as a reason to allow an increase to RCV runoff rates above those of PR19.</p>	<p>Thank you for raising the query. We understand it is possible a company may want to alter its approach to the treatment of IRE in its PAYG and RCV run-off calculations, and where it does so we will consider based on the evidence set out in the business plan. In an instance such as this, it would be helpful for the business plan to set out the company's assessment of the PAYG and RCV run-off rates at PR19 if these were calculated assuming IRE was treated on a consistent basis with the approach proposed for PR24. We would not expect companies to propose RCV run-off rates that are higher than the rebased rates at PR19 or that are above the guidance set out in the final methodology.</p>
9	Affordability	<p>The single social tariff is now looking less likely to go ahead soon following recent feedback from the Secretary of State and DEFRA. What is Ofwat’s latest position on this and will we still be required to provide a business plan that covers two scenarios; one with and without the single social tariff?</p>	<p>We set out our position and timings with respect to social tariffs scenarios in business plans in section 3.1 of Appendix 1 of our final methodology, which is the affordability appendix.</p>

Ofwat ref.	Topic	Query	Response
10	Outcomes	Please could you confirm how and when Ofwat will review and engage water companies on C-Mex, D-Mex and BR-Mex?	We intend to initiate engagement with companies and other stakeholders in the first quarter of 2023 (January to March 2023).
11	Cost	In Appendix 8, Setting expenditure allowances, Ofwat state on page 51, “At PR19 companies were funded on the basis of plans to renew an average of 0.4% of water mains per year.” Please could Ofwat provide the supporting analysis or source of this number.	The source is the average of mains relined and renewed as a percentage of total mains as submitted in the Business Plan Tables. This is also consistent with historical renewals levels that have informed base cost allowances.
14	Data Tables	<p>We would also like to raise a query about the clarification process for tables.</p> <p>We note from the final methodology that you will be having a query process for batch 1 and 2 tables in early 2023 – are you able to advise when this is? We are also keen to understand what the query process will be for the batch 3 tables if you are able to advise on this as well as there are areas, for example RR09, where our teams have raised a number of queries.</p>	<p>Any queries on batch 1&amp;2 tables can be submitted through the current query mailbox – please highlight in the email title which table the query refers to.</p> <p>We plan to complete the batch 3 tables and publish a revised complete set of tables and guidance on 7 February. After approximately one week we will hopefully be in a position to open an on-line portal which will deal with queries on all tables/guidance without the need for an email exchange.</p>
15	Outcomes	<p>We have query regarding the River Water Quality PC which is defined here <a href="https://www.ofwat.gov.uk/publication/river-water-quality-pc-definition/">https://www.ofwat.gov.uk/publication/river-water-quality-pc-definition/</a></p> <p>Please could Ofwat clarify how outperformance is to be achieved in this PC?</p> <p>We are unclear if outperformance is defined as delivering the 80% P load reduction quicker than required by regulation i.e. 2037 and if so by what margin. Alternatively, is it defined as over achieving the required P load reduction i.e. beyond 80%, or overachieving the WINEP or something else?</p>	<p>As a guiding principle, companies should reduce phosphorus to the extent it is consistent with the best value approach in their business plan for customers and the environment, taking into account a wide range of factors including the long-term resilience of the supply chain.</p> <p>For PR24, we will set annual performance commitment levels for expected phosphorus discharged each year between 2025 and 2030 and allow efficient costs for water companies to do that. Companies will have an incentive to reduce phosphorus because if a company outperforms and reduces phosphorous by more than the</p>



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			<p>performance commitment levels that we set at PR24, it will receive an outperformance payment.</p> <p>We will not provide incentives for water companies to reduce phosphorus below the long-term expectations of the environmental regulators. For example, in England, this is likely to be informed by the national target of reducing phosphorus loadings from treated wastewater by 80% by 2038 against a 2020 baseline</p>
24	Data tables	<p>We are working to automate the population of the data tables to reduce the risk of human error in population of the tables, and would like to clarify the cost inclusions and exclusions in CWW3 and related tables for the periods specified.</p> <p>- Table CWW3/13/15 – As per the additional table guidance for LS3, for the financial years beyond 2030 we believe that this table is presenting the likely whole life costs of AMP8 enhancement investment only. Although the table title and totals refers to enhancement expenditure, we therefore believe that recurring opex costs and capital maintenance costs resulting from AMP8 should be included beyond 2030, and that the cost of new enhancement investments from AMP9 should be excluded from these tables to enable the comparison of AMP8 options only – please confirm</p>	<p>We are in the process of updating CWW3 to include only the years 2022-23 to 2029-30. This version will be published in February. You are correct that only costs for schemes starting in AMP8 should be included in table CWW13 – see paragraph 17.2 of PR24 business plan table guidance part 4. You are also correct that recurring opex costs and capital maintenance costs resulting from AMP8 enhancement projects should be included in Table CWW13 for the years beyond 2030, captured by the present value figures. We will make this clearer in the next version of the guidance.</p>
25	Data tables	<p>Table CWW3/1/1a/2 – the table guidance has changed from the Draft Methodology such that now table CWW1 is post frontier shift and RPE and table CWW1a is pre frontier shift and RPE. The 1a guidance appears to have been copied across from the previous 1 tables, and says that totals should equal those in CW2/3 &amp; DS4/6, implying that all other financial tables except 1 would also be pre frontier shift and RPE. This means that financial data for specific drivers of</p>	<p>Cost tables should be completed as follows:  CW1/CWW1 – post FS and RPEs, inputs to the financial model. Developer services costs feed into this table.  CW1a/CWW1a – pre FS and RPEs. Base and enhancement costs feed into this table.  CW2/CWW2 – base totex, pre FS and RPEs. Feed into CW1a/CWW1a</p>

Ofwat ref.	Topic	Query	Response
		<p>cost in those tables would be presented inconsistently with the data used in the financial model, and inconsistently with totex allowances in the Draft and Final Determinations. This seems to create a risk of misunderstanding of the reasons for change if the requested totex in the tables varies from allowed totex in the Determination - please confirm if our understanding is correct and if this is as intended. To avoid this risk we think it would be preferable if the other tables were equal to the post position in table 1</p>	<p>CW3/CWW3 – enhancement totex, pre FS and RPEs. Feed into CW1a/CWW1a DS1/2/3 – post FS and RPEs developer services revenue and costs. Feed into CW1.</p> <p>We will consider removing the grants and contributions and other cash items lines from CW2/CWW2 so that this table becomes a gross totex table. We will also consider whether we need to collect developer services costs pre frontier shift and RPEs.</p> <p>Table 1 will provide a view of what companies are expecting their outturn position to be. We will set allowances that reflect an efficient view of frontier shift and RPEs assumptions. Therefore, our determinations will be consistent with costs presented in CW1/CWW1.</p> <p>We are updating the guidance for table SUP11 to include more details on the application of frontier shift and RPEs.</p>
26	Data tables	<p>LS3-6 – For the financial years beyond 2030 we believe that the table is presenting the likely whole life costs of enhancement investment spanning across multiple AMPs. To obtain this true multi-AMP picture, we therefore believe that recurring opex costs and/or capital maintenance costs resulting from one AMP period should be included beyond the end of the AMP in which they occur as per guidance above for tables CW3/13/15 – please confirm</p>	<p>If the construction of an enhancement solution is completed within a price control period, then its associated operational costs will be captured in our base cost models in the following price control period. Therefore, beyond the period in which the solution is constructed, operational costs should not be included in the long-term strategies data tables, as these tables capture enhancement expenditure only.</p>
27	Outcomes	<p>Clarify when you will be sharing your proposed ODI rates for those PCs where you are using external valuations (Biodiversity and GHG).</p>	<p>We set out our approach to setting incentive rates for the biodiversity and greenhouse gas emissions performance commitments on pages 17-18 of appendix 8 of the PR24 final methodology. Because we intend to use external valuations as the basis of incentive rates for these</p>

Ofwat ref.	Topic	Query	Response
			<p>performance commitments, we are not expecting companies to provide their view of marginal benefit estimates. We note that incentive rates for these two performance commitments are not in scope for the minimum expectations of the quality and ambition assessment, as set in chapter 11 of the PR24 final methodology document.</p>
33	Best Value	<p>Appendix 9 – Ofwat discuss the treatment of non-traditional solutions, can Ofwat please define non-traditional solutions?</p>	<p>As per section 6.4.2 of Appendix 9 of our Final Methodology (see p.145), non-traditional solutions referred to in relation to our 10 year opex allowance should capture catchment and nature-based solutions. In their business plans companies should identify any expenditure that they propose to be covered by the 10 year opex allowance and explain why this meets the requirements set out in Final Methodology, including that this funding applies to non-traditional solutions which are wholly or primarily ongoing operating expenditure based.</p>
48	Data tables	<p>In table RR25, line RR25.9, asset beta is calculated <math>E14 + E13 * E15</math> i.e. <math>\beta_{\text{Asset}} = \beta_{\text{Equity}} + \beta_{\text{Debt}} \times \text{Gearing}</math>, we believe that this should be <math>E14 * (1 - E15) + E13 * E15</math> i.e. <math>\beta_{\text{Asset}} = \beta_{\text{Equity}} \times (1 - \text{Gearing}) + \beta_{\text{Debt}} \times \text{Gearing}</math>.</p> <p>In table RR26, line RR26.9, asset beta is calculated similarly for each price control, where again we believe this should be <math>\beta_{\text{Asset}} = \beta_{\text{Equity}} \times (1 - \text{Gearing}) + \beta_{\text{Debt}} \times \text{Gearing}</math>.</p>	<p>Thank you for pointing out this defect in the formula. We confirm that the correct formula for cell E17(Asset beta) should be <math>E16(\text{Unlevered beta}) + (E13(\text{Debt beta}) \times E15(\text{Actual gearing}))</math>. We agree that the formula for calculating unlevered beta is Raw beta x (1-Actual gearing), however we have decided not to embed this calculation in the asset beta formula mechanistically. This recognises that it is common practice to use a rounded unlevered beta point estimate drawn from regulatory judgment. Due to timing constraints this correction will not be incorporated into the February iteration of the data tables, however we will do so for the final iteration.</p>

Ofwat ref.	Topic	Query	Response
23	Developer Services	Given the changes proposed in the final methodology for Developer services, could we please have further clarification with regards to the developer services costs / revenue which will be included within: the RFI, base costs, third party mechanism, cost sharing and charging rules - it would be useful to have this information provided for England and Wales.	Thank you for your query. We intend to hold a workshop with water and wastewater companies in March to clarify the treatment of developer services at PR24 and the developer services business plan tables. We will make sure your questions are answered in the workshop, and will provide an opportunity for further questions on the day. The invite will be sent shortly.

### February 2023 queries and responses

Ofwat ref.	Topic	Query	Response
16	Data tables	Line RR5.19 – Current Tax Liabilities – Appointee b/fwd Please confirm that this should just be the total of lines RR5.1 – RR5.6 Opening current tax liabilities. If not, please confirm what you expect to be included in this line.	This line RR5.19 should be populated for the appointee, this may also include any tax liabilities due to the retail control which would mean a difference between RR5.19 and the sum of RR5.1-6.
17	Data tables	Lines RR5.20 – RR5.25 – Proportion of new capital expenditure qualifying for a full deduction The guidance asks us to include the proportion of new capital expenditure forecast to qualify for a full tax deduction in the year of spend. However, you have only allowed us to include a figure for one year, 2025/26. Should this really be similar to lines RR5.47 – RR5.70 where you ask for the forecast capital spend for the year to be analysed between different tax treatments? If not, then what do you expect us to include in this row and where do we include the proportion of new capital expenditure qualifying for a full deduction.	We can confirm that should be a series input into the model, we will amend the tables in future versions to amend this, when populating the financial model please populate the model for all years.
18	Data tables	For PR19, in APP 29 there was a line to include the proportion of new capital expenditure qualifying for a full deduction in the year. This appears to be missing in RR5 or is it lines	These values should be populated against line RR5.20-RR5.25.

Ofwat ref.	Topic	Query	Response
		RR5.20 – RR5.25 as mentioned at 2 above. The amounts are small (mainly expenditure qualifying for the Annual Allowance) but please confirm that this was deliberately omitted.	
19	Data tables	<p>Lines RR5.44 – RR5.46. Capital expenditure writing down allowance pools 1-3.</p> <p>You have asked us to enter the capital allowance rate for each of the three capital allowance pools. As we are not aware of any forecast changes to the rates. Please confirm that you expect us to just enter 18%, 6% and 3% for each year of the AMP.</p>	We can confirm that the values should be as proposed of 18%, 6% and 3%.
20	Data tables	<p>For PR19, in APP 29 there was a line for Grants and Contributions taxable on receipt. During AMP7 AWS has changed its accounting treatment following the implementation of IFRS15 so that all of its grants and contributions are included in the Income Statement. This is different from the accounting treatment assumed in the Ofwat model but does mean that we have a large amount of grants and contributions taxed in the year they are received, and also some taxable amortisation on grants and contributions. Should we include these in lines RR5.83-RR5.88 Other taxable income.</p>	We have included the lines for Grants and Contributions taxable on receipt in lines RR5.133-RR5.138 in the latest version of the business plan tables. These were previously R2.55-RR2.60.
21	Data tables	<p>Intangible assets. Your model assumes that all intangible assets are included within tangible assets and depreciation is disallowed, with capital allowances being available. However, in our tax computations, Intangible assets are not available for capital allowances and we claim tax relief on the depreciation on those assets. Please confirm that we should include this deduction within lines RR5.77 – RR5.82 Other Adjustments.</p>	These values can be included in the lines "Other adjustments to taxable profits" RR5.83-88. Please provide supporting commentary when using these lines.

Ofwat ref.	Topic	Query	Response
22	Data tables	Deferred Revenue. A proportion of our capital spend each year is deferred revenue expenditure (assets that are capitalised but are revenue in nature for tax purposes) and tax relief is given on the depreciation charged on this deferred revenue. Please confirm that the allowable depreciation should be included within lines RR5.77 – RR5.82 Other Adjustments.	We have included in the model and tables lines for Proportion of capitalised revenue expenditure (infra & non infra) (WR), please populate these lines with the proportion of expenditure expected in this category. The value of allowable depreciation needs to be included in – RR9.226– 9.231 "Allowable depreciation on capitalised revenue".
28	Developer Services – Data tables	<p>Developer Services – DS Data tables</p> <ol style="list-style-type: none"> <li>1. In Appendix 9 Ofwat have proposed changes to the methodology around Diversions which was not consulted on in the draft PR24 methodology proposals. We have the following queries relating to these intentions: <ol style="list-style-type: none"> <li>a. Ofwat state that Water S185 Diversions and all Non S185 Diversions (Water and Waste) are Non-Contestable however we treat diversions the same as mains/sewer requisitions in terms of who can lay the diverted mains i.e. developers can lay the pipe for waste, and accredited companies can lay the pipe for water, and we apply this to all Diversion types (S185, NRSWA and other). The connections to our existing assets (except where we assess the risk is low), jobs of a complex or high risk nature and those we need to use our statutory powers are where we would require the work to be carried out by ourselves. We believe this treatment is in line with Ofwat's drive to promote competition on Developer Services activities. For example the majority of HS2 diversions for both Water and Waste</li> </ol> </li> </ol>	We intend to hold a workshop with water and wastewater companies in March to clarify the treatment of developer services at PR24 and the developer services business plan tables. We will make sure your questions are answered in the workshop, and will provide an opportunity for further questions on the day.

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		<p>are carried out by HS2 appointed service providers.</p> <p>b. Ofwat state that Water S185 Diversion will be treated as Third Party and fall within the price controls for PR24. However for Non S185 Diversions Ofwat state that they will treat these as Third Party but do not state if they will be in or out of the price control. Non S185 diversions are already treated as Third party – as detailed in RAG 4.09 appendix 1, but sit outside price control. Looking at the PR24 tables it would appear Ofwat is proposing to include them in price control. (DS1e lines 8,9,22,23 and line 26 (this is the subtotal for waste price control - in the guidance it states this line should add lines 24-25, but the formulae adds 22-25 so includes NRSWA and Diversions other non-price control), table DS4e lines 2,3 and table DS5 lines 3-6). However we require this to be clarified, and considered against the issue we raised in 1.a that a significant proportion of this activity is self-laid. We do not agree that Non S185 Diversion should be inside price control, as activity levels can vary significantly – for example the HS2 programme of work has been significantly delayed and the value is very large. This uncertainty introduces risk to end customers' bills which will be impacted by changes in these programmes of work if bought inside price control. If Ofwat do require Non S185 Diversions to be inside price</p>	

Ofwat ref.	Topic	Query	Response
		<p>control, how should we treat the activity which is self-laid (i.e. adopted).</p> <p>2. DS1e line 17 states this line should include the administration and application fees for connection charges. Currently in RAG4.10 these sit in the retail price control. Does this mean in the APR submission for 2022-23 that these should be included in water network plus or report in retail?</p> <p>3. Table DS4e only has Water Networks plus in the column headings. Why is there no Water Resources section (for example on DS1e lines 1-7 relates to Water resources). Should any activities relating to the expenditure incurred for activities in DS1e.1-7 be excluded from table DS4e?</p> <p>4. For Waste can Ofwat confirm how Build over fees should be treated. Will they sit outside the price control or would they be classified as Third Party price control as per Appendix 1 RAG 4.09.</p>	
29	RR7 Data tables	<ol style="list-style-type: none"> <li>1. We note that in the PR24 data tables that Ofwat requests 'Cost to serve' information for different categories of customers (RR7.2 - RR7.7). In order to ensure that these are calculated in the same way between companies please could Ofwat provide guidance on how it would like cost to serve calculated.</li> <li>2. "Measured charge – residential real (WR)" RR7.38 – RR7.43 – Please could Ofwat provide a more detailed definition of what should be included in this row.</li> </ol>	<ol style="list-style-type: none"> <li>1. This should be calculated as "Total retail costs excluding third party and pension deficit repair costs" (RET1.19) divided by forecast number of households. We would expect each cost to serve value for each category to be the same.</li> <li>2. This line should be populated as the proportional allocation of the projected wholesale allowed revenue to measured residential customers, from each of the wholesale controls.</li> </ol>



Ofwat ref.	Topic	Query	Response
34	Financial model	<p>Capital allowances (Tax sheet – would expect to see at row 928) – The model is not subtracting the 3% capital allowance in year claim from the opening balance when calculating the closing position.</p> <p>As a result the 3% pool incorrectly remains overstated. This change impacts the capital allowance claim figures from FY27 onwards and the 3% pool balances. This is not in line with the legislation (see link below).  <a href="http://www.gov.uk">Claiming capital allowances for structures and buildings - GOV.UK (www.gov.uk)</a></p> <p>The model should be updated to include a deduction of the 3% capital allowance claimed when calculating the closing balances.</p>	<p>The building and structures allowance is calculated on a straight line basis, not a reducing balance basis. To calculate the correct level of allowance the model takes 3% of the opening balance and any additions in the period. We are aware that it may appear as if the closing balance of the pool is overstated but it allows for the correct allowances to be calculated in each year. This relies on the assumption that no asset in the pool is used up fully during the AMP but due to the low allowance rate and recent introduction of this pool we would not expect any qualifying expenditure to be fully used up at this point.</p>
35	Financial model	<p>Debtor balance – Business (Retail business, M104) – The model links the debtors balance input in “Active Inputs” M1133 to both the Retail residential sheet (M658) and Retail business sheet (M104).</p> <p>There needs to be separate input in the final model for the Retail business debtor balance.</p>	<p>The financial model apportions the debtor balance between residential and business so we do not believe there is a need to amend the model.</p>
36	Financial model	<p>Other income (non-price control) (RR10 – All rows labelled “Other income (non-price control)”) – These rows are picking up the Other income total from the OBXValues sheet and this includes other price control income – third party revenue.</p> <p>The formulae on OBXValues need adjusting to exclude the price control element of other income.</p>	<p>We agree this is incorrect, we will amend this in the model.</p>

Ofwat ref.	Topic	Query	Response
37	Financial model	G&CS (price control) (RR10 - All rows labelled "Grants and Contributions (price control)") - 2 errors:  The opex G&Cs have not been included.  The capex non-PC G&Cs have been included.	We agree this is incorrect, we will amend this in the model.
38	Financial model	Allowed revenue (Dashboard, rows 22-30) - Allowed revenue totals do not agree to RR10.	We agree there is an inconsistency between revenue values in RR10 (Calculation of allowed revenue 2025-30) and the dashboard we will amend the tables.
39	Financial model	Opening cash balance (InpS, rows 1045-1050 and Row 1052) - Duplication of inputs for the opening cash balance - is this necessary?	We would expect any retail cash to also be included within the appointee cash balance, however we will amend the model to include an input for retail opening cash. The sum of retail and wholesale will then become the appointee cash balance.
40	Financial model	RPI forecasts - The model does not include annual forecasts for RPI and the index linked debt functionality is based on a single input for RPI and CPIH.  The model should include annual RPI and CPIH forecasts and the index linked debt should reflect the annual forecasts.	We will amend the model to include a measure of RPI inflation forecasts rather than the long term view currently used to index debt. We propose to calculate the RPI forecast as CPIH forecast + a forecast RPI wedge.
41	Financial model	Tax treatment (Wholesale other, rows 428:433) - The model adds the tax paid to EBIT to calculate EBIT less current tax charge. This should be deducted.	We agree this is incorrect, we will amend this in the model.
42	Financial model	Adjustment to net debt from actual to notional opening balance (Wholesale debt, rows 482 - 497) - This calculates the adjustment to actual net debt to reach the notional gearing level. The calculations compare net debt to RCV at a	We agree this could in theory lead to a positive adjustment for one control and a negative adjustment for another. We will amend the model to calculate this

Ofwat ref.	Topic	Query	Response
		<p>control level. This means that potentially there could be both positive and negative adjustments made.</p> <p>Given these adjustments impact on the tax allowance which is only adjusted one way by the change in gearing (so uses gearing at higher of actual or notional), it would be more appropriate to make the adjustment at the appointee level and then allocate out by RCV to the individual controls.</p>	<p>adjustment at the wholesale level and apportion it back across the controls.</p>
43	Financial model	<p>Interest on change in gearing (adjustment to net debt from actual to notional opening balance) for the tax allowance calcs (Interest on tax and dividend, rows 219 - 224) - This block adjusts the interest used to calculate taxable profit for the tax allowance calculations. As per the final methodology, tax allowances are calculated on either notional gearing, or actual if higher.</p> <p>The formulae in rows 219 – 224, are picking up from rows 207 – 212 if that value is negative (representing interest on an increased amount of net debt, so when actual gearing is lower than notional), and rows 213– 218 (the interest on the interest in rows 207-212) if positive. This doesn't reflect the intention of the methodology.</p> <p>Suggested correction:</p> <p>The formulae in rows 219 - 224 should pick up the total of rows 207 - 212 and equivalent from 213 – 218 if negative (both rows will have the same sign), or alternatively zero if they are positive. (A positive total would arise where actual gearing was lower than notional).</p>	<p>We have looked through this query and the model and we do not believe there is an issue with the mechanism for gearing up. When setting the actual gearing level to the notional gearing level we calculate the same interest shield as there would be if actual gearing was lower and then geared up. We are happy to discuss this in more detail and share our analysis.</p>

Ofwat ref.	Topic	Query	Response
46	Cost assessment	<p>We have a couple of queries relating to elements of costs assessment. We would be grateful for guidance in these areas.</p> <p>Cost Ambition – RPE and Frontier Shift</p> <p>In Appendix 12 of the Final Methodology, Ofwat identifies the cost assessment of Company plans as part of the ambition assessment.</p> <p>Please can Ofwat confirm whether this assessment will take place before or after the inclusion of Frontier Shift and RPE assumptions? i.e. will company costs in tables CW1, CWW1 and RET1 be adjusted to reflect Ofwat’s final decisions on these topics or will values that reflect an assessment of wider economic factors that differs to Ofwat’s be considered to reflect positively or negatively on a company’s ambition? Or alternatively will the assessment be made against the numbers provided in CW1a, CWW1a and RET1a?</p>	<p>Companies have sight of the econometric models used to assess enhancement expenditure at PR19. Our approach to assessing each enhancement line at PR19 is available within each enhancement feeder model, which are published here: Final determinations models - Ofwat. These could be used as the starting point for evidencing the need for a model cost adjustment in your PR24 business plan submission.</p> <p>The business plan data tables set out the enhancement reporting requirements by area of investment. We have updated many enhancement lines since PR19. These updates have been informed by discussions with companies in the cost assessment working group. Several enhancement areas have been disaggregated to more granular activity levels to assist benchmarking. This recognises some new drivers for PR24 and allowing comparable benchmarking of interventions such as green solutions.</p> <p>In addition, you are aware of the data we collect through the Annual Performance Report (APR) which can also be used to identify where you may have special circumstances compared to other companies. For example, you may operate under a unique set of circumstances that may not be captured by the likely drivers to be used in a cost model that is being used to set efficient expenditure allowances for the entire sector.</p> <p>Companies will also have the opportunity to provide further evidence to support enhancement cost adjustments in response to our PR24 draft determination.</p>

Ofwat ref.	Topic	Query	Response
47	Cost assessment	<p>Enhancement Assessment Criteria</p> <p>In Appendix 9 “Setting Expenditure Allowances”, Annex A1.1 sets out the enhancement assessment criteria. Section A1.1.3 (155-156) sets out the expectations around demonstrating cost efficiency with d)-f) covering Enhancement cost adjustment claims. We are not anticipating seeing any enhancement cost models developed by Ofwat ahead of our submission, or knowing which drivers will be modelled or subject to deep dives. We therefore are not clear how companies should demonstrate the compelling evidence required in d), e) and f). Please can Ofwat provide further detail on what it would expect to see in the absence of any shared econometric models?</p>	<p>Companies have sight of the econometric models used to assess enhancement expenditure at PR19. Our approach to assessing each enhancement line at PR19 is available within each enhancement feeder model, which are published here: <a href="#">Final determinations models - Ofwat</a>. These could be used as the starting point for evidencing the need for a model cost adjustment in your PR24 business plan submission.</p> <p>The business plan data tables set out the enhancement reporting requirements by area of investment. We have updated many enhancement lines since PR19. These updates have been informed by discussions with companies in the cost assessment working group. Several enhancement areas have been disaggregated to more granular activity levels to assist benchmarking. This recognises some new drivers for PR24 and allowing comparable benchmarking of interventions such as green solutions.</p> <p>In addition, you are aware of the data we collect through the Annual Performance Report (APR) which can also be used to identify where you may have special circumstances compared to other companies. For example, you may operate under a unique set of circumstances that may not be captured by the likely drivers to be used in a cost model that is being used to set efficient expenditure allowances for the entire sector.</p> <p>Companies will also have the opportunity to provide</p>

Ofwat ref.	Topic	Query	Response
			further evidence to support enhancement cost adjustments in response to our PR24 draft determination.
59	Cost	<p>We have a query relating to partnership funding.</p> <p>Ofwat methodology, Appendix 9, Chapter 6.4.3, states: <i>‘As part of their business plan companies should set out the level of partnership <b>contributions that they expect to receive</b> in relation to their enhancement proposals. The expected level of partnership contributions should take account of the degree of uncertainty over the scale and timing of these contributions.’</i></p> <p>Please could it be clarified as to whether the benchmarking will only take into account of contributions that water companies attract directly into the business e.g. successfully applying for Flood Defence Grant in Aid; or whether it will also account for scenarios where water companies provide contributions to the schemes of others. E.g. Yorkshire Water provides 50% of the investment into a Lead Local Flood Authorities flood resilience scheme.</p>	<p>Benchmarking will only take into account contributions made by third parties to enhancement schemes proposed by companies which are consistent with the proper carrying out of statutory functions. These third party contributions would pay for costs that customers would otherwise have to pay for.</p> <p>Where companies provide contributions to the schemes of others, companies should include the costs and benefits of the scheme accruing to customers. Companies should not include the costs that accrue to third parties as customers are not expected to pay for these costs. Consistent with our public value principles, customers cannot be expected to fund activities that are not related to a water company's statutory functions. Companies should only seek to create further social and environmental value in the course of delivering their core services, beyond the minimum required to meet statutory obligations.</p>
60	Data quality	<p>You've asked companies to provide "an indication of the quality of data provided", within the data table commentary for 13 data tables, as outlined in PR24 business plan guidance:</p> <ul style="list-style-type: none"> <li>• Section 3: Costs (wholesale) Water (tables CW4, CW5, CW6, CW7, CW19);</li> <li>• Section 4: Costs (wholesale) Wastewater (tables CWW5, CWW6, CWW7a/b/c, CWW8, CWW20); and</li> <li>• Section 5: Water Resources (table RES1).</li> </ul>	<p>Thank you for your query. Whilst we appreciate the simplicity of a RAG rating approach we are concerned that applying it in the "context of materiality considering overall PR24 data" may mean that lower quality data is not highlighted due to size.</p> <p>We therefore propose using the confidence grade scale used in some PC definitions (Mains repairs PC definition,</p>

Ofwat ref.	Topic	Query	Response																																		
		<p>We propose to use the RAG status approach below to provide a robust view on data quality.</p> <p>RAG Definition  Red- Significant shortcomings in data quality for the measure having a material impact* on reporting</p> <p>Amber- Minor shortcomings in data quality for the measure having no material impact* on reporting</p> <p>Green- Data quality is appropriate for the measure</p> <p>*material impact - in relation to the context of materiality considering overall PR24 data</p> <p>Please would you advise us if this meets Ofwat's expectations. We would be happy to share this approach across the sector to ensure standardisation if that would be helpful. If there is an alternative approach that Ofwat would like companies to use, please could you let us know and we will follow that.</p>	<p>pages 6 and 7: <a href="#">Mains repairs PC definition.pdf (ofwat.gov.uk)</a>). Confidence grades provide a reasoned basis for the company to qualify the reliability and accuracy of the data, for example:</p> <p style="padding-left: 40px;">" A2 - Data based on sound records etc. (A, highly reliable) and estimated to be within +/- 5% (accuracy band 2)"</p> <p>Reliability and accuracy bands are shown in the tables below.</p> <p>We expect companies to report on the overall quality of data provided in each table and, by exception, for items that deviate from this rating.</p> <table border="1" data-bbox="1317 831 2029 1050"> <thead> <tr> <th>Reliability band</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>Sound textual records, procedures, investigations or analysis properly documented and recognised as the best method of assessment.</td> </tr> <tr> <td>B</td> <td>As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation.</td> </tr> <tr> <td>C</td> <td>Extrapolation from limited sample for which Grade A or B data is available.</td> </tr> <tr> <td>D</td> <td>Unconfirmed verbal reports, cursory inspections or analysis.</td> </tr> </tbody> </table> <table border="1" data-bbox="1317 1086 2029 1374"> <thead> <tr> <th>Accuracy band</th> <th>Accuracy to or within +/-</th> <th>But outside +/-</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1%</td> <td>-</td> </tr> <tr> <td>2</td> <td>5%</td> <td>1%</td> </tr> <tr> <td>3</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>4</td> <td>25%</td> <td>10%</td> </tr> <tr> <td>5</td> <td>50%</td> <td>25%</td> </tr> <tr> <td>6</td> <td>100%</td> <td>50%</td> </tr> <tr> <td>X</td> <td colspan="2">Accuracy outside +/- 100 %, small numbers or otherwise incompatible (see table below)</td> </tr> </tbody> </table>	Reliability band	Description	A	Sound textual records, procedures, investigations or analysis properly documented and recognised as the best method of assessment.	B	As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation.	C	Extrapolation from limited sample for which Grade A or B data is available.	D	Unconfirmed verbal reports, cursory inspections or analysis.	Accuracy band	Accuracy to or within +/-	But outside +/-	1	1%	-	2	5%	1%	3	10%	5%	4	25%	10%	5	50%	25%	6	100%	50%	X	Accuracy outside +/- 100 %, small numbers or otherwise incompatible (see table below)	
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61	Data tables	<p>CW15 - In the PR24 Final Methodology submission table guidance, section 3, Section 18.3 – Ofwat states that for table CW15 (and the same applies for CW16, CWW15 and CWW16) “for each category of enhancement expenditure, the benefit information needs to be split out by benefit type. There are ten lines available for each category of expenditure. Companies need to select the benefit types that are relevant to the proposals underpinning each cost category. These can be selected from the drop-down list in the 'benefit type' column”.</p> <p>We note that, while these dropdowns were populated in the tables published alongside the draft methodology in July, the rows are now blank when the dropdowns are selected. The list of benefit options below the table is no longer there.</p> <p>Can Ofwat confirm what the list of benefits includes, and the extent to which this will be different to the list published in July? We expect some differences (e.g. distribution input</p>	<p>We have addressed this issue in version 3 of the tables published on 7 February 2023.</p>																																																		



Ofwat ref.	Topic	Query	Response
		being removed) but would like to understand whether Ofwat plans to add or remove any further options.	
62	Data tables	CWW7b - 6 “Weighted average number of days that UV permit applies per year for STWs above size band 6” For all other sewage treatment works lines there is size banding classification of 1 to 5 and then above 5. Please can we confirm if CWW7b.6 should use “above band 5” or “above band 6”?	We confirm the following to be the correct line description of line CWW7b.6 of table CWW7b “Weighted average number of days that UV permit applies per year for STWs above size band 5”. We will address this error in the next iteration of business plan tables.
63	Data tables	CWW7a - There is reference to line CWW7a.8 in the guidance document that had been shared by Ofwat but there is no line for it in the excel file for the data table. Does Ofwat require the data?	We confirm we do require the data on the load received from trade effluent customers at treatment works (RAG 4.10 line reference 7D.8). This line was inadvertently omitted from the data table. We will add this line into the next iteration of business plan tables.
64	Data tables	CWW19 Is there any additional guidance about whether we should include any carry over AMP7 WINEP P removal scheme costs, that are reported in the APR table 7F, into the PR24 table CWW19 for WINEP phosphorus removal scheme costs and cost drivers for the PR24 submission?	Carry over schemes from PR19/AMP7 should not be included again in PR24 data tables as they will already have been funded in PR19.  But expenditure attributable to a new PR24 action at the site that requires new spend, distinct from the PR19 spend, should be included. Please provide further feedback if this is the case, and clarify if there will be a number of examples like this and under which PR24 WINEP drivers.
65	Data tables	CWW20 - Ref Line 20.12 - “Total number of STW outfall screens”. The Ofwat guidance document defines this as the “Total number of outfall screens being installed at STWs to prevent the entrainment of fish”. We install outfall screens on our	Yes, this line is for new STW outfall screens for fish entrainment (SAFFA_IMP) as we are capturing the driver for costs in table CWW3 lines 97-99. We would not anticipate many situations where new / upgraded screens on STW outfalls are required, other

Ofwat ref.	Topic	Query	Response
		overflows but this isn't to prevent the entrainment of fish so if we follow the definition this would be a nil return. Is our understanding correct and we return nil? Or does Ofwat want to know about the number of screens on the outfalls?	<p>than to meet new requirements under fish / eel legislation, that are not captured within the cost of the outfall works itself.</p> <p>NB - Use line 20.47 for new storm overflow screens associated with the SODRP EnvAct_IMP5.</p>
66	Data tables	OUT1,2,3,7 - There are only 4 lines for bespoke performance commitments in these tables. Are we allowed to add more lines for more bespoke PCs, given that the final methodology says: "We expect at most two or three bespoke performance commitments per company at PR24. In response to stakeholder comments, we clarify that this is not a hard limit if the above tests are satisfied."?	We confirm that three bespoke performance commitments per company is not a hard limit. If required, more rows can be added to the business plan data tables once we have considered companies' bespoke performance commitment proposals.
67	Data tables	OUT7 - There is nowhere in the table to put deadbands, caps and collars for common or bespoke performance commitments. Will Ofwat be amending the tables to allow for deadbands, caps and collars?	We will not be amending OUT7 to include deadbands, caps and collars. We will set out our proposals in the draft determination.
68	Data tables	BIO - When looking through the Ofwat guidance, there was no commentary requirements specified for any of the BIO tables. Are Ofwat expecting us to add commentary for these tables?	We confirm that we require table commentary for all the BIO tables.
69	Affordability	In the PR24 final methodology main document, page 156, there is a minimum expectation as follows: "The company's business plan includes plans for supporting customers to pay their bills using social tariffs and other methods. We expect the company to include plans for the two scenarios we specify in our methodology." Appendix 1, page 6, specifies that "The alternate scenario would be where a single water	<p>We can confirm that the supplementary tables publication on 7 February is the latest position on this and that two scenarios will not be necessary. Para 17.2 confirms that companies may prepare these tables under a single scenario based on the current legislative arrangements for social tariffs.</p> <p>We will welcome further comments and discussion about</p>

Ofwat ref.	Topic	Query	Response
		affordability discount scheme is introduced for or during the period 2025-30.” Given that the sector understands the Secretary of State is not minded to take forward the single social tariff at this time will you be adjusting the minimum expectation to remove the requirement for plans for two scenarios?	the data tables at our online workshop on 2 March 2023. We will be making further revisions before business plan tables are finalised.
70	Affordability	In the query responses document on 7 February Ofwat confirms (in query response 9) its position on social tariff scenarios i.e. Ofwat expects companies to include two scenarios including “where a single water affordability discount scheme is introduced for or during the period 2025-30”. In the “Submission table guidance Section 10: Supplementary tables”, published on 7 February Ofwat states (on page 45): “We discussed the potential for two scenarios, in the context of a potential single water affordability discount scheme, in our final methodology (Appendix 1, Section 2), but are now confirming that two scenarios will not be necessary.” Please would Ofwat confirm whether two scenarios are required for the business plan and the data tables?	We can confirm that the supplementary tables publication on 7 February is the latest position on this and that two scenarios will not be necessary. Para 17.2 confirms that companies may prepare these tables under a single scenario based on the current legislative arrangements for social tariffs. We will welcome further comments and discussion about the data tables at our online workshop on 2 March 2023. We will be making further revisions before business plan tables are finalised.
71	Data tables	The lines within table RR7 refer to households connected. No further definition or RAG references is provided. Clarification is required on whether this should include unoccupied (void) properties or only those which are occupied. Clarification is also required on whether this should be reported as the year average or year end figure.	Lines RR7.8-RR7-13 should be populated using a year average value and exclude void properties. This is consistent with 4R: Non-financial information – Properties, customers and population (RAG 4.10) lines 4R.1-4R.4. We will update the business plan table guidance to clarify this.
72	Data tables	In terms of the specifics of the timetable, we note that version 3 of the data tables is due to be published in March	We published our updated business plan tables on 7 February 2023 which is ‘V3’.

Ofwat ref.	Topic	Query	Response
		<p>2023, with the final version (v4) on 31 May 2023.</p> <p>As you will recognise material changes between version 3 of the tables and the final version 4 will put immense pressure on companies' assurance processes. I'm sure you have this in mind, but it is important that the window to the v3 tables in March does the most heavy lifting with minor changes in the window to version 4. Reflecting on PR19 the changes, between tables issued in March 2018 and final ones in mid-May, were minimal and we hope for the same this time.</p>	<p>The query window for these is now open using the new web-based link. We anticipate that this version has filled the gaps where our teams had not completed the requirements in December (for 'V2') when the final methodology was published and so it will represent the 'heavy lifting'. The purpose of V4 will be to allow us to make changes that are deemed necessary as a result of the queries raised and our own further QA checks which are taking place.</p> <p>We have reflected on the PR19 process, including the significant work on the company queries. Hopefully you will find our improvements in this area, particularly the web-based portal, much more efficient than the system we had at PR19.</p>
77	Data tables	<p>The Business Plan Guidance for CW1.7- Grants and Contributions- Operating expenditure references line DS1.13 and CW1.14- Grants and Contributions- Capital expenditure references DS1.23.</p> <p>We believe that the reference for both lines should be DS1e.13/DS1w.12- "Total developer services revenue- water network+"</p>	<p>That is correct. We will make the correction to business plan guidance in the next version.</p>
79	Outcomes	<p>We've downloaded IN23/02 and the associated documents that were published on the Ofwat website. However, we notice that the definition template that you've provided for the bespoke PCs is in a pdf format. Would it be possible to provide a word version of the template to make it easier for companies to complete it?</p>	<p>We have amended the version of the bespoke PC definition template on the website to enable companies to download it in a word format.</p>

## March 2023 queries and responses

Ofwat ref.	Topic	Query	Response
30	Outcomes	<p>Customers receiving excellent service everyday</p> <p>1. We understand the need to review the definitions of the Measure of Experience (C-MeX, D-MeX and BR-MeX) performance commitments and would be keen to work with you to support this developmental work.</p> <p>a. Could you please indicate the milestone dates for this review and how we could support?</p>	<p>We have published further information on our website and are working with companies and other stakeholders through the established outcomes working group on these matters. Please see <a href="#">PR24: Developing C-MeX and D-MeX - Ofwat</a>.</p>
32	Data tables	<p>The methodology mentions the PR19 reconciliation submission as part of the data tables. At PR19 this was an early submission in July 18. However, this is not mentioned in the final methodology as an early submission. Can we assume past performance tables will be submitted along with the other tables on 02 October 23?</p>	<p>For PR24 we do not require companies to provide an early submission containing all of the PR19 reconciliations. However, we do require an early submission of companies' cost reconciliations and bioresources revenue reconciliation with or shortly after the APR submission and no later than 31 July 2023.</p> <p>The early submission of the cost reconciliations comprise the models and business plan data tables as follows:</p> <ul style="list-style-type: none"> <li>• Cost sharing total costs reconciliation – <a href="https://www.ofwat.gov.uk/wp-content/uploads/2023/03/Cost-sharing-total-costs-Reconciliation-v4a.xlsm">https://www.ofwat.gov.uk/wp-content/uploads/2023/03/Cost-sharing-total-costs-Reconciliation-v4a.xlsm</a></li> <li>• Green Recovery cost allowance adjustment – <a href="https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-Recovery-cost-allowance-adjustment-model-final.xlsx">https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-Recovery-cost-allowance-adjustment-model-final.xlsx</a></li> <li>• Green recovery time value of money adjustment (v1.3) – <a href="https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-recovery-time-value-of-money-adjustment-model-v1.3.xlsb">https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-recovery-time-value-of-money-adjustment-model-v1.3.xlsb</a></li> <li>• business plan tables completed for years up to and including 2024-25</li> </ul>

Ofwat ref.	Topic	Query	Response																												
			<table border="1" data-bbox="1431 264 1962 774"> <thead> <tr> <th data-bbox="1431 264 1697 335">Corresponding APR table</th> <th data-bbox="1697 264 1962 335">BP table</th> </tr> </thead> <tbody> <tr> <td data-bbox="1431 335 1697 384">2B</td> <td data-bbox="1697 335 1962 384">PD8</td> </tr> <tr> <td data-bbox="1431 384 1697 434">4C</td> <td data-bbox="1697 384 1962 434">PD9</td> </tr> <tr> <td data-bbox="1431 434 1697 483">4D</td> <td data-bbox="1697 434 1962 483">CW1</td> </tr> <tr> <td data-bbox="1431 483 1697 533">4E</td> <td data-bbox="1697 483 1962 533">CWW1</td> </tr> <tr> <td data-bbox="1431 533 1697 582">4U</td> <td data-bbox="1697 533 1962 582">PD7</td> </tr> <tr> <td data-bbox="1431 582 1697 632">4S</td> <td data-bbox="1697 582 1962 632">SUP4</td> </tr> <tr> <td data-bbox="1431 632 1697 681">4T</td> <td data-bbox="1697 632 1962 681">SUP5</td> </tr> <tr> <td data-bbox="1431 681 1697 730">10E</td> <td data-bbox="1697 681 1962 730">SUP10</td> </tr> <tr> <td data-bbox="1431 730 1697 774">n/a</td> <td data-bbox="1697 730 1962 774">PD1</td> </tr> </tbody> </table> <p data-bbox="1312 810 2002 911">The early submission of the bioresources revenue reconciliation comprises the models and business plan data tables as follows:</p> <ul data-bbox="1361 916 2024 1118" style="list-style-type: none"> <li data-bbox="1361 916 2024 1050">• Bioresources revenue reconciliation model (v2.0) <a href="https://www.ofwat.gov.uk/wp-content/uploads/2020/12/Bioresources-Revenue-Reconciliation-Model-Dec-2020-v2.0.xlsx">https://www.ofwat.gov.uk/wp-content/uploads/2020/12/Bioresources-Revenue-Reconciliation-Model-Dec-2020-v2.0.xlsx</a></li> <li data-bbox="1361 1054 1993 1118">• business plan tables completed for years up to and including 2024-25</li> </ul> <table border="1" data-bbox="1431 1123 1962 1342"> <thead> <tr> <th data-bbox="1431 1123 1697 1193">Corresponding APR table</th> <th data-bbox="1697 1123 1962 1193">BP table</th> </tr> </thead> <tbody> <tr> <td data-bbox="1431 1193 1697 1243">2M</td> <td data-bbox="1697 1193 1962 1243">PD5</td> </tr> <tr> <td data-bbox="1431 1243 1697 1292">8A</td> <td data-bbox="1697 1243 1962 1292">BIO1</td> </tr> <tr> <td data-bbox="1431 1292 1697 1342">n/a</td> <td data-bbox="1697 1292 1962 1342">PD1</td> </tr> </tbody> </table>	Corresponding APR table	BP table	2B	PD8	4C	PD9	4D	CW1	4E	CWW1	4U	PD7	4S	SUP4	4T	SUP5	10E	SUP10	n/a	PD1	Corresponding APR table	BP table	2M	PD5	8A	BIO1	n/a	PD1
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Ofwat ref.	Topic	Query	Response
			<p>We require the early submission information to be assured and we expect no changes to the forecast 2023-24 and 2024-25 information between the early submission and the business plan submission on 2 October 2023. In exceptional circumstances companies must highlight in the 2 October business plan if and where there are changes to the early submission tables.</p> <p>We confirm that the remainder of the PR19 reconciliations are not required as an early submission and we expect those to be submitted along with the rest of the tables on 2 October 2023.</p>
53	Outcomes	<p>PC definitions comments – water supply interruptions</p> <p>There was no proposal to revise the exclusion of cattle troughs at the draft methodology – the draft methodology proposal only related to the removal of the reference to the Civil Contingencies Act 2004. In addition, to our knowledge, this additional revision has not been disclosed at the PR24 outcomes working group. Cattle troughs are not properties, but are a billing point. We therefore question the rationale for this revision?</p>	<p>We do not consider that the exclusion of unmeasured cattle troughs from the number of properties is material. We reviewed the detailed definition and considered that the definition would be simpler without this exclusion.</p> <p>As set out in RAG 4.10, for the purposes of the regulatory accounting guidelines, the definition of "households" (and any references to "household properties" or "household premises") is the same as the legal definition of "household premises" in section 17C of the Water Industry Act 1991. Non-household properties or premises are premises other than household premises (as defined in section 17C of the Water Industry Act 1991). In July 2022 we provided <a href="#">eligibility guidance on whether business customers in England and Wales could switch their retailer</a>. It gave guidance about what constitutes premises and therefore properties. It also said that consistent with the approach we have adopted for other</p>

Ofwat ref.	Topic	Query	Response
			<p data-bbox="1312 269 2007 437">mixed-use premises, where an animal trough shares a supply point with another building, or buildings, and is dependent on those buildings, it should be categorised in the same market as the premises on which it is dependent.</p> <p data-bbox="1312 480 2033 1169">We do not consider this should lead to a significant difference between the PR19 and PR24 definitions. A property with cattle troughs that has other supplies, even if parts of the property are separated by roads or other transport infrastructure, should be reported as a single property. Unmeasured cattle troughs that are just billing points should not be included in the number of properties and so there is nothing to exclude under the PR19 guidance. The PR19 guidance would only apply where a cattle trough is on land isolated from any other supply of water that constitutes a premises/property in its own right. Under the PR19 guidance, where this is an unmeasured trough, it is excluded from the number of properties and where it is measured it is included. There does not appear to be any reasonable justification for this difference. Overall, we consider that, as long as properties are being counted according to our guidance, it should have little impact on reporting whether unmeasured cattle troughs are excluded. Therefore, we have removed this exclusion from the PR24 guidance.</p> <p data-bbox="1312 1209 1989 1273">Please provide evidence if you think that this makes a material difference.</p>
54	Outcomes	Ofwat's draft methodology specifically asked for examples of when the current PC definition proved to be a barrier to	We conscientiously considered the contents of the UKWIR study, 'Improving the testing approach to lining



Ofwat ref.	Topic	Query	Response
		<p>innovation, around planned/unplanned works. We provided a substantial response and evidence on this, which included the related UKWIR study <a href="https://ukwir.org/new-object-179">https://ukwir.org/new-object-179</a>.</p> <p>Q: In the final methodology, Ofwat did not reference this UKWIR study; did Ofwat review the UKWIR study as part of their review of evidence provided?</p>	<p>materials for potable water networks – phase 1 workshop'. The study provided a variety of high-level views and evidence that did not present sufficient reason for us to alter the performance commitment.</p> <p>For example, the study notes that some companies reported (as part of the study) that the current performance commitment was restricting the take up of lining operations. However, it also noted that there are ways to mitigate the three-hour limit (p.25). The report also referred to the aspiration to have zero water supply interruptions by 2050. We sought clear evidence that the current water supply interruptions performance commitment is inhibiting innovation. The majority of stakeholders responding to our consultation on the draft methodology did not consider there was evidence that it was.</p>
55	Outcomes	<p>PR24 common performance commitment definitions – water supply interruptions</p> <p>We believe that by removing of the exclusion for civil emergencies from the definition for this measure allocates a risk to companies which is beyond their control. While unlikely to occur, events that constitute emergencies under the Civil Contingencies Act legislation (i.e., events which threaten serious damage to human welfare) are outside of company control, therefore we recommend retaining the exclusions related to Civil Contingencies Act where they are the cause of an interruption. Even with such exclusions, this is a volatile measure that is severely impacted by weather and other exogenous factors. We propose that this</p>	<p>We note the company's view on exclusions. We set out our policy on exclusions in section 2.4 of Appendix 7.</p> <p>This measure is more volatile than leakage, per capita consumption and business demand and as such we consider less suitable to be averaged over multiple years. We consider that a three-year average could be more complicated for stakeholders to understand as good or poor performance from an earlier year may have a significant impact that is no longer reflective of performance. It could also lead to problems with incentives if we have a collar (and we have signalled that we may do for this performance commitment) as significantly poor performance could lead to a</p>

Ofwat ref.	Topic	Query	Response
		performance commitment is measured and performance commitment levels set on a three-year average basis, like leakage and per capita consumption, to smooth variability in reported performance, making underlying trends in performance more visible and reducing volatility in customer bills resulting from under or out performance payments.	circumstance where the company will hit the collar in future years and so would have reduced incentives to improve performance.
56	Outcomes	We note there are definitions for some performance commitments that rely on third party material which could change between now and the PR24 final determinations. This could have an impact on the reporting of baseline performance. We would welcome guidance from Ofwat on the best approach to take on this issue when setting performance commitment levels for AMP8. If there is significant change in the third party materials, we might need to reconsider our future forecasts.	<p>Unless otherwise directed water companies should report against the third party material referenced in the performance commitment definition. If and when third party materials are updated, we will consider the appropriate approach on a case by case basis.</p> <p>So far, the only direction that we have provided in reporting performance that is not in line with third party materials is within OUT 5 of the business plan tables. We have asked companies to report the length of sewer to normalise total pollution incidents on a different basis from 2026-27. We have anticipated that this will be updated for the 2026 to 2031 period and so have captured it in the business plan reporting requirements.</p>
81	Data tables	<p>In the guidance for SUP15.21 - IMD score (proportion of income deprived households) – the guidance states that “the relevant IMD score for each company to use in completing this table is published in Ofwat's residential retail cost models ('External data' sheet, Combined Income Score for England and Wales (IMD) – interpolated).”</p> <p>Please can you confirm whether Ofwat will be providing data for all years from 2020/21 to 2029/30.</p>	Companies need to use the IMD score for 2021-22 (latest figure in the data set referenced in the definition) for the subsequent time periods to complete SUP15.
82	Cost	Are you still expecting companies to produce standalone sludge strategy documents primarily setting out how they	We confirm that we expect companies to produce a standalone sludge strategy in their PR24 business plans. As we said in the Final methodology (p.43), we expect

Ofwat ref.	Topic	Query	Response
		will use markets to achieve their objectives for AMP 8 and beyond?	companies to take a leadership role in the bioresources market and to fully exploit the opportunities it creates. We also expect that the strategy should set out the steps they have already taken and are planning to take to address the expectations we set out in our bioresources market review regarding greater sector collaboration where appropriate (and mindful of competition law considerations).
103	Outcomes	<p>We would like to seek some clarity around the common reference scenarios for the LTDS please with the following question.</p> <p>The Final Guidance on Long-Term Delivery Strategies specifies eight Common Reference Scenarios. These are divided into four pairs of benign and adverse scenarios. For each of these scenarios, the Final Guidance provides a definition of the parameters that are “adverse” or “benign” in each scenario, but does not define other parameters. For example, the definitions of the technology, demand, and abstraction reduction scenarios do not include the amount of climate change that should be assumed, and the definitions of the two climate change scenarios do not specify the level of technology, demand or abstraction.</p> <p>Please can Ofwat confirm that the default position for these other parameters should be the benign parameters? (In other words, the impact of the adverse climate change in the adverse climate change scenario should be tested using the benign assumptions for technology, demand and abstraction reductions combined with the adverse assumptions for climate change – and similarly for the other scenarios.) We understand this is what Ofwat has agreed with WRSE, and we just wanted to confirm.</p>	When testing each of the common reference scenarios, companies will need to determine the default position for other parameters. Companies should not combine the extremes of the common reference scenarios for testing - whether adverse and benign. Using a combination of extremes risks producing a very low probability scenario. Instead, companies should use a parameter that lies between the 'plausible extremes' described by the benign and adverse common reference scenarios for its default position.

Ofwat ref.	Topic	Query	Response
105	Outcomes	<p>Can you please assistance with the following PR24 query for this Std definition <a href="#">Storm overflows – PC definition - Ofwat</a></p> <p>The query concerns how will the std definition be applied? (The average number of spills per storm overflow will be calculated to two decimal places as follows: = Total no. spills per calendar year / Total no. storm overflows)</p> <p>For example our starting position for the AMP 8 SO investment cohort is as follows;</p> <p>WINEP investment is across 275 SO sites, and the current annual spill frequency for these sites is 12,673.</p> <p>Hence <math>12,673/275 = 46.1</math> Average per annum</p> <p>EXAMPLE ONLY</p> <p>With 10 being the average target, If nothing was done this performance by end of AMP8 would incur 36 penalties (46.1-10) at @90k = £3.24m. Is this correct?</p> <p>What happens if</p> <ol style="list-style-type: none"> <li>1. By end of AMP 8 we have an average below 10, but several SO sites are still spilling more than 10 times, but this is offset because we have many more spilling much less than ten?</li> <li>2. Is the penalty of £90k applied for each whole integer above 10. For example if the average is 11.75 its one penalty?</li> </ol>	<ol style="list-style-type: none"> <li>1. In the 2025–30 period if a company has a performance commitment level of an average of 10 spills, it would receive outperformance payments if it delivered less than this, even if some storm overflows were spilling more than 10 times. This may change in future periods.</li> <li>2. The performance commitment will be reported to 2 decimal places and the ODI payment calculated on this basis. Using your illustrative figures, if a company underperforms by 1.75 and the ODI rate was £90k, then the underperformance payment would be £157.5k.</li> </ol>
113	Risk and Return	We have a query relating to Refinitiv data as follows:	The Refinitiv data item for the 2Y RPI swap is GBRPIZ2Y. This is the source of swap breakeven RPI in our

Ofwat ref.	Topic	Query	Response
		We note the following comment from Ofwat on page 96 of Appendix 11: “we have directly estimated $\Delta CY$ using data from Refinitiv at the 2 year horizon used by Diamond and Van Tassel (2021) to inform their 38bp convenience yield. We calculate an average figure of 31bps for Gilt BEI – Swap BEI using UK data from 01/02/2004 to 07/27/2020”. Can Ofwat please provide the names of Refinitiv data items used to derive the 31bps; or provide the calculation in Excel form?	calculations. For Gilt breakevens we have relied on the Bank of England's archive daily historic government nominal and real liabilities curve at the 25 months mark (we opted for this over 24 month data due to better availability of datapoints on the real curve). We have noticed an erratum in the way our analysis has been reported in the Appendix – the date range for our analysis was 18/06/2007 to 7/27/2020, rather than 01/02/2004 to 7/27/2020, as incorrectly stated. This is due to the Refinitiv swap data starting from 18/06/2007. We will republish Appendix 11 with the correct date ranges and accompany the webpage with an erratum note to explain the reasons for republishing.

### April 2023 queries and responses

Ofwat ref.	Topic	Query	Response
104	Bespoke PC definition	With the upcoming Bespoke PC Definition in early April we would like to ask the following please  Can companies provide additional supporting materials beyond the Excel and Word templates provided by Ofwat for the bespoke PC submissions or are only these two documents admissible for the submission?	We consider that a company should be able to summarise the supporting evidence within the Excel spreadsheet we have provided. Where there is a particularly relevant report or evidential material, a reference can be added to the spreadsheet to the additional material if necessary.
123	Compliance Risk Index	We welcome the introduction of a deadband for the Compliance Risk Index PC, however we have concerns at the level at which it would be set to reflect “the historic level of failures caused by customers’ internal fittings”. By its very nature, a failure attributed to customers’ internal fittings will only count for a single property which is then normalised by	This PC/ODI will provide an incentive rate that relates to the benefits to customers, with companies making operational decisions in line with those incentives. As such, we do not consider that the ODI will promote inefficient totex delivery. In any case, companies should deliver their statutory duties.

Ofwat ref.	Topic	Query	Response
		<p>the total population served to give the related CRI score. For context, in each the first three years of AMP7, [Water company]'s performance for this element of the PC was a CRI score of less than 0.0001 and therefore negligible to our performance. As a result, a deadband set on these principles will have no meaningful effect on the ODI risk and therefore will likely promote inefficient Totex solutions to chase diminishing returns.</p> <p>a.) Could you please confirm this is the intention of the methodology?</p>	
124	Compliance Risk Index	<p>Ref 123 contd.</p> <p>b) Could you also please confirm how you anticipate “an improving profile over the 2025–30 period” given the extremely small numbers?</p>	<p>We plan to set this informed by industry data. We will consider the data with the Drinking Water Inspectorate and propose the deadband in our draft determinations.</p>
125	Compliance Risk Index	<p>Ref 123 contd.</p> <p>c) In principle, we agree with the proposal of narrowing the deadband for CRI. However, as outlined above, we have concerns that the current approach does not achieve the right outcomes. As an alternative, we suggest using the historic upper quartile score for CRI with an improving trend – this will continue to incentivise the industry to push for improving water quality whilst offering a realistic recognition of the challenges present in achieving the target.</p>	<p>We consider this issue in section 5.2.4 of Appendix 8: to our final methodology for PR24. We will consider available data with the Drinking Water Inspectorate and propose the deadband in our draft determinations.</p>
126	Compliance Risk Index	<p>We note that the definition does not propose a level for the deadband and there is nowhere in the OUT tables to propose deadbands, caps and collars. We would therefore like to understand how we should propose a suitable deadband for CRI, and other measures, in the OUT tables.</p>	<p>Companies do not need to propose a level for the deadband in their business plans. We will consider available data with the Drinking Water Inspectorate and propose a level in our draft determinations.</p>
127	Compliance Risk Index	<p>CRI as a metric is not static and reflects the DWIs approach to enforcement notices and judgement on company compliance incident. One option that Ofwat should therefore consider that would better lend itself to these circumstances</p>	<p>We set out our final decisions for the compliance risk index (CRI) performance commitment in section 3.6 of Appendix 7, which is to retain it as a common performance commitment for PR24. We also set out in</p>

Ofwat ref.	Topic	Query	Response
		would be a symmetrical dynamic performance incentive, in order to achieve Ofwat's objective that there should be symmetry between risk and return at PR24. This approach would mean that relative performance across the industry was fairly assessed over time (noting that in any one year there may be one-off impacts).	section 4.4.3 of Appendix 9 of our final methodology for PR24 that we expect companies to deliver a CRI score of zero through base maintenance. Companies should deliver their statutory duties.
128	Water quality contacts	The definition for the common PC Customer contacts about water quality is set in line with the consumer contact classification guidance in Information letter 04/2022 Revised from the DWI of December 2022. One of these categories for appearance of water given by the DWI in table 2 of this document, listed under "7. General conditions" relates to customer contacts associated with the customers' internal plumbing. Ofwat acknowledges the effect that customers' internal pipes or fittings can have on companies' CRI performance we question whether this same approach should also be applied to the PC on Customer contacts about water quality. Should customer contacts recorded under the DWI's "7. General conditions" be excluded from this PC?	The scope of this measurement has remained substantially the same over time. We consider that it is important to keep the intended scope consistent over time and with how information is reported by the Drinking Water Inspectorate and on Discover Water unless there is a clear reason to change. We do not consider that there is sufficient reason to make a change.
129	Water quality contacts	Our concerns on the water quality contacts definition are: a. The data changes that make it impractical to set comparative targets, as information is not yet available. b. The proposal for a common target across the industry, given the exogenous impacts of source water quality, network age and pipe type, and the influence of past historical DWI requirements for and levels of enhancement investment.	We consider these issues in section 4.4 of Appendix 9 of our final methodology for PR24.
130	Water quality contacts	We note that the revised definition is as per the Information letter 04/2022 Revised from the DWI of December 2022. We would like to highlight the requirement in Information letter 04/2022 to report on "general conditions" in table 2 for the appearance of water categories, which states:	The scope of this measurement has remained substantially the same over time. We consider that it is important to keep the intended scope consistent over time and with how information is reported by the Drinking Water Inspectorate and on Discover Water

Ofwat ref.	Topic	Query	Response
		<p>“The contact relates to the appearance of a deposit or slime or colour that is present on the outside of a tap or water fitting, included here are contacts about hardness deposits in kettles, staining of the sink, bath, shower cubicle, tiles etc. This category of contact deals with common consumer concerns where the water itself appears normal (it is clear and bright in appearance and free from taste and odour) and the phenomenon is arising within the household environment. A typical cause being inadequate ventilation combined with the use of aerosol dispensed household or personal products. This category should also be used for contacts relating to the quality of water in hot water systems or heating/cooling systems and humidifiers.”</p> <p>However, in section 1.1 of the definition for customer contacts about water quality, under the “Detailed Definition of the performance measure” it states “The number of times the company is contacted by consumers due to the taste and odour of drinking water or because the drinking water is not clear, reported per 1,000 population. Calculation is the number of contacts for all appearance, taste and odour contacts multiplied by 1,000 divided by the resident population as reported to the Drinking Water Inspectorate (DWI)”.</p> <p>In our view, there appears to be some conflict if the “general conditions” appearance category is included in the definition, as those conditions do not relate to the appearance for water. We recommend therefore that the “general conditions” appearance category is added as a specific exclusion under section 1.3.</p>	<p>unless there is a clear reason to change. We do not consider that there is sufficient reason to make a change.</p>



Ofwat ref.	Topic	Query	Response
131	Sewer collapses	<p>Sewer collapses PC definition: at the top of page 4 the first bullet point makes reference to the flow diagram (“see flow diagram above”). This reference should be removed as the flow diagram in figure 1 of the PC definition does not include proactively identified collapses. Q: Should the statement be removed from the top of page, following the non-inclusion of the proactively identified collapses?</p> <p>We note that the flow diagram in Figure 1 has been updated from the PR19 performance commitment definition document. We have assumed that this has no impact on the definition and the reporting of sewer collapses in AMP8 compared to AMP7. The updated flow diagram includes the phrase “feedback order”. Q: Please can you clarify what is meant by ‘feedback order’ in the updated flow diagram?</p>	<p>We have reverted to the chart in the PR19 performance commitment definition document which includes the possibility of proactively identified collapses. This means:</p> <ul style="list-style-type: none"> <li>the reference at the top of page 4 is now appropriate; and</li> <li>there is no longer any reference to “feedback order”.</li> </ul>
135	Non specific PC issues	<p>If shadow reporting on any of the revised definitions is required for the Annual Performance Report 2022/23 for any of the common performance commitments we would be grateful if Ofwat could confirm this as soon as is possible. It is unlikely given the timeframe this can now be considered for October 2023 business plans.</p>	<p>With the exception of information on operational greenhouse gas emissions and flow data for treatment works with phosphorus consents in 2022, we consider that all information required for performance commitments for the historical period 2011 to date is either already reported or is in the public domain. We set out requirements for reporting historical operational greenhouse gas emissions in <a href="#">IN 23/03 Expectations for monopoly company annual performance reporting 2022-23</a>. We will continue our current process of reviewing historical data for other performance commitments where data can be sourced from publicly available data. When we ask companies to verify information on historical reporting related to the River water quality (phosphorus) performance commitment we will ask them to add data on flow for 2022.</p>

Ofwat ref.	Topic	Query	Response
136	Non specific PC issues	<p>For certain Performance Commitments, the proposed definitions remove exclusions or adjustments to performance reporting for exogenous factors outside of company control. For example, discounted samples for bathing waters or the impact of civil emergencies impacting water supply interruptions.</p> <p>While we understand Ofwat’s desire to retain an incentive on companies to limit the impact of events such as severe weather on customers, disallowing these in their entirety and removing avenues for representation materially increases the exposure to a financial penalty for risks companies are unable to mitigate through company action. Nor does this reflect the interaction with wider measures such as C-MEX.</p> <p>We believe there is a case for introducing a force majeure clause to all performance commitment definitions. Absent of this, it will be important to take this into account when considering the appropriate risk/reward balance when calibrating PR24.</p>	<p>We do not consider there is a case for introducing a force majeure clause to performance commitment definitions; our approach to exogenous factors is set out in Appendices 7 and 8 of the PR24 final methodology.</p> <p>We set how we will approach risk from outcome delivery incentives in section 5.3 of Appendix 8 of the final methodology.</p>
137	Sewer flooding	<p>We note that in both the Internal and External Sewer Flooding definitions there is a change whereby the expectation for ‘neighbouring properties’ to be checked for flooding has now become ‘properties in the vicinity’ or ‘nearby’ properties. We support this move to widen the scope for investigation following flooding incidents. However, for these measures to be truly comparative we consider there should be a consistent definition across the industry for the terms ‘nearby property’ and ‘property in the vicinity’.</p>	<p>We consider that the drafting makes clear (based on the ordinary meaning of the words) that affected properties could be right next door to or further away from the source of the flooding; so setting a fixed radius or other arbitrary boundary is not appropriate. We do not consider that there has been a change in meaning from the PR19 definition, although our amendments may have highlighted that the scope extends beyond adjacent properties.</p>

Ofwat ref.	Topic	Query	Response
138	Sewer flooding	<p>We note that in both the Internal and External Sewer Flooding definitions there is a change whereby the expectation for ‘neighbouring properties’ to be checked for flooding has now become ‘properties in the vicinity’ or ‘nearby’ properties.</p> <p>Alongside acknowledging this amendment, we would stress the importance of maintaining consistency within this measure due to scale of impact this will potentially have on reported numbers given our relatively low number of absolute incidents as the smallest company waste company in the sector. We recognise that consistency is important and, to help make sure these measures are truly comparative, a consistent approach across the industry is needed to define the terms ‘nearby property’ and ‘property in the vicinity’. We would therefore like to understand Ofwat’s plans for making sure a standard definition for these terms will be applied and used across the industry.</p>	<p>We do not consider that there has been a change in meaning from the PR19 definition: "neighbouring" in the PR19 definition can extend beyond adjacent properties.</p> <p>We consider that the drafting makes clear (based on the ordinary meaning of the words) that affected properties could be right next door to or further away from the source of the flooding; so setting a fixed radius or other arbitrary boundary is not appropriate.</p>
139	Sewer flooding	<p>We note in the PC definitions for both internal and external sewer flooding that a phrase appears to have been copied over incorrectly from the mains repair PC definition document. This error could appear in other PC definition documents as well. The phrase in the external sewer flooding document (for example) is:</p> <p>“Where the number of sewer connections differs by more than 1% from the mains length expected in its business plan, the company shall provide evidence of any adjustments made as part of the annual performance report (APR).” We think that the reference to “mains length” in the example given above should instead state “sewer connections”.</p> <p>Q: Please can the necessary corrections be made to all PC definition documents as required?</p>	<p>We agree and have amended in internal and external sewer flooding definitions.</p>

Ofwat ref.	Topic	Query	Response
140	Sewer flooding	Guidance for both forms of reportable flooding have changed the focus from incidents to events (by replacing the word incidents with events). As an event can have multiple incidents, this change in terminology may result in misreporting between companies as another company may choose to report the number of events which will naturally be lower.	<p>We consider that the drafting has improved to more carefully use the words "events" and "incidents". We agree that the terms in the definition are that there are events from which more than one incident can occur.</p> <p>We do not consider a careful reading of the PR19 definition would lead to differences between companies but consider that the change in drafting is more precise.</p>
141	Sewer flooding	Under the reporting and assurance sections, in the last but one paragraph, it refers to the number of sewer connections differs by more than 1% from the mains length – the mains length should read as sewer connections. Should this not be a commentary item for Table 4R in the APR – Connected properties, customers and population.	We agree that it should be read as sewer connections and have amended in internal and external sewer flooding definitions. By virtue of being within the performance commitment definition, this will become a commentary item in future annual performance reporting for the 2025-30 period.
142	Sewer flooding	As external sewer flooding can be from multiple types of assets, there may be inconsistencies in incentives when normalising by property. We suggest retaining the PR19 bespoke approach of “number of incidents” to avoid the data uncertainty across the industry from normalising.	We expect all companies to report both the number of incidents and the number of sewer connections consistently and so normalising the number of incidents by the number of sewer connections should lead to consistent and clear information.
146	Discharge permit compliance	<p>Discharge Permit Compliance – whilst the PC definition states that “compliance is defined by [...] version [x] of the EPA” the PC is required to be reported on an inconsistent basis to the EPA. The EPA reports to 1 decimal place whereas Ofwat’s PC requires reporting to 2 decimal places.</p> <p>Q: For consistency with the EA's definition, this PC should be changed to 1 decimal place.</p>	There is not sufficient reason for the performance commitment to differ from the definition set out in the Environmental Performance Assessment (EPA) methodology. We have amended the definition to require reporting to one decimal place.
Queries 147-172 refer to a workshop run on 02/03/23 on business plan table SUP15			
147	Affordability/ SUP15	The terms number of “customers” and number of “households” appears to be used interchangeably	We confirm number of households is the relevant measure where the term "customer" is used.

Ofwat ref.	Topic	Query	Response
		throughout the table and guidance. For the avoidance of doubt, please confirm whether the relevant measure is number of households.	
148	Affordability/ SUP15	Does the reference to number of households/customers relate to all households/customers served or only those households/customers directly-billed where the company has the billing-relationship with the customer/household?	It refers to households supported by companies' measures, regardless of the billing arrangements (eg WOC billing on behalf of WASC) - customers served is a more accurate description in this query.
149	Affordability/ SUP15	B2 (15.23 and 15.24) refers to “delivering more progressive revenue recovery” in the context of charges subject to charges scheme rules i.e. cost reflectivity, condition E and the Defra guidance on social tariffs and resulting cross-subsidy. Please would Ofwat expand on what it means by “more progressive revenue recovery”.	For the purposes of these tables, more progressive revenue recovery refers to charging structures that can result in lower bills for lower income customers. As discussed in the consultation on innovative charges to support affordability, such outcomes could be delivered by charging structures that include higher rates for discretionary water usage.
150	Affordability/ SUP15	B3 15.27 and 15.28 refers to “water efficiency advice”. All customers are provided with “advice”. Would a better metric be “water efficiency devices” that actively reduce usage e.g. toilet-cistern “hippos” etc?	We will consider your suggestion further to improve this definition. We can confirm at this stage that installation of water efficiency devices, fixing leaks free of charge (where customers are responsible for the pipes) over and above what compliance with licence condition H would require, and water audits are all relevant examples.
151	Affordability/ SUP15	B2 15.29 and 15.30 refers to customers moved from unmeasured to measured charging. Would a more informative metric be the number of unmeasured customers that would be better off on a meter? It would also be useful to understand the existing level of meter penetration in conjunction with this metric.	<p>This together with 15.27 and 15.28, should be forecast net, i.e. it should take account of the fact that not all income deprived customers would experience bill reductions (so the average saving as it is defined would be lower than under an approach that only takes into considerations income deprived customers that benefited/took action).</p> <p>We have separate data sources on meter penetration, so we have not included questions on that in these tables.</p>
152	Affordability/ SUP15	B5 and B6 refer to “customers struggling to pay”, “income deprived customers” and “customers in water poverty”.	This is an important point to highlight - some of the measures are defined using different target customer

Ofwat ref.	Topic	Query	Response
		<p>Given these are not interchangeable definitions of the same population would Ofwat be able to clarify its expectations as to how it will use the data in assessing the ambition on enhancing affordability, particularly given 15.46 divides support for both income-deprived customers and customers struggling to pay by the number of income-deprived customers.</p>	<p>groups and we highlighted some of the key points on that in the guidance note.</p> <p>The reason we did not use "income deprived" households throughout is that customers on social tariffs may be a broader category and we would also like to capture some forms of support that are targeted more broadly to customers struggling to pay (eg help from hardship funds).</p> <p>The "water poverty" measure is defined in CCW's affordability review, and it is a measure that has been used extensively in the public domain.</p>
153	Affordability/ SUP15	B7 15.50 sets out it “relates to line SUP15.45. Would Ofwat clarify what it means by “relates to”?	Line 15.50 is a component of Line 45 - it shows the amount of foregone revenue (contributions from owners/shareholders) that has been used to provide reductions in bills to customers struggling to pay.
154	Affordability/ SUP15	The Affordability and Acceptability testing guidance published by Ofwat and CCW refers to twin-track testing of 1) existing social tariff cross-subsidy, and 2) a £20 cross-subsidy. How does this reconcile with the SUP15 guidance “now confirming that two scenarios will not be necessary”?	We addressed this question at the workshop on 02/03. The latest Affordability and Acceptability Guidance document provides details on that.
155	Affordability/ SUP15	Does Ofwat have any preferred approach for how companies estimate water poverty (line SUP15.47)?	We will consider further if we need to make changes to questions 15.47 and 15.48 in the final version of the tables, taking into account companies' feedback and comments from the workshop on 02/03.
156	Affordability/ SUP15	Does Ofwat have any forecast of real incomes it would like companies to use for table SUP15?	<p>We do not propose forecasts for real income.</p> <p>Due to limitations of forward-looking data sources, we have asked companies to use the latest available Income Deprivation Index data for the entire AMP period (which</p>

Ofwat ref.	Topic	Query	Response
			is the approach taken for the residential retail cost model).
157	Affordability/ SUP15	How would Ofwat suggest companies best address the issue of single and dual service customers when completing SUP15?	<p>When designing the tables, we need to strike a balance between practicality and comprehensiveness. We welcome companies to provide further information in the narrative accompanying the tables where companies feel it is important to highlight additional details.</p> <p>This was a point of discussion at the workshop on 02/03 and we will consider further any clarifications we may need to make in the revised table and definitions.</p>
158	Affordability/ SUP15	Recommendation: Focus the data table on dual service impact on directly billed customers only as the best representation of support provided. We would also recommend including separate columns in the table to allow for the figures for water and wastewater services to be shown separately alongside the dual service figures (hence three input columns).	We will take this suggestion into account, relevant to question 11, when revising the table definitions.
159	Affordability/ SUP15	Recommendation: We recommend that the level of support as a proportion of the average bill should be considered.	We agree with this suggestion and intend to include a question on bill levels, which would allow calculating a % reduction figure.
160	Affordability/ SUP15	<p>Query on Line 27: If a customer's leak is repaired, then the leak allowance process will apply, and the customer's bill will be reduced and refunded. Is this considered a bill reduction for table SUP15?</p> <p>Can you clarify that compulsory metering programmes are not included, as this blanket approach nets out reductions and increases.</p> <p>Recommendation: Don't include leak repairs as a bill reduction and clarify in table guidance.</p>	<p>We will clarify Line 27 in the revised definitions. Please see our response to Question 4 for more details.</p> <p>We intend to include universal metering as a measure to be taken into account for this table, following our discussion at the workshop.</p>

Ofwat ref.	Topic	Query	Response
		<p>Exclude compulsory metering installations even when calculating the impact on low-income populations.</p>	
161	Affordability/ SUP15	<p>Query on Line 29: The line highlights the move from unmeasured to measured billing. However, if a property is unmeterable they would move to the Assessed Household Charge (AHC) tariff if the resultant bill is lower than their Rateable Value bill.</p> <p>Recommendation: Clarify whether customers moving to an AHC tariff should be counted as well as those moving to a measured charging basis.</p>	<p>We intend to clarify the definition to include moving customers to assessed charges, following our discussion at the workshop.</p>
162	Affordability/ SUP15	<p>Query on Line 47: Estimating this impact is complex. We commissioned Berkeley Research Group to build a model for us to provide this estimate based on the same data and approaches used by CEPA and Frontier Economics as commissioned by Water UK. Our model produced an estimate of the population in water poverty of 6.5% of our dual service directly billed population, above CEPAs 3.6% but below Frontiers 10.5%. This range of estimates shows the complexity in modelling this outcome.</p> <p>The exact definition of how to calculate Water Poverty is not documented in the public domain.</p> <p>The term Water Poverty is a politically charged label. The Water UK Public Interest Commitment distinguishes between Water Poverty and making customers bills affordable for those above the 5% threshold.</p>	<p>Please see response to query ref. 155</p>



Ofwat ref.	Topic	Query	Response
		<p>Recommendation: Construct a model as part of the Single Social Tariff working group that allows all interventions to be modelled consistently.</p> <p>Publish a definition of Water Poverty that we have established in consultation with CCW and is aligned to the recent Water UK studies, see below.</p> <p>Consider the term 'Water Affordability Threshold' instead of Water Poverty.</p>	
163	Affordability/ SUP15	<p>Query on Line 27: The terms customers and households are used interchangeably.</p> <p>Recommendation: Align to households consistently.</p>	Please see response to query ref. 147
164	Affordability/ SUP15	<p>Query - general: We understand that SUP15 now no longer requires two scenarios of social tariffs (per paragraph 17.2 of the guidance document). However, it is not completely clear whether this applies to the whole business plan more generally as well as to other tables, for example SUP14 Acceptability Testing.</p> <p>Recommendation: Clarify whether the whole business plan process requires a second social tariff scenario.</p>	Please see response to query ref. 154
165	Affordability/ SUP15	<p>General comment: We have set out below a few specific comments, however we also wanted to highlight that the information capture of SUP15 standalone may not tell the full story in terms of the huge amount of work we do to support customers. With this in mind we very much agree with para 17.5 of the guidance that the relevant context and narrative is equally important and the two should be considered together.</p>	We agree with this observation.

Ofwat ref.	Topic	Query	Response
166	Affordability/ SUP15	<p>Section B2: Please can you confirm the types of charges that would be considered innovative and therefore should be included in this block? Would you expect this to just include the types of charges referred to in the 20220922_Consultation_on_charging_innovation_to_support_affordability.pdf (ofwat.gov.uk)?</p> <p>Related, would you expect to see tariff trials included in here please?</p>	<p>The consultation on innovative charges to support affordability provides examples, but not a comprehensive list of possible charging structures. Companies can design other types of charges that can be included here if they can result in bill reductions for income deprived households.</p> <p>It is important to explain assumptions in the narrative, as it is the case for the rest of the questions trying to quantify customer benefits. If companies are planning trials in the AMP, this can be included here and the quantification of bill reductions needs to take into account the duration of the trial and the likely impacts on income-deprived households participating in the trial.</p>
167	Affordability/ SUP15	<p>Income Deprived customers</p> <p>Section B1 captures IMD scores. Do Ofwat expect companies to provide their own forecast of IMD scores or will Ofwat provide a forecast as part of retail cost assessment for companies to include in their business plan data tables, such that the forecast is done on a consistent basis (e.g. if this data might also be used in the benchmarking models?). We note this is external data.</p> <p>Section B2 and B3 ask for companies for information about schemes and support for income-deprived customers. Do Ofwat expect companies to report customer numbers for these on a consistent basis to the IMD definition of income deprivation?</p>	<p>B1: Companies need to use the IMD score for 2021-22 (latest figure in the data set referenced in the definition) for the subsequent time periods to complete SUP15.</p> <p>B2 and B3: We expect companies to provide best estimates consistent with the IMD definition of income deprivation.</p>
168	Affordability/ SUP15	Line 15.50	We clarified the definition for revenue foregone regarding the reporting of social tariffs at the workshop. We will consider further clarification for the revised

Ofwat ref.	Topic	Query	Response
		<p>We have a tariff called Restart which customers with significant debt can apply for. When the customer is on the tariff, they pay our charges for the current year and at the end of the year we reduce the customers debt by an equivalent amount to that they have paid. If the customer continues to pay charges in the second year, we will clear their remaining debt in full. Please can you clarify if you would expect revenue foregone for Restart to be included in this line 15.50?</p>	<p>definitions related to treating revenue foregone under the other measures to support customers.</p>
169	Affordability/ SUP15	<p>Lines 15.41 – 15.42</p> <p>Typically, for customers in receipt of debt advice they will receive advice on both income maximisation and managing debt. We would therefore expect our reporting of line 15.41 and 15.42 to be the same.</p>	<p>We will consider merging the lines.</p>
170	Affordability/ SUP15	<p>Water Direct</p> <p>If a customer is behind on their water or sewerage bill and receives benefits, we can take payments directly from their benefits. We were unsure if and where this should be captured by SUP15 (or whether this should just be included in the commentary) – please can you advise?</p>	<p>Companies can include this type of measures in the commentary.</p>
171	Affordability/ SUP15	<p>Section B</p> <p>Please can Ofwat clarify how partial completion of section B on a best endeavours basis will impact the QAA assessment? For example, there may be some lines we cannot complete because the historical data is not available, or we cannot complete with certainty as judgements are involved (e.g. identifying the counterfactual level of doubtful debt in the absence of affordability support measures (SUP15.58)).</p>	<p>We expect companies to complete the tables on a best endeavours basis where they intend to provide the measures described in section B, providing assumptions and explanations in the commentary. We do not expect entries for past periods, where the measures were not offered by the company.</p> <p>If companies are not able to quantify the impacts of measures they intend to implement to support customers, this should be noted in the commentary.</p>

Ofwat ref.	Topic	Query	Response
172	Affordability/ SUP15	<p>With respect to the funding sources described in section B7 can you clarify where:</p> <ul style="list-style-type: none"> <li>• Use of opex, for example during debt support schemes, is categorised</li> <li>• Use of shareholder funding, for example either social tariffs of debt payments, would be categorised</li> </ul>	Please see our response to query ref. 168
177	Pollution incidents	<p>In both Total Pollutions and Serious Pollutions, the PC definitions should also refer and link to the Environment Agency's pollution reporting guidance (doc ref: 16_02). Currently, the definitions only refer and link to the Common Incident Classifications System, CICS (doc ref: 04_01). They should reference both documents as they can be updated from time to time, and both will directly influence the reported pollution numbers (for example if they removed category 4 pollutions as a category and all pollutions would therefore default to category 3).</p> <p>Q: Please can you include in the PC definitions a reference and link to the Environment Agency's pollution reporting guidance (doc ref: 16_02)?</p>	CICS (doc ref: 04_01) includes a reference to the Environment Agency's pollution reporting guidance (doc ref: 16_02), as well as a large number of our sources. We consider that the documents referenced are sufficient. We would consult if there was a significant change such as the example referred to.
178	Pollution incidents	<p>Normalisation on pollution incidents - the main body of text indicates that there is no normalisation for Total Pollutions but the Table 1 reference contradicts this and says it will be normalised by 10,000km of sewers. Q: Should the main body of the text also state the normalisation factor?</p>	The words in the main body "per 10,000km of sewer length from wastewater assets for which the company is responsible in a calendar year." were marked up as deleted in error. We include these words in the updated definition.
181	Unplanned outage	<p>We recognise the decision to remove the PR19 exclusion relating to raw water quality when reporting Unplanned Outage performance for the period 2025-30. This is detailed in section '4.2.3 Specific exclusions' of the final methodology 'Appendix 7 – Performance commitments' and also stated in the Unplanned Outage definition document in section '1.3 Specific exclusions'. However, in the definition document</p>	We confirm the removal of the exclusion and have updated the diagram to remove reference to it.

Ofwat ref.	Topic	Query	Response
		<p>this exclusion still appears in the flow diagram referenced 'Figure 1' under section '1.2 Additional detail on measurement units'.</p> <p>We would therefore appreciate clarification of whether the removal of this exclusion still remains given its inclusion in the flow diagram.</p>	
185	Unplanned outage	<p>We note the additional expectation on <a href="#">page 9</a> to “make no adjustment for over-running planned outages”. Whilst we understand the rationale for the inclusion, we question the practicality of achieving this in practice. Should we assume that it is for companies to define over-running planned outages or will Ofwat provide further guidance?</p>	<p>As we set out in the definition at draft methodology and final methodology:</p> <p>"It is expected that the company will have a process whereby planned works on production assets are approved and scheduled. This may be the basis of evidence to demonstrate that the outage is planned. If planned maintenance or capital works overruns meaning that PWPC [peak week production capacity] is reduced, the overrunning period and subsequent impact on PWPC [peak week production capacity] should be recorded as unplanned outage."</p> <p>As part of the process we expect companies to have a clear understanding of the start and finish times for operational management and that this will be recorded on appropriate systems.</p> <p>To make this clear we will replace:</p> <p>“make no adjustment for over-running planned outages” with:</p> <p>"...approve and schedule each planned outage before any work commences and any outage occurs. Expected times</p>

Ofwat ref.	Topic	Query	Response
			that outage will start and end for operational planning must be recorded as part of this. Any outage exceeding the end time that was expected before the work began is to be included within the unplanned outage figure."
188	Non specific PC issues	<p>We would welcome Ofwat clarifying whether the expectations to report on confidence grades for each of the components and sub-components is only required during shadow reporting years (i.e. for the remaining years of AMP7) or whether this requirement will remain throughout AMP8 (and beyond)? Furthermore, as per the list stated above, not all performance commitments have this requirement, so does Ofwat expect that for all performance commitments a company reports a confidence grade for the overall performance measure or for a company to only report an overall performance measure confidence grade for the selected performance commitments listed? As companies are required to report on the component and sub-component R/A/G and the reason for any non-compliance, we question whether the confidence grade reporting requirements is necessary?</p> <p>For the compliance checklists for some of the performance commitments (for example supply interruptions) the revised definition restates the component requirements as per the PR19 definition but it does not then include the previously stated information as to what the component requires. It would be beneficial if such information was added to the revised definitions.</p>	For each performance commitment that includes a compliance checklist we have set out that confidence grades for each of the components and sub-components is required each year in each of the definitions. The water supply interruptions definition includes all the information as to the requirements of the components which was previously contained within the PR19 definition and reporting guidance. Where there are were two documents at PR19 (definition and guidance) these have been combined into a single definition document for PR24, which is visible on our website.
190	Non specific PC issues	The views of customers on risk seem somewhat irrelevant Ofwat's thought process, where past research (in particular that presented by Bristol Water to the CMA at PR19) shows that customers neither want excessive cost on the industry	We challenge the validity of past research for use in PR24 given changes in public views on how water companies should be held to account and the difficulty of designing research to elucidate views on complex issues such as these.

Ofwat ref.	Topic	Query	Response
		or penalties for risks they do not expect companies to be 100% resilient against.	We will continue to consider evidence on customer views, given due weight to these factors, as we approach draft and final determinations.
191	Non specific PC issues	We continue to disagree with the removal of exclusions, in particular there should be a general exclusion for third party events, given Ofwat’s likely removal of any deadbands, collars and caps at PR24. The potential skew in returns this causes, and industry reputation when seen as “failing” given Ofwat’s recent choice of external communication, should be addressed through both target and incentive design. These issues were not addressed adequately in Ofwat’s final methodology, in particular our analysis in Appendix 2 of our PR24 draft methodology response which illustrated the risk and return in-balance, and incentives calibration, Ofwat will find if we continue with ODI design that applies all risk, whatever the circumstances to water companies. We also note that throughout, whilst Ofwat include exogenous impacts that affect water companies in protecting risk and return from underperformance, the definitions do not allow for unearned outperformance. Whilst understandable, it is inconsistent to assume external events can only result in penalties and not rewards. This is the reason for careful incentive design that includes deadbands, collars, caps and exclusions in definitions.	<p>We appropriately considered the analysis that [Water company] provided in Appendix 2 of its response to the draft methodology. In section 2.4 of Appendix 7 we set out our approach to managing external factors in defining performance commitments for PR24. In section 5 of Appendix 8 we set out our approach to managing outcomes risk and providing customer and company protections from very high incentive payments – which includes the use of exclusions, caps and collars on individual performance commitments, and aggregate sharing mechanisms; the use of deadbands on individual performance commitments, which remove financial incentives for performance within a specific range; and estimating ODI risk at PR24. In both sections we summarised stakeholder comments and provided our final decisions and reasoning.</p> <p>We acknowledge that exogenous impacts can lead to both underperformance and outperformance (where outperformance is possible).</p>
192	Mains repairs	Our comments on weather impacts on ODIs also apply and Ofwat should consider the approach taken by the CMA in terms of deadbands for weather (which was supported by robust customer research) and apply a similar deadband at PR24.	<p>We note the company's views. We set out our policy on deadbands in section 5 of appendix 8. In particular, that:</p> <p>"We will not use deadbands for most performance commitments because they substantially weaken incentives on companies for performance close to their performance commitment level.</p>

Ofwat ref.	Topic	Query	Response
			<p>We will only set a deadband on the compliance risk index performance commitment, reflecting stakeholders' feedback, including from the Drinking Water Inspectorate, that it is challenging to achieve full compliance, particularly because performance against the measure can be affected by customers' internal pipes or fittings, responsibility for which is not within the statutory functions of water companies."</p> <p>We note the points made by the company. We considered the Competition and Markets Authority's (CMA's) approach to deadbands during its PR19 redetermination. The CMA considered deadbands appropriate in certain circumstances, including when the delivery of a performance commitment is not fully within a company's control due to the influence of severe winter weather variations on the level of repairs needed (see paragraphs 7.103 and 7.232 of the CMA's final report). Consequently, the CMA set an underperformance-only deadband on the mains repairs performance commitment for the four appellant companies.</p> <p>For PR24, we do not consider that deadbands are the most appropriate means of addressing weather related impacts for a number of reasons, as set out in section 2.4 of appendix 7 of our final methodology. While external factors such as weather may affect a company's performance, we generally allocate risk to those best placed to manage those risks and impacts on customers and the environment. In addition, we consider that deadbands substantially dampen incentives on</p>



Ofwat ref.	Topic	Query	Response
			<p>companies close to their performance commitment levels. In our view, setting a deadband would weaken incentives on companies to improve the asset health of their networks, potentially leading to poorer outcomes for customers and the environment now and in the longer term. We also expect to set symmetrical outperformance and underperformance rates for the mains repairs performance commitment at PR24 by default. As such, even if external factors lead to small underperformance payments in some years, they should largely be offset by small outperformance payments over time. This further weakens the case for a deadband on the mains repairs performance commitment at PR24.</p>
193	Transition funding	<p>Following the publication of Ofwat’s draft decisions on accelerated funding, we are looking at a number of other options for early start investment which we think is in customers interests. As far as I can see, there is no opportunity to get Ofwat’s agreement to this prior to the DD in spring 2024. Are there any other opportunities to put forward investments for Ofwat’s review prior to this?</p> <p>If not, do we need to put them in the transition funding tables in the BP and then wait until we receive the DD to know if they have been accepted or not? Obviously, this is about a year away, and may cause delay to these projects. We understand that we could progress with the projects at risk and that at the very least the cost of them would be shared with customers through the totex sharing mechanism, but is there any way of gaining greater certainty?</p>	<p>We set out the approach to the transition expenditure programme in the final methodology, see pages 115-118 of appendix 9. Companies are best placed to progress investment at their own risk. To provide companies with greater certainty on the need for investment, for 2023-24, we have limited the scope of transitional expenditure to schemes in final WRMPs24 or statutory requirements set out in final PR24 WINEP/NEP submission as long as companies have addressed any concerns that we have raised with any schemes. We have also set out our criteria for acceptance of transition investment which will enable companies to consider whether a scheme would qualify as transition expenditure.</p>

## May 2023 queries and responses

Ofwat Ref:	Topic	Query	Response
224	PR19 reconciliation model for strategic regional water resources	<p>The PR19 reconciliation model for strategic regional water resources on the Ofwat website is dated December 2020: <a href="https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/pr19-reconciliation-models/">https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/pr19-reconciliation-models/</a></p> <p>We understand that a revised version of this reconciliation model was produced following a workshop / meeting on 30/08/22.</p> <p>Please can Ofwat update the reconciliation model on their website to the latest version?</p>	<p>We are planning to issue an updated PR19 Strategic regional water resources model at the end of June, which will accommodate changes to gate 3 onwards. We will send companies the updated model via e-mail and will also update our PR19 Reconciliation model landing page on our website.</p>
225	Price control deliverables (PCDs)	<p>We understand that as part of the PR24 methodology, Ofwat expect companies to identify how customers will be protected against under or non-delivery of funded enhancements. In section 5.4.4 of appendix 9 of the final methodology, it states: <i>"We will set out further guidance on how companies should set out PCDs and their interaction with outcome delivery incentive payments"</i></p> <p>We would be grateful if you could confirm whether this PCD guidance has been published or the timeframe for when the guidance will be published?</p>	<p>We will be providing further guidance on price control deliverables in a workshop we are running with companies on Thursday 25th May.</p>
<p>Query reference 226 – 229 refer to <a href="#">PR24 Performance commitment definitions - Ofwat</a></p>			

226	Storm Overflows definition	<p>Section 1.1 – The denominator of the proposed company performance calculation, ‘Total no. storm overflows’, requires a consistent definition of what asset types constitute a ‘storm overflow’. This will enable consistency of reporting across the industry so that company performance is comparable. We propose that all Combined Sewer Overflows (CSOs) and Settled Storm Overflows (SSOs), as currently reported in APR table 7C lines 8 and 10, should be classed as ‘storm overflows’ for this PC and included in the denominator. Given that the PC definition includes the benefit of reducing adverse impacts on the environment, this should only be CSOs and SSOs which discharge to the environment.</p> <p>Q: Do you agree that all Combined Sewer Overflows (CSOs) and Settled Storm Overflows (SSOs), as currently reported in APR table 7C lines 8 and 10, should be classed as ‘storm overflows’ for this PC and included in the denominator?</p>	We set out our proposed approach to this issue when we finalise the definition for this performance commitment.
227	Storm Overflows definition	<p>In sections 1.2 and 1.4 – We recommend that Ofwat engages further with the industry to improve the detail included in the PC definition on how to measure a spill and report performance. The industry recognises this as key. As an industry, we have already formed a group to look at consistency of spill recording and reporting in APRs. Every company is likely to record spills different – e.g., with different tolerances to what amount or persistence (duration) of spillage constitutes a spill. Companies’ ability to collect this data differs based on the Event Duration Monitors (EDMs) which they have already installed. UKWIR investigated this issue in their 2016 report “Sewer Analytics – Building on Event Duration Monitoring expansion”. The report’s primary objectives are to provide guidance to companies on EDM data collection and analysis configuration, and on the use of EDM outputs. This is so that performance assessments can be made that are comparable across the industry. We think that it would help to improve consistency of performance reporting if</p>	We set out our proposed approach to this issue when we finalise the definition for this performance commitment.

		<p>Ofwat sets a minimum criteria for what constitutes a spill in the context of this common PC. We therefore recommend that Ofwat:</p> <p>(a) Includes in the PC definition the recommendations of UKWIR's report around the consistent calculation of 12/24 counting spills from storm overflows with different overflow event monitoring frequencies.</p> <p>(b) Seeks to engage with the established group of companies in order to expand the definitions on measuring and reporting.</p> <p>(c) References the CIWEM Event Duration Monitoring Good Practice Guide</p> <p>(<a href="https://www.ciwem.org/assets/uploads/CIWEM_UDG_EDM_Good_Practice_Guide_2021_final.pdf">https://www.ciwem.org/assets/uploads/CIWEM_UDG_EDM_Good_Practice_Guide_2021_final.pdf</a>) in the PC definition for what companies should follow in their sewer overflow reporting in their APRs.</p> <p>Q: Do you agree that implementing our recommendations a to c above will improve the consistency of reporting this PC and that these recommendations should therefore be implemented? "</p>	
228	Storm Overflows definition	<p>Section 1.4 final sentence on EDMs – we consider that it would be helpful for Ofwat to be more prescriptive in how companies should report their annual spill performance if they have not installed EDMs, the EDM are not working or only operational for a proportion of the year. For example, the Environment Agency's guidance in these instances requires companies to report zero spills. By including the reporting guidance in the PC definition, Ofwat should ensure that companies report consistently in their APRs in these instances.</p>	<p>We set out our proposed approach to this issue when we finalise the definition for this performance commitment.</p>

		Q: Do you agree that the final sentence on EDMs should be more prescriptive on how companies should report in such instances?	
229	Storms overflows definition	We are supportive of this performance commitment being introduced at PR24. However, we continue to believe that the number of overflows used to calculate the average number of spills should be fixed at a given point in time. Since privatisation we have surrendered over 200 overflow permits but the proposed definition disincentivises companies from continuing to do this. We believe this is a perverse outcome from the proposed definition. This consideration is already becoming apparent in the development of solutions for our business plan. It would be relatively simple to fix the baseline number of overflows at a given point in time.	We set out our proposed approach to this issue when we finalise the definition for this performance commitment.
230	PD9 income offset payments	In preparing our data tables, we have noticed that as per the guidance (below) <i>'PD9.2 requires Income Offset Payments, but Income Offset Payments only appear in the Welsh version of DS1 (DS1w)'.</i>  Please can this be clarified / corrected in the version of tables expected later this month.	We will reinstate income offset lines in business plan tables so that income offset associated with legacy agreements can be reported. For avoidance of doubt, the ability to offer income offset for English companies is removed from April 2025 onwards for new agreements. We would not expect companies to enter into any agreements in the remainder of AMP7 that would require them to make any payments in connection with income offset after April 2025  The latest version of the business plan table DS1e for England and Wales companies, includes an Income Offset payments line for water network and wastewater network plus. This will be published on the 31 May.
231	PR24 Query - Net Zero Enhancement cases	The Final Methodology seems clear that all enhancements, where the primary driver is GHG reduction, would be assessed as part of the Net Zero bidding competition. Can you advise when further information on the competition will be published?	We set out our approach to funding of operational GHG emission reductions on pages 88-94 of appendix 9 of the PR24 final methodology.  We expect companies to make clear where a reduction in GHG emissions is the primary driver, applying for net zero

		<p>We assume that the contents for the competition submission will be very largely the same as other enhancement cases – is that a fair assumption pending further details being published?</p> <p>We have heard some comments that companies can submit enhancement cases for achievement of Net Zero outside of the competition. That doesn't seem right, other than where carbon reduction is a by-product, and we assume that if you received any enhancement cases, where the primary driver is GHG reduction, outside of the competition you would just assess them as part of the competition in any event. Is that correct?</p>	<p>challenge funding accordingly. If the primary driver of the enhancement case is GHG reduction, then companies should submit this as part of the net zero challenge. There is not an alternative route for funding schemes where the primary driver is GHG emissions. We will aim to concentrate funding on those companies with more mature approaches to emission reduction and more efficient solutions but retain flexibility to allocate all companies some net zero specific enhancement funding if necessary.</p> <p>We are not intending to publish further details of the net zero challenge funding.</p>
<p>Query reference 237 –274 refer to the archived PR24 Performance commitment definitions <a href="https://webarchive.nationalarchives.gov.uk/ukgwa/20230201122719/https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/final-methodology/pr24-performance-commitment-definitions/">https://webarchive.nationalarchives.gov.uk/ukgwa/20230201122719/https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/final-methodology/pr24-performance-commitment-definitions/</a></p>			
237	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>We note the changes to the Leakage definition. There are some points where we would welcome clarity:</p> <p>1) On page 5, it states that “availability for leakage reporting across all DMAs/zones/Areas is well above 90% for the year”. We are concerned that this statement could be interpreted subjectively. Could you please clarify what is an acceptable %?</p>	<p>Companies should target better than 95% availability and should explain what they are doing to improve in their APR if availability is below 95%. Below 90% shall be reported as non-compliant.</p>
238	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>On page 21 in the document, could you please clarify why the section on unmeasured non households have been removed from the definition?</p>	<p>This guidance is now part of the business demand performance commitment. Reporting must be consistent between the leakage and business demand performance commitments. This means that when reporting leakage, companies should use any relevant assumptions or calculations from the business demand performance commitment.</p>
239	Leakage PC definition (PR24	<p>On page 22, there is a statement that “Meter under and over-registration (MUR) There is historical evidence to suggest that</p>	<p>We will amend the statement to read "Any measurement is subject to an element of error. Some meters may under-</p>

	Performance commitment definitions from archived version)	mechanical meters tend to under-read (under registration) and that non-mechanical meters tend to over-read (over registration)." Could you please share the evidence that has been used in the development of this statement?	read (under registration) and some over-read (over registration)."
240	Leakage PC definition (PR24 Performance commitment definitions from archived version)	On page 25, regarding the water balance gap, we understand the statement if the gap is greater than 5% then it shall be applied to leakage. Could you please confirm this is symmetrical, so if <-5%, it should be removed from leakage?	We confirm that the adjustment is not symmetrical and if <-5% the company should apply the normal maximum likelihood estimation (MLE) methodology. However, as set out in the definition the company shall ensure a thorough review of all material components of the water balance is carried out and report this in its annual performance report.
241	Leakage PC definition (PR24 Performance commitment definitions from archived version)	On page 27 Household consumption uncertainty is derived from billing. Could you please clarify the statement "The uncertainty for the household unmeasured component of the water balance will in turn depend on the coverage and accuracy of the household monitor."? There is also duplication of this statement in the second paragraph on page 27.	The statement highlights that uncertainty for unmeasured components will depend on the method used to estimate these volumes. We will delete the first inclusion of this sentence to avoid duplication.
242	Leakage PC definition (PR24 Performance commitment definitions from archived version)	The definition refers to a percentage reduction of three-year average leakage in MI/d from the 2019-20 baseline. Should the baseline be 2024-25?	No, the definition is correctly showing the baseline being 2019-20. We consider that it is preferable to have a baseline that is known before business plans are submitted. Keeping the baseline, the same as PR19 will better allow stakeholders to understand progress over time. Furthermore, not selecting 2024-25 will improve incentives for companies to deliver improvements before this date.
243	Leakage PC definition (PR24 Performance commitment definitions from archived version)	Supply Pipe Leakage is documented on Page 15. We believe this is in the wrong section of the methodology as it is not a bottom-up component. Please could you confirm. Supply pipe leakage is an important component of leakage and is relevant to a number of sections, including "Night Flow and	Supply pipe leakage is an important component of leakage and is relevant to several sections, including "Night Flow and Leakage" (the section it is in). We do not consider a change is necessary.

	archived version)	Leakage" (the section it is in). We do not consider a change is necessary.	
244	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>We note on page 4</p> <p>On the components of the leakage calculation the addition of "regardless of the approach, the company must have sufficient coverage, operability and availability (as defined below) in its bottom-up leakage calculation. Reductions in leakage should reflect a true reduction in observed nightlines and not so-called paper leakage reduction where the reduction in question is attributable to methodological changes and improvements in the accuracy of assumptions rather than actual physical improvements". We disagree with this change in wording as it does not appear to be a definition of a leakage methodology – especially the leading wording such as "so-called paper leakage reduction" which is not clear as to why an ODI definition should include such statements.</p>	<p>We will replace</p> <p><i>"Reductions in leakage should reflect a true reduction in observed nightlines and not so-called paper leakage reduction where the reduction in question is attributable to methodological changes and improvements in the accuracy of assumptions rather than actual physical improvements"</i></p> <p>With</p> <p><i>"Reductions in leakage should reflect a true reduction in observed nightlines that reflect actual physical improvements."</i></p>
245	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>We note the replacement of the sentence on page 5:</p> <p><i>"At least 90% of all properties within continuous night flow monitoring networks shall be available for reporting night flow data through the year" to "the company shall maintain these DMAs zones or areas such that average availability for leakage reporting across all DMAs/zones/Areas is well above 90% for the year".</i></p> <p>The previous wording was less ambiguous and therefore we recommend the previous wording remain unchanged.</p>	<p>Companies should target better than 95% availability and should explain what they are doing to improve in their APR if availability is below 95%. Below 90% shall be reported as non-compliant.</p>
246	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>On the same page, we note the addition of the following "The company shall obtain independent assurance of its night use allowances. Should the company seek to change any allowances for each reporting year then the company shall seek independent assurance that the monitor remains representative of the whole population and that the new allowances are valid. Such change should be classed as a data</p>	<p>We consider it appropriate and proportionate that if allowances change that the company seeks and receives independent assurance that the methodology remains robust. We have reflected on the company's comments and will amend the definition.</p>



		improvement and not a methodology change. The company would need to provide compelling evidence to change any allowances to back cast its leakage calculation against a new baseline.” This is correct as the definition currently stands, but this is not practical as allowances should vary with the measured data and analysis. We therefore urge Ofwat to reconsider the addition of this requirement.	
247	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>On page 6, we note the removal of the sentence “<i>Availability is measured as a property-weighted annual average for the whole company</i>” and that this has been replaced with “<i>availability means the zones/ DMAs or Tiles with data that allow it to be used for regulatory reporting. The company decision whether to include trunk mains in the DMA/zone or Tiles should have no effect on this reported figure. It is expected that the company will endeavour to maintain availability in all DMAs/Zones or Tiles used to report bottom-up leakage.</i>”</p> <p>We would like to clarify whether the intention was this line should have been removed? Without explicit reference to using a property-weighted annual average, the requirement to report on “<i>availability</i>” in the compliance checklist remains ambiguous i.e., companies may still report on availability as being measured as a property-weighted annual average for the whole company.</p>	We agree and have added to the definition: " For an area to be 'available' the installed meters and loggers are working correctly; the boundary is watertight and continuous data is provided. Availability is measured as a property-weighted annual average for the whole company.
248	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>On pages 6-7, we note the clarification over “<i>operability</i>”. We do not understand this aspect of the definition and therefore seek clarification on this section and its interpretation. The statement “<i>A DMA where allowances exceed MNF, might be inoperable not available</i>” suggests negative DMAs are inoperable, where leakage methodologies require infill of any inoperable weeks for practicality of reporting. Can Ofwat clarify whether periods of negative leakage are to be classified as inoperable or should</p>	<p>We will change the sentence</p> <p>"For example, a DMA where the allowances exceed MNF might be "inoperable" but it is still "available"."</p> <p>To</p> <p>" A DMA or zone/tile might be "inoperable" but data from the DMA or zone/tile could still be "available". For example,</p>

		periods of negative leakage be included in a company's validity criteria (i.e., operability).	data from a DMA or zone that had negative results would be inoperable but would still be available where installed meters and loggers are working correctly; the boundary is watertight and continuous data is provided. "
249	Leakage PC definition (PR24 Performance commitment definitions from archived version)	<p>For infilling data, Ofwat then state</p> <p><i>"To achieve a high operability target, infilling of weekly values shall be limited to short periods of preferably no more than a month and certainly no greater than three months.... Data infilling for a single DMA or zone shall not use more than three months of historic data before moving to area average".</i></p> <p>Please confirm when a company should infill data – i.e., when the DMA is unavailable, or inoperable? Is the maximum length of time for infilling 3 months, and what if the period exceeds this? And is the maximum length of time to derive a historical average also 3 months?</p>	<p>Companies shall infill data where an area is inoperable, no matter the length of time. While we expect companies to make all efforts for areas to be operable, if an area is inoperable for more than 3 months the company will use the area average as opposed to historical data based on the specific area (ie DMA or zone/tile).</p> <p>We will change the words</p> <p>" To achieve a high operability target," to "Leakage in areas that are inoperable shall be infilled."</p> <p>And</p> <ul style="list-style-type: none"> <li>• "Data infilling for a single DMA or zone shall not use more than three months of historic data before moving to area average;</li> <li>• Data infilling taking the area average in which the DMA is located is valid if historic data is not available;"</li> </ul> <p>To</p> <ul style="list-style-type: none"> <li>• "Historical data specific to a single DMA or zone/tile shall not be used for more than three months before moving to area average;</li> <li>• Data infilling taking the area average in which the DMA or zone/tile is located is valid if historical data is not available;</li> </ul>
250	Leakage PC definition (PR24 Performance commitment)	On page 12 for plumbing losses, Ofwat state <i>"any periods of continuous night flow also need to be quickly identified and resolved to minimise any supply pipe leakage or plumbing losses being included in the assessed consumption"</i> .	This statement is in respect of individual household monitors (IHM) that usually comprise about 1000 selected properties and is not a general statement. For data from an IHM to be used it is important that any periods of

	definitions from archived version)	We do not believe it was the intention to suggest as it could be interpreted that plumbing losses should be removed from night use estimates (i.e., treated the same as supply pipe leakage). Minimising plumbing losses is also largely dependent on customer willingness and is part of PCC rather than leakage.	continuous night flow with respect to IHMs are quickly identified and resolved to minimise the risk of supply pipe leakage or plumbing losses being accounted for as legitimate night-time consumption.
251	Leakage PC definition (PR24 Performance commitment definitions from archived version)	In practice we are concerned that the distinction made between data and methodology change will be difficult to interpret in practice. For instance, where technology such as smart meters complements the calculation of household night use, and as this information becomes available, this is better data. But the methodology also needs to change in order to include the analysis of this data. Back casting is not possible with better measurement, and it should be sufficient for the independent assurance to agree that this is better data (supported by a change in methodology).	We have removed the distinction in the definition between data improvement and methodology change. The key point is that a company shall ensure that its reporting of outcome delivery incentive payments only relate to real performance changes and not definitional, methodological or data changes in performance commitments.
252	Leakage PC definition (PR24 Performance commitment definitions from archived version)	Ofwat state on daily leakage outlier removal <i>“Over the reporting year these outliers should be balanced and not impact on average annual leakage. They shall only be removed where there is evidence to support that the leakage figure would not be correct were they to be included”.</i>  We were unclear when an outlier would make leakage incorrect which would not already be accounted during periods of availability or operability.	We agree that this should be covered under operability and so have deleted this statement from this section.
253	Leakage PC definition (PR24 Performance commitment definitions from archived version)	We note that the achievement of the water balance gap is expected to be +/- 2% rather than +/- 3% currently, although 2-3% is classified as “amber” in the RAG compliance currently.  Could Ofwat please explain the rationale for this change from the current definition approach, as the current 2-3% band allows for explanation of the specific circumstances rather than	“Amber” means that the element is not compliant. The PR24 definition improves clarity that for companies to be compliant, the water balance gap must be within $\pm 2\%$ .

		2% being the absolute threshold the revised definition suggests it is.	
254	Per capita consumption (PR24 Performance commitment definitions from archived version)	Does the definition refer to a percentage reduction of three-year average PCC in Ml/d from the 2019-20 baseline. Should the baseline be 2024-25?	No, the definition is correctly showing the baseline being 2019-20. We consider that it is preferable to have a baseline that is known before business plans are submitted. Keeping the baseline, the same as PR19 will better allow stakeholders to understand progress over time. Furthermore, not selecting 2024-25 will improve incentives for companies to deliver improvements before this date.
255	Per capita consumption (PR24 Performance commitment definitions from archived version)	For occupancy, the methodology comments that there isn't a requirement to disaggregate total HH population between unmeasured and measured. Whilst this isn't a requirement, this is how our calculation is set up and we will continue to use approach as we report separately on these measures, for example in table 4R in the APR the household population data needs to be reported. Please could you confirm our approach is acceptable	The statement that there is no requirement to disaggregate population between unmeasured and measured properties is for the purposes of this performance commitment only and does not mean that companies are not allowed to do this.
256	Per capita consumption (PR24 Performance commitment definitions from archived version)	For unmeasured HH consumption the method for demonstrating that our consumption monitor is representative of the company (disaggregation of the sample by demographic factors) has been removed. Please could you clarify if we continue to use that method that is acceptable to determine that our monitor is representative.	In the past this approach was set out as an example of good practice, but we did not specify an approach that had to be used. There is no change and we still do not specify the approach that companies should use. We would expect that the approach if appropriately carried out would still be acceptable.
257	Business Demand definition (PR24)	We understand the definition for Business Demand, although have one point which requires clarification. Could you please	Companies will report all consumption for all non-household properties in the 2025-30 period. Companies will need to incorporate into the forecasts in their business

	Performance commitment definitions from archived version)	confirm the process to account for businesses that have new premises opening within our supply area during AMP8?	plans any expected new premises, premises that will close and other potential changes in demand by business customers over the 2025-30 period.
258	Business Demand definition (PR24 Performance commitment definitions from archived version)	Our preference would be for this performance commitment to be normalised in some way, for example number of non-household customers, number of meters or if the information is available number of fittings.	Business customers and meters are not homogenous, and we consider there could be materially inappropriate comparisons if we used either parameter to normalise this performance commitment. More detailed information such as the number of fittings is unlikely to be available. We do not consider that there is an appropriate way to normalise the business demand performance commitment for PR24.
259	Business Demand definition (PR24 Performance commitment definitions from archived version)	The definition requires meters with greater than 5% error being replaced. As this is a new requirement, we believe the phasing of this should be considered over AMP8 and AMP9.	The requirement is "Any meter check which results in an adjustment greater than 5% shall prompt the company to further investigate and to install a more accurate metering solution as soon as is reasonably practicable". We consider that this is appropriate and proportionate. We would expect companies to have existing approaches to maintain their meters so that they are accurate and that the meters will be able to provide businesses with information to help them be efficient in their use of water.
260	Business Demand definition (PR24 Performance commitment definitions from archived version)	The definition refers to a percentage reduction of three-year average in Ml/d from the 2019-20 baseline. Should the baseline be 2024-25?	No, the definition is correctly showing the baseline being 2019-20. This is the same as the leakage and PCC PCs and we consider that consistency between leakage, PCC and business demand PCs is important.

261	Business Demand definition (PR24 Performance commitment definitions from archived version)	Our concern in the definition of business demand is the exclusion of supply pipe leakage from the metric. For clarity we mean underground pipe leakage downstream of the external stop tap.	Supply pipe leakage is captured as part of our leakage performance commitment. If we included it as part of the business demand performance commitment it would be double counted. All water passing the external stop tap must be recorded as part of one of the two performance commitments. This is the existing treatment for residential customers, and we consider it also to be appropriate for business customers.
262	Business Demand definition (PR24 Performance commitment definitions from archived version)	We think there is a possible error on paragraph 5 of section 1.1 – should this read: The difference between this value to one decimal place and actual three-year average leakage business demand will be used to calculate outcome delivery incentives.	The word "leakage" in paragraph 5 of section 1.1 of version 0.1 business demand performance commitment should be read as "business demand" and we will update the definition
263	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>1) Under the "Meter under and over-registration (MUR)" section (page 5) it states, <i>"Any meter check which results in an adjustment greater than 5% shall prompt the company to further investigate and to install a more accurate metering solution as soon as is reasonably practicable."</i></p> <p>Q: We suggest that such a directive should more appropriately be included as part of the market operator process, rather than included in the PC definition.</p>	Wholesalers are responsible for meters, which are a key part of the market. Furthermore, because performance commitments are linked to financial incentives it is important to achieve confidence in the reported data. As such, we consider it appropriate and proportionate for this requirement to be in the performance commitment. This would not preclude a market operator process expecting a greater level of accuracy from meters.
264	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>On page 3 under, <i>"Relevant premises"</i>, there is an expectation on companies to: <i>"justify the number of void premises properties each year and how this is derived."</i></p> <p>We do not consider that this expectation is required in the PC definition. Wholesalers report the number of void properties based on information from retailers. This information is sourced</p>	We consider that the number of void properties is not a significant factor for this performance commitment, and we will remove the requirements from the definition as they are not necessary. For the avoidance of doubt, where water is delivered to business premises that are recorded

	archived version)	from CMOS, rather than being derived from an estimation or suchlike.  Q: Should the expectation on number of void properties therefore be removed from the PC definition?	as void it should still be included in the business demand performance commitment.
265	Business Demand definition (PR24 Performance commitment definitions from archived version)	On page 4 in the first paragraph of " <i>Measured business demand</i> " it includes a reference to " <i>readings within the company's billing system</i> ". As a wholesaler, we do not have an end customer non-household (business) billing system. Meter reads are uploaded by the retailer to CMOS. Estimation is also applied in CMOS.  Q: Should the reference to where measured data is derived from instead point to CMOS?	We will delete the sentence that is referenced as the bullets at the end of this section provide more detailed guidance which is:  "for premises served by systems mainly in England, the Central Market Operating System (CMOS) metered data; for premises served mainly by systems in Wales, metered data from water companies' own systems, including actual reads and estimated reads;"
266	Business Demand definition (PR24 Performance commitment definitions from archived version)	It is unclear from the PC definition how the methodology will account for changes in premises numbers. This is twofold:  1) Changes in premises numbers following the setting of the 2019-20 baseline. The PCL should be suitably adjusted to account for changes in premises numbers, otherwise performance will be impacted by data changes rather than real performance only.  2) The number of relevant premises will vary month on month due to, for example, new connections, occupancy rates, exit and entry, change of use (e.g., from non-household to household), demolition of premises, etc. It would be inappropriate to include such premises for the full year if they did not meet the classification for that whole year. Q: We propose that:  3) The 2019-20 baseline should be adjusted to account for changes in premises numbers, ensuring that the change in business demand reported under this PC reflects only actual	We do not agree. Companies will propose, and we will set, performance commitment levels for this performance commitment that assume changes in the number of business customers over the 2025-30.

		<p>performance and not also changes in premises numbers.</p> <p>4) We propose that in-year changes in premises numbers should be included in the PC measurement on a pro rata basis, equivalent to the proportion of the reporting year which they classified as a "relevant premises" for this PC.</p> <p>Do you agree with these proposals?</p>	
267	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>We do not consider that the classification of household and non-household premises should be included in the PC definitions (e.g., Business demand PC definition on page 3 "<i>Relevant premises</i>" first bullet point) as these risks the creation of alternative classifications for PCC and Business Demand reporting, separate from those in the primary document, the July 2022 Eligibility guidance. Properties are either in the business retail market or not and therefore in the PCC PC or the business demand PC.</p> <p>Q: Reference can be made to the July 2022 Eligibility guidance, but we consider that the reference to ensuring classification of premises should be removed, to avoid inconsistency of reporting.</p>	<p>The definitions currently reference "Eligibility guidance on whether business customers in England and Wales are eligible to switch their retailer", Ofwat, July 2022. We therefore consider that no change is required.</p>
268	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>Varying levels of data are held for properties, the majority of which does not change over the years. We suggest that the requirement to "<i>update property data at least annually</i>" is disproportionate to the degree of data change. We therefore propose that a more proportionate approach would be to update property data in a timely manner when companies become aware of the data change.</p> <p>Q: Should Ofwat instead stipulate that companies update their property data in a timely manner once they become aware of the data change?</p>	<p>We consider the requirements are appropriate. Property data is less accurate than it should be. For instance, see "Project TIDE: MOSL publishes high-level address data findings", MOSL, 16 August 2022. Wholesalers need to ensure they are carrying out their functions appropriately.</p>
269	Business Demand	<p>We consider that the PC definition should state that anything except potable water is excluded from this metric. This would</p>	<p>We agree that this performance commitment only covers potable water, and we will clarify this in the definition.</p>



	<p>definition (PR24 Performance commitment definitions from archived version)</p>	<p>then ensure that the PC is measured consistently with Ofwat's earlier data requests such as the "Enhancement and water balance data request" published by Ofwat on 28 April 2022 <a href="https://www.ofwat.gov.uk/publication/enhancement-and-water-balance-data-request-april-2022/">https://www.ofwat.gov.uk/publication/enhancement-and-water-balance-data-request-april-2022/</a>.</p> <p>This included the line definition for block A line 9 "Distribution input (pre-MLE)" of: "Distribution input (pre-MLE) is a measure of the volume of potable water input to the distribution network at treatment works, boreholes and bulk potable supply imports, with any bulk potable supply exports deducted. Distribution input is reported as an annual average Ml/d and should be reported as a pre-MLE figure following the criteria defined in the PR19 performance commitment reporting guidance - Ofwat, 'Reporting guidance – leakage', 2018, p. 14."</p> <p>For consistency with the earlier data request, we assume that Ofwat also therefore intends to exclude non potable water (and raw water, untreated water, etc.) from this PC. However, this is not stipulated in the PC definition.</p> <p>Q: Should section 1.3 Specific exclusions state that the PC measures potable water consumption only therefore all other water types should be excluded from the reporting of this measure?</p>	
270	<p>Business Demand definition (PR24 Performance commitment definitions from archived version)</p>	<p>We assume that bulk supplies, water supplied to NAVs, etc would be excluded from measurement in this PC. For clarity and consistency of measurement, it would be helpful to state this explicitly in the PC definition.</p> <p>Q: Do you agree that water used for bulk supplies, NAVs etc, should be explicitly stated in section 1.3 as excluded from this PC?</p>	<p>We agree that this performance commitment does not cover water supplied to another water company and we will clarify this in the definition.</p>

271	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>Our concern in the definition of business demand is the exclusion of supply pipe leakage from the metric. For clarity we mean underground pipe leakage downstream of the external stop tap. However, there are differences depending on where the meter is located:</p> <ul style="list-style-type: none"> <li>• Where the meter is located externally, we consider the consumption on the meter should be the measure of business demand (including supply pipe leakage)</li> <li>• Where the meter is located internally to the premises, we agree with the proposed approach</li> <li>• In addition, for unmeasured NHH customers we support the measure as currently defined.</li> </ul> <p>In this way there is absolute clarity that the consumption shown on the meter, consumption benchmarking and granular data collected where smart meters or loggers are used is consistently taken as the measure for business demand. This would provide the right incentives for wholesaler and retailers, working with customers to identify both potential leakage and possible process water efficiency. It would also mean current initiative by retailers would not be jeopardised.</p>	<p>Supply pipe leakage is captured as part of our leakage performance commitment. If we included it as part of the business demand performance commitment it would be double counted. All water passing the external stop tap must be recorded as part of one of the two performance commitments. We consider that this provides wholesalers with appropriate incentives to reduce water demand, working with business retailers whenever possible to do this.</p>
272	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>Our other concern is over the control that wholesalers and retailers have over this measure. There are two key external drivers that trading parties have no or little control over:</p> <ol style="list-style-type: none"> <li>1. Return to work after Covid – there will be an increase in business demand as employees return to offices and workplaces however, we consider this effect will be off-set [by] a comparable reduction [in] household demand</li> <li>2. Economic growth or decline– we consider there should be an adjustment in the performance commitment measure of business demand however this could be derived through</li> </ol>	<p>We want to incentivise companies to stretch their influence when delivering their functions. We have allowed limited exclusions for external factors where companies cannot manage or mitigate potential impacts on customers and the environment or are outside of their statutory functions. In so doing, we have also taken account of how clearly the event can be excluded in practice including whether the exclusions would be proportionate or may compromise companies' focus on outcomes for customers, communities, and the environment. In such cases, we specify this upfront in each performance commitment's definition.</p>

		independent research or Treasury forecasts and applied to the 3-year average of business demand.	<p>We do not consider we can clearly differentiate the factors after the event from the impact the company has had. If we attempted to include such factors, we consider that there is the potential that the adjustment could be as inaccurate as not making an adjustment. This would also add complexity and potentially reduce the focus on water companies seeking to reduce leakage and help customers to reduce demand including working with business retailers whenever possible to do this.</p> <p>We will take these factors into account in setting the performance commitment levels. We consider that overall, this will provide the greatest incentives for companies to reduce water demand.</p>
273	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>We think there is a possible error on paragraph 5 of section 1.1 – should this read:</p> <p>The difference between this value to one decimal place and actual three-year average leakage business demand will be used to calculate outcome delivery incentives.</p>	The word "leakage" in paragraph 5 of section 1.1 of version 0.1 business demand performance commitment should be read as "business demand" and we will update the definition.
274	Water demand (PR24 Performance commitment definitions from archived version)	<p>We also note the inclusion of the 'Water Demand' lines in the PR24 outcomes data tables, OUT1, 2, 3 &amp; 7.</p> <p>As water demand will no longer be a performance commitment, we assume that it will be removed from the OUT tables. We are supportive of Ofwat's desire to collect data on water demand but note the current absence of a formal definition.</p>	We have revised the data tables to reflect our latest position.

		We request clarity and guidance on how water demand should be reported and how this interacts with the distribution input data collected in table CW5.	
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## June 2023 queries and responses

Ofwat ref.	Topic	Query	Response
233	PR24 data table query: SUP11 and RET1	<p>We have read your response to Ofwat query 3 on document submissions in the PR24 final methodology response document, but still have the below query:</p> <p>The Final Methodology states: ‘The 12 (10 for WOCS) table commentary documents and the Long-term delivery strategy documents are in addition to these limits’ It also states: ‘We confirm that the financial models and the 12 commentary documents will not count towards the document limits.’</p> <p>We would therefore like to make certain that we have understood correctly what is included in the 50-document limit for WOCs. Please can you review the table below and confirm our assumptions are correct and advise whether the ones we are not sure about are included or not?</p> <p>We understand that the following do not count: LTDS Financial model 10 * Commentary documents for WOCS We assume the following do count: Business Plan Document All Appendices</p> <p>Can you please confirm whether the below count? Data tables file Revenue Adjustments model RCV adjustments model</p>	<p>The following will not be counted towards the 50-document limit for WOCs:</p> <ul style="list-style-type: none"> <li>• LTDS</li> <li>• Financial models</li> <li>• 10* Commentary documents for WOCs</li> </ul> <p>On the other hand, the following will be counted towards the document limit:</p> <ul style="list-style-type: none"> <li>• Business plan documents</li> <li>• All appendixes</li> </ul> <p>On your specific enquiries, the following will not be counted towards the document limit:</p> <ul style="list-style-type: none"> <li>• Data table files</li> <li>• Revenue adjustments model</li> <li>• RCV adjustments model</li> <li>• 18 PR19 reconciliation models</li> </ul>

Ofwat ref.	Topic	Query	Response
		<p>18* PR19 reconciliation models Proforma as required at PR19 (please can you confirm whether this will be required and whether it's included in the limit)?</p> <p>Finally, we would like to confirm how the submission will be received by Ofwat. If we submit the documents, the links between documents that have been setup will no longer work once downloaded by Ofwat. Will we be submitting a link to our website or a full set of documents to your SharePoint?</p>	
279	Question: Environment Improvement Plan targets in Affordability & Acceptability testing	<p>We would welcome a response to the following question we have in relation to the governments Environment Improvement Plan and how we should treat the targets for this in our customer testing.</p> <p>Please can you confirm the status of the targets within the Governments Environment Improvement Plan, and how these should be treated with regards to customer affordability and acceptability testing.</p> <p>Should we consider the 2050 targets for leakage and PCC reduction as statutory targets that water companies must meet, and therefore are a must do investment?</p> <p>Should we also consider the interim targets for leakage and PCC reduction as statutory targets that the water companies must meet by the specified dates?</p> <p>Our view is that these form part of the statutory / must do requirements and therefore customers have little choice</p>	<p>We expect companies as a minimum to meet the following expectations and targets at a company level, ensuring delivery of the national level targets where applicable:</p> <ul style="list-style-type: none"> <li>• a 50% reduction in leakage by 2050 from a 2017-18 baseline;</li> <li>• per capita consumption (PCC) of 110 l/h/d achieved by 2050; and</li> <li>• (for English water companies) reduce the use of public water supply in England per head of population by 20% from the 2019 to 2020 baseline reporting year figures, by 31 March 2038.</li> </ul> <p>This expectation is outlined in our final PR24 methodology. Please see Ofwat, <a href="#">'Creating tomorrow together: Our final methodology for PR24 – Appendix 9 Setting expenditure allowances'</a>, December 2022, pp.98-106. While these targets that Defra has set out for English water companies are not directly binding on companies, we will continue to challenge companies to</p>

Ofwat ref.	Topic	Query	Response
		<p>about if / when we should be doing those investments to meet the targets.</p>	<p>deliver against the 2050 leakage reduction target and the 2038 water demand target and hold companies to account for their contribution towards the 2050 PCC target. This reflects the expectations that Defra set out in the UK <a href="#">government's strategic priorities for Ofwat</a> statement. In exceptional circumstances, we will allow a company to propose reductions at a company level that are lower than the national target if, among other things, that company can evidence that it has secured agreement on a bilateral basis with another company (or companies), within a regional group or at a national level that ensures the national level targets will be delivered.</p> <p>The interim targets for leakage and PCC, that apply at a combined English company level, are also not directly binding on companies, but we expect companies to consider these when proposing ambitious long-term approaches for managing demand.</p>
284	Follow up query on Appendix 11	<p>We have updated our analysis to reflect the data items and ranges in Ofwat's response but have not been able to replicate the -31bps for <math>\Delta CY</math> in the PR24 FM. Can Ofwat please either:</p> <p>(1) Provide us an Excel with their workings and underlying data for the -31bps; or</p> <p>(2) Review our approach below and indicate the changes required to arrive at the -31bps?</p> <p>Approach for calculating <math>\Delta CY</math></p> <p>We calculate the Gilt BEI as follows:</p>	<p>We have provided the underlying workings. This was circulated to all companies on 03 July 2023, for the 31bps lease refer to cell F4007 in the 'Analysis' tab.</p>

Ofwat ref.	Topic	Query	Response
		<ul style="list-style-type: none"> <li>• Download Gilt breakeven inflation data from Bank of England</li> <li>• Take an average of spot rates for the 25-month maturity over 18/06/2007 to 27/07/2020</li> </ul> <p>We calculate the Swap BEI as follows:</p> <ul style="list-style-type: none"> <li>• Download pricing information (Mid Price Close, Bid Close, Ask Close) for the 2Y RPI swap (GBRPIZ2Y) from Refinitiv</li> <li>• For each price point (Mid Price Close, Bid Close, Ask Close), take an average of swap rates over 18/06/2007 to 27/07/2020, excluding dates for which 25-month Gilt BEI data is not available i.e. we derive three estimates for Swap BEI</li> </ul> <p>We calculate the <math>\Delta</math>CY as Gilt BEI less Swap BEI, for each estimate of Swap BEI i.e. we derive three estimates for <math>\Delta</math>CY. (However, no estimate matches the -31bps in the PR24 FM).</p>	
286	PR24 query on OUT4.24 GHG	<p>Line OUT4.24 requires tonnes of carbon from 2011-12 through to 2034-35. We wanted to confirm that you expect the out-turn year values to be entered for each year. For 2011-12 through to 2022-23 this would be based on the carbon accounting workbook used in that reporting year. We are mindful however that 2022-23 has expanded with the inclusion of scope 3 emissions to include embedded chemical emissions and the extraction and production of electricity, heat and fuels.</p> <p>Please can you confirm that Ofwat would expect and allow for an increase from 2022-23 onwards to reflect this increase in scope 3 emissions?</p> <p>Equally we are aware of historic GHG submission request running in parallel to APR23, for carbon values to be collected between 2018-22, using the CAWv17. We assume this</p>	<p>In both submissions, we expect companies will use the emission figures used for Carbon Accounting Workbook (CAW)v17 with data being provided as far back as 2018 and not 2011. Therefore, companies should not use differing versions of the CAW.</p>



Ofwat ref.	Topic	Query	Response
		submission request is in isolation and that values for these years will be different to OUT4.24.	
287	Query regarding Water Quality Contacts PC in Ofwat's batch 1 ODI rates	Please could you clarify the source of the 2021 industry level data on customer incidents and contacts for household and non-household? We are referring to the data in rows 26 to 31 of the input tab in the 'Water company- Batch 1 2 indicative rates – Apr 23'.	The customer incidents data for taste & odour and appearance come from analysing the collaborative customer research survey data (questions Q14BR1 and Q14BR2). This gave a proportion of customers experiencing each service issue over the past 12 months for each company, which was then multiplied by the no. of customers for each company and summed to give an industry total.
288	Biodiversity PC query	<p>Could we please raise the following queries on the biodiversity PC:</p> <p>Section 1.1, first para - The text states, 'This performance commitment measures the net change in the number of biodiversity units on nominated land per 100km<sup>2</sup> of land in the company's area'. In this instance, does 100km<sup>2</sup> mean 10x10km or 100x100km.</p> <p>Previous iterations of the text stated that baseline surveys should be undertaken in 2024. There is now no mention of this. Is it rightly assumed that this requirement no longer stands?"</p>	<p>100km<sup>2</sup> has the normal meaning of area. For avoidance of doubt the company should divide the company area when measured in km<sup>2</sup> by a factor of 100.</p> <p>Previous iterations of the definition did not refer to surveys in any particular year. Our policy is set out on page 37, <a href="#">PR24 Final Methodology – Appendix 7 Performance commitments - Ofwat</a></p> <p>Companies should start these site visits before 2025 in order to record increases in biodiversity in the 2025–30 period. If companies start site visits in 2023–24, then they could start to measure biodiversity increases/decreases in 2027–28. Rather than all sites being assessed in a single year, we envisage site visits being a rolling assessment across the four-year period.</p> <p>In the latest version we have added 'Land can be nominated at any time' to make clear that companies can work with stakeholders to nominate land which should be surveyed at any time.</p>

Ofwat ref.	Topic	Query	Response
291	Indicative ODI rates - Batch 3	<p>We note that the spreadsheets include a ‘back calculation’ from the ODI rate to a notional marginal benefit rate for each PC, using the ‘default sharing rate’ of 0.7. Has that been included just as a matter of curiosity or does Ofwat consider these ‘marginal benefit rates’ to be appropriate for use in the business plan tables and in our investment plan process (notwithstanding that they have come rather late for that).</p> <p>We are questioning that because it the concept of using marginal benefit rates for the valuation of benefits from enhancements was valid when they were based on estimates of value to customers. But now that link has been broken and they are just based on a regulatory view of the equity that should be at risk from good or bad performance against a target.</p> <p>It would be useful to get Ofwat’s view on this.</p>	<p>In the final methodology we said that 'We expect companies to use the monetary values derived from [the collaborative customer research] as part of enhancement business cases wherever possible'.<sup>1</sup></p> <p>Our rationale for doing so was that:</p> <ul style="list-style-type: none"> <li>• it would ensure a consistent approach to valuing benefit impacts of enhancement initiatives; and</li> <li>• it would help to align company decision making on the choice of enhancement solution with the protection ODI rates provide to customers against under- or non-delivery of funded outcomes.<sup>2</sup></li> </ul> <p>This rationale still holds, despite our change of approach to setting ODI rates. Where possible, companies should therefore use the implied marginal benefits derived using a top-down approach. Where implied marginal benefits are not available, companies should use the recommended values in the water industry natural environment programme (WINEP) options development guidance.</p> <p>Companies can use alternative unit values where they consider that the standardised values are not suitable or applicable to the benefits that are expected from company actions. However, companies will have to present compelling evidence to support the use of alternative values. Where alternative unit benefit values are used to inform scheme impacts, companies should also present the benefit impacts of the scheme based on the standardised unit values for comparison.</p>

Ofwat ref.	Topic	Query	Response
			<p><sup>1</sup> Ofwat, '<a href="#">PR24 final methodology. Appendix 9: Setting expenditure allowances</a>', December 2022, p. 26.</p> <p><sup>2</sup> Ofwat, '<a href="#">PR24 final methodology. Appendix 9: Setting expenditure allowances</a>', December 2022, p. 134.</p>
292	FTI betas report from final methodology	<p>Could Ofwat please share the calculations underpinning tables 3.16 – 3.18 in Appendix 11 of the PR24 Final Methodology for transparency. We are not able to reconcile the beta values presented in the FM to our calculations based on the information included in the FM and in the supporting beta report. We are observing differences in weekly and monthly raw betas and relatively large differences in 10-year gearing values. In contrast, we are able to reconcile fully to the beta values calculated during the PR19 appeal.</p>	<p>We have shared an excel workbook which we will circulate to all companies on the 03 July 2023. This workbook is a partially redacted version of the model used by FTI to calculate betas for its report supporting our Final Methodology, <a href="#">Early view of water sector betas for PR24</a>. Please note that this report was republished in June following the identification of errata, affecting the tables indicated in the attached PDF file, and noted in a disclaimer to the report available in the <a href="#">Early view of water sector betas for PR24</a>. The model has had the underlying data taken out of it because FTI advise that their licensing agreements with its data providers do not permit the re-transmission of significant amounts of data retrieved from these providers' systems.</p>
293	PCD Query	<p>In the FM Ofwat states that “where the impact on ODI payments is likely to be material, companies can net off the impact of under – or non-delivery – on ODI payments from PCD payments”. Our understanding of this is as follows: if an enhancement scheme had an impact on a PC, which we estimate to be around 60% of the change in the performance, and if do not deliver the scheme and this has an impact on the PC, we are able to reduce our PCD payment by up to 60% of the ODI impact. Please can Ofwat confirm this remains the case and what Ofwat considers to be “material” in this instance.</p> <p>In the workshop slides Ofwat states that they do not expect PCDs to change within the period. Please can Ofwat confirm</p>	<p>We are due to publish further guidance on price control deliverables in July. This should answer the queries raised.</p>

Ofwat ref.	Topic	Query	Response
		whether there will be an exception for WINEP schemes where a change in delivery timelines is agreed with the Environment Agency.	

## July 2023 queries and responses

Ofwat ref.	Topic	Query	Response
318	Query regarding RAG 4 Appendix 2	<p>In the calculation of Water Resources Capacity there is direction towards RAG 4 Appendix 2. Appendix 2 refers to the calculation of different ‘types’ of water resources capacity, being “Pre-2020”, “Post 2020”.</p> <p>In the Annual Return tables, we now only report one value for water resources capacity, and in the PR24 tables there is a single line for water resources capacity.</p> <p>Do you know whether there is a revised RAG 4 Appendix 2 which we are perhaps unable to find, or whether there’s been a separate update issued for the Water Resources Capacity methodology? We are assuming that only a “Final Plan” (aka post-2020) water resources capacity is required but would currently struggle to point to a methodology which would tell us why we should state that one.</p>	<p>There has not been an update to this appendix. However, following the PR24 final methodology confirming that we will treat investments in water resources assets in line with our general policy for water and wastewater assets in terms of inclusion in the RCV, we do not require a distinction to be made between pre and post 2020 water resources.</p>
320	PCD Workshop	<p>We flagged a concern with the direction of travel on PCDs and have set out those concerns in our written response to the PCD workshop held on 25 May. Ofwat’s guidance remains outstanding. Given our concerns and those we believe others are likely to have raised it would be good to have some update on timetable and Ofwat’s thinking in this area. As ever, we would be pleased to support Ofwat further, be it through further industry workshops, more targeted sessions or indeed with further written submissions if that would help Ofwat to</p>	<p>Thank you for your participation in and feedback following the PCD workshop. We published our further guidance on price control deliverables on 4th July 2023. Our published guidance reflects our consideration of feedback following the workshop. We will shortly be publishing a worked example to further assist companies in understanding how the further guidance will be operationalised.</p>

Ofwat ref.	Topic	Query	Response
		refine your thinking PCDs in such a way as to safeguard customers in a targeted and proportional way.	
321	V5 Change Log & Table Guidance	<p>It comes to my attention that there is also no updated table guidance. I can see new lines that have been added to some tables but no related guidance.</p> <p>I also haven't seen no change log to show the changes from V4 to V5.</p>	<p>The nature of the changes in version 5 of our business plan tables are more limited than previous versions. Consequently, we have not published a dedicated change log for the v5 Business Plan Tables. Instead, we direct you towards the regularly updated PR24 Business plan data table queries and responses published at</p> <p><a href="https://www.ofwat.gov.uk/publication/pr24-business-plan-data-table-queries-and-responses/">https://www.ofwat.gov.uk/publication/pr24-business-plan-data-table-queries-and-responses/</a></p> <p>in which we explain the changes made to the Business Plan Tables in response to queries from the different water companies.</p> <p>The email sent on 7 July states that any other updates to guidance documents will be published on 15 August as planned.</p>
323	Updated tables - confirmed changes	We have spotted this morning that the Business Plan tables version 5 were updated yesterday – please can you confirm what the changes have been since the version published on 7 July?	The changes to the Business Plan tables will be identified in the V5 guidance document version control logs which will be published on the 15 Aug
324	Biodiversity PC: query over the use of existing data	Bristol Water has undertaken surveys within AMP7 (for example in 2022 and 2023) for its bespoke PC. Overall, the approach is the same as that used by the Defra Biodiversity Metric tool. Can the outputs of this work be accepted as a valid baseline for use in the AMP8 Biodiversity PC?	Where a survey has been completed for a different purpose, but it was carried out in the same way as it would have been completed if carried out for the Biodiversity Metric version 4.0, then it can be used for the PC. We would expect that the company to receive third-party assurance on whether the survey information was collected in line with the requirements of Biodiversity Metric version 4.0. Please

Ofwat ref.	Topic	Query	Response
			refer to the definition of Biodiversity Performance Commitment for standards for data obtained using an earlier version of the biodiversity metric other than version 4.0, if that is relevant to you.
326	Outcomes Tables OUT 2 and 10 - bespoke measures	<p>We have been reviewing the updated PR24 business plan tables and have a query regarding the Outcome tables OUT2 and OUT10.</p> <p>We have noticed you have added “bespoke measures” into both tables for AIM, Embedded GHG, low carbon concrete, low pressure, street works collaboration and water softening. We would like to query if these are specific to particular companies or are you expecting all companies to complete these.</p>	We confirm only those companies that proposed those bespoke performance commitments need to complete table OUT10.
327	River water quality performance measure query number 059 – part 1 (OUT5.61).	<p>The value for PR24 BP reference OUT5.61 is populated from cell O87 in PR24 BP reference OUT5.63. The line description for OUT5.61 is ‘Total load of phosphorus from all of the company's wastewater treatment works in 2020’. However, the value obtained from OUT5.63 is for ‘Phosphorus emitted in the latest calendar year from treatment works that had a phosphorus limit.’</p> <p>Please can you confirm whether the value populated for OUT5.61 should be for the total load of phosphorus in 2020 at either:</p> <ul style="list-style-type: none"> <li>• All wastewater treatment works,</li> <li>• Or all wastewater treatment works to freshwaters only,</li> <li>• Or only wastewater treatment works with a phosphorus limit to freshwaters.</li> </ul>	<p>The reference for OUT5.61 is incorrect in the tables, and we will update it to be a freeform entry cell. Line OUT5.61 ‘Total load of phosphorus from all of the company's wastewater treatment works in 2020’ refers to ‘The 2020 baseline’ in the equation on page 3 of the performance commitment definition - <a href="https://www.ofwat.gov.uk/performance-commitment-definition-river-water-quality/">Performance commitment definition - River water quality (ofwat.gov.uk)</a>.</p> $  \frac{\text{(Phosphorus emitted by relevant discharges from treatment works in 2020 minus phosphorus emitted by relevant discharges in the year)} + \text{(Phosphorus prevented from entering rivers from partnership working in the year minus phosphorus prevented from entering rivers from partnership working in 2020)}}{\text{The 2020 baseline}}  $

Ofwat ref.	Topic	Query	Response
			As such and as described in the performance commitment definition this figure relates to all wastewater treatment works that discharge to freshwaters regardless of whether the works has a phosphorus permit.
328	River water quality performance measure query part 2: Calculation of Phosphorus emitted for forecast years (OUT5.63).	In completing the forecast for phosphorus emitted for the years 2025-26 through to 2034-35 (OUT5.63), please can you confirm whether the forecasted data should be calculated using the permit limit value or should be calculated on the forecast of the performance concentration.	Forecasted data should be calculated using the forecast of the performance concentration.
333	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	In the [WRMP data table] guidance notes for C10/C11 it states that this is costs relating to residential and business customers, although for C1 and C4 the guidance does not specify, so I'm unsure whether this is just for residential customers or business customers too.	<p>The following data lines reflect:</p> <ul style="list-style-type: none"> <li>• C1-C6 - new meters for household customers.</li> <li>• C7-C9 - new meters installed for business (non-household) customers.</li> <li>• C10-C19 meter replacement costs for both household and non-household customers.</li> </ul> <p>Note that some of these aggregations are broken out further in the PR24 business plan data tables (CW7) but we would expect the totals in the business plan submission to match with those in the WRMP. As set out in our PR24 final methodology any variations between final WRMPs and business plans need to be clearly explained and supported with compelling evidence.</p> <p>We note that the <a href="#">WRMP data table guidance</a> for C10-C11 and C13-C14 erroneously includes the following sentence "These lines should only be completed by</p>



Ofwat ref.	Topic	Query	Response
			<p>companies who were allocated enhancement expenditure to replace basic meters with smart meters in the PR19 final determinations. Companies should present data in these lines from 2025 onwards irrespective of any PR19 allowances.</p>
334	<p>PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023</p>	<p>We would like to clarify what costs should be included in Table 4, to ensure we are consistent with Table 7 &amp; 8 (base / enhancement)</p> <p>For a meter upgrade, we are aware that if we propose to upgrade a meter to a smart meter the technology uplift is deemed “enhancement” expenditure – the cost for the like-for-like meter replacement at the end of its asset-life would be “base-expenditure”. The delta in meter reading costs should also be considered. Should Table 4 include the total cost for the meter upgrade, the total costs for meter reading and subsequent replacements for each meter, or should we exclude the base costs, when calculating NPC, AIC etc. (so it aligns with Table 8?) Table 4 should reflect the cost data that companies used for decision making purposes which should include the whole life costs of constructing, operating and maintaining assets. The components included should be common across options and option types to enable fair comparison of options and robust decision making. We acknowledge that there may be some differences in what is included in NPC and AIC cost calculations compared to the enhancement costs presented in table 8.</p>	<p>As set out in our <a href="#">PR24 final methodology: Appendix 9 Setting expenditure allowances</a> (page 104): "In reference to the request for clarity on expenditure allocations we expect companies to account for the implicit base allowance for meter replacement when developing enhancement business cases for metering in their PR24 business plans. As at PR19 we will consider enhancement allowances for the costs associated with upgrading to a smarter technology when meters are replaced...Accounting for both the implicit base allowances and the benefits of smart meters in metering business case will ensure that customers do not pay twice for improvements". Please also refer to PR24 query response that was sent to all companies on 12 June 2023. This was titled, ' PR24 - Query and response on smart metering'</p> <p>Table 4 should reflect the cost data that companies used for decision making purposes which should include the whole life costs of constructing, operating and maintaining assets. The components included should be common across options and option types to enable fair comparison of options and robust decision making. We acknowledge that there may be some differences in what is included in NPC and AIC cost</p>

Ofwat ref.	Topic	Query	Response
			calculations compared to the enhancement costs presented in table 8.
335	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	For a supply option: The initial design and construction of the option is deemed enhancement, but any asset maintenance thereafter would be base expenditure. We assume the NPC and AIC costs quoted in Table 4 should include the full whole-life opex and capex (including base and enhancement). Please advise if this assumption is correct?	<p>As set out in our <a href="#">PR24 final methodology: Appendix 9 Setting expenditure allowances</a> (page 113) states that base activities include "solution design and cost and benefit calculations to have sufficient evidence to feature in final strategic planning frameworks and business plan submissions (this includes all associated activities to deliver these submissions such as optioneering, modelling, option appraisal and decision making, and feasibility)". Maintenance of assets is expected to be delivered through base expenditure.</p> <p>As with metering upgrades (above) Table 4 should reflect the cost data that companies used for decision making purposes which should include the whole life costs of constructing, operating, and maintaining assets. The components included should be common across options and option types to enable fair comparison and robust decision making. We acknowledge that there may be some differences in what is included in whole life costings such as those presented as NPC and AIC compared to the enhancement costs presented in table 8.</p> <p>We expect clear mapping between table 4 and table 8 in particular for "Table 4 - Totex expenditure prior to option in use (£m)" where any variances (if any are required and appropriate) should be clearly explained and evidenced.</p>

Ofwat ref.	Topic	Query	Response
336	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	<p>Table 8: Increases / Decreases to Base Opex</p> <p>We assume when quoting the “increases or decreases to opex” required in Table 8, we should be calculating this to show the increase in opex relative to opex levels in 2025. Please advise if this assumption is correct?</p>	<p>Line A1 "Total totex increases from baseline totex as a result of adopting the specified programme" is capturing net changes in base totex as a result on implementing the preferred WRMP programme. When considering changes associated with an individual solution these have the potential to be positive (ie additional net costs over historical costs will be incurred) or negative (if the solution enables significant savings on historical costs). Considering the net change to the average opex costs you would expect to incur in 2025 may help you to complete this line. When considering average costs this should relate to the expected costs incurred in a 'typical year' across the future planning period ie not the annual figure based solely on an extreme drought scenario. The consideration of average costs should take the same approach as that used to derive the 'Average totex expenditure per annum post option in use (£m)' figure in Table 4.</p>
337	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	<p>For New Meter installations, we assume that a 10 to 15 yr rolling programme of new meter installations would therefore be represented as an ever-increasing opex cost relative to 2025, as the number of new meter installs increase from the 2025. Please advise if this assumption is correct?</p>	<p>We refer you again to page 104 of our <a href="#">PR24 final methodology: Appendix 9 Setting expenditure allowances</a> states that: "In reference to the request for clarity on expenditure allocations we expect companies to account for the implicit base allowance for meter replacement when developing enhancement business cases for metering in their PR24 business plans. As at PR19 we will consider enhancement allowances for the costs associated with upgrading to a smarter technology when meters are replaced...Accounting for both the implicit base allowances and the benefits of smart meters in metering business case will ensure that customers do not pay twice for improvements".</p>

Ofwat ref.	Topic	Query	Response
			As per our response to 3a above you should consider the net impact on opex costs based on the activity being incurred. Installation of meters provides several benefits to a company which could be expected to result in opex savings, for example enhanced customer engagement and improved targeting of leakage reduction activities.
338	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	Meter upgrades: we assume that when we are upgrading meters, we should calculate the delta between the meter reading costs of the old-meter technology vs the smart meter technology. The opex-delta will continue to accumulate over the entire planning period. Please advise if this assumption is correct?	As per our responses above you should consider the net impact on opex costs based on a transition between meter technologies. Installation of smart meters provides several benefits to a company which could be expected to contribute opex savings to the calculation of net opex impact for smart meter upgrade, for example improved targeting of leakage reduction activities.
339	PR24 query response for WRMP tables sent to all companies	For supply options: We assume that the operating costs once commissioned for the planning period, would be included in the “increases to opex” calculation for the whole planning period. Please advise if this assumption is correct?	As per our responses to questions above, it is important that the net change to opex is considered across the future period for average/typical conditions.
340	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	Further clarifications in relation to WRMP data and business plan data:	We expect consistency between the different WRMP data tables (for example Table 4, 5 and 8) and business plan data tables (for example for supply-demand balance schemes including the enhancement costs presented in CW3 and schemes listed in CW8), and companies should include clear commentary on mapping to understand any assumptions made when allocating costs between tables and lines. We have highlighted above in our response to question 2 examples of where table 8 will require reporting of the enhancement element of the costs included in table 4.

Ofwat ref.	Topic	Query	Response
			<p>However, in this case the costs in both tables should be derived on a consistent basis using the same assumptions and base and enhancement splits for the activities in question.</p> <p>As set out in Appendix 9 of the PR24 final methodology we expect consistency between final WRMPs and business plans at PR24. This consistency should include the scale and timing of need, the performance levels forecast to be delivered, and associated investments and requested enhancement costs.</p> <p>Cost consistency</p> <p>Where spend is incurred on options that are delivered outside of the AMP8 period (2025–30) it should be made clear what options are included within the AMP8 costs and the profiling of these across the multiple AMP periods. The profiling and proportion of spend each year should be consistent with cost profiles presented in Tables 5. An explanation should be provided to match the AMP8 costs with the lead in time, year of first use (Table 4) and cost profile (Table 5).</p> <p>Benefit consistency</p> <p>We also expect the water resource (MI/d) benefits of options/programmes presented in the WRMP data tables to be consistent. This includes Table 4 – Options appraisal summary (in particular 'Gains in WAFU / Savings in Demand on full implementation (MI/d)'),</p>

Ofwat ref.	Topic	Query	Response
			<p>Table 5 – Option benefits and Table 8 – Business plan links. Table 8 benefits for all options should use zonal WAFU benefit (including for interconnector schemes) aligning with business plan data lines.</p> <p>Performance trends</p> <p>The WRMP performance trends for PCC, leakage and business demand presented on an annual basis (ie not three year averages) will form the basis of your PR24 business plan PCL submissions.</p> <p>This data should be provided in lines 1NY to 5NY of WRMP data table 2 with data for the 2019–20 to 2022–23 period populated with outturn data as reported in annual performance reporting. For the avoidance of doubt the data in these lines should represent your final planning position. The interaction between the WRMP and business plan submission should be clearly explained, including any conversions from dry year annual average values. These conversions will be necessary to transform WRMP figures into the equivalent figures that will be submitted in your PR24 business plan submission.</p> <p>To review your proposals, we require that you provide annual data for the 2019–20 to 2049–50 period as a minimum in lines 1NY to 5NY. To do this we suggest you overwrite the cells R7 to AK7 to present the years 2030–31 to 2049–50 on an annual basis. If you are planning to a period beyond 2049–50, please add further years as necessary to the table.</p>

Ofwat ref.	Topic	Query	Response
			<p>Lines 1NY to 4NY have the following equivalents in the latest issue of the PR24 business plan tables see - <a href="#">PR24 Final methodology submission tables and guidance - Ofwat</a> &amp; <a href="#">PR24-BP-table-guidance-part-1-OutcomesV4.pdf (ofwat.gov.uk)</a>:</p> <ul style="list-style-type: none"> <li>• Line 1NY – Total Household Consumption - OUT4.43</li> <li>• Line 2NY - Average Household – PCC - OUT4.45</li> <li>• Line 3NY - Total Non-Household Consumption - OUT4.70</li> <li>• Line 4NY - Total Leakage - OUT4.31</li> </ul> <p>Consistency and PR24 quality and ambition assessment</p> <p>Our expectations for consistency between final WRMPs and business plans are set out in PR24 final methodology: Appendix 9 Setting expenditure allowances:</p> <p>"Any areas of variance between final (and published) planning frameworks and business plan submissions need to be fully explained, supported by compelling evidence. This should also include the reasons for changes and include confirmation that customers and the environment are not, or will not, be worse off. WRMPs, DWMPs and WINEP/NEP are prepared in advance of business plan submissions and costs will be presented in 2020-21 prices. All costs in the business plan data tables, data table commentary and narrative</p>

Ofwat ref.	Topic	Query	Response
			<p>should be consistently presented in the 2022-23 price base. Companies should inflate costs to 2022-23 prices using financial-year average CPIH.</p> <p>We will consider the consistency between the final strategic planning frameworks and environmental programmes with the PR24 submissions when assessing company proposals which will inform our quality and ambition assessment".</p> <p>Further details are also set out in chapter 11 of the <a href="#">PR24 final methodology</a>.</p> <p>Where there are delays to final WRMPs we expect companies to include their best view of their final WRMPs in their business plans.</p>
341	Indicative ODI rates query	<p>For some of the incentive rates, we wish to highlight a number of concerns – which we hope will help demonstrate our thinking as to whether we should include an alternative ODI package within our business plan:</p> <p>Demand PCs (leakage, PCC and business demand) assumes the unit of volume is the same for leakage, PCC and business demand. But the costs and risks are not the same, so this is not an economic incentive. This results in the following questionable results:</p> <p>a. PCC: whilst this was proposed a “low” ranking (applicable for RoRE allocation) as per the collaborative ODI research, the indicative PCC incentive rates are (for most companies) are higher than for leakage (and</p>	<p>In answer to a, the same incentive rate is set per megalitre per day for PCC, leakage, and business demand. The ODI rate for PCC appears to be higher because it is normalised using household population to reflect the PC definition of litres per person per day, but this does not change the underlying incentive.</p> <p>In answer to b, thank you for your feedback which we will consider as we calibrate final rates for each performance commitment during the determinations.</p> <p>In answer to c, as set out in <a href="#">Appendix 8 PR24 outcome delivery incentives</a>, of the final methodology, we intend to permit different incentive rates between companies where there are material differences in customer</p>



Ofwat ref.	Topic	Query	Response
		<p>business demand). We question whether such perverse incentives are appropriate?</p> <p>b. PCC and business demand: as per the “low” rankings at 0.4% (applicable for RoRE allocation) this is effectively double-counting (at 0.8%) and we would welcome Ofwat’s thoughts on whether it would be more appropriate to split the 0.4% by revenue (say c0.3% PCC and 0.1% business demand). This would result in revenue split as proxy for RCV allocation between domestic and business customers.</p> <p>c. Leakage: the leakage incentives now proposed for all companies (£0.364m) but this incentive rate will be applied to company-specific performance levels. This does not consider how companies at the frontier will have a higher marginal cost; aggregate demand is not an appropriate valuation for leakage – it reflects weather. Leakage is fundamentally different to PCC and particularly business demand e.g. wastage vs growth. Is this an area where Ofwat will consider further incentive adjustments at the draft determination?</p>	<p>preferences, or for other reasons such as topography, network configuration or past performance.</p> <p>We recognise that marginal costs will vary across the demand PCs. As set out in the <a href="#">PR24 final methodology main document</a>, we will calibrate final rates for each performance commitment during the determinations phase of PR24 based on considerations such as information on marginal costs.</p>
342	Indicative ODI rates query	<p>WASCs versus WOCs:</p> <p>d. The incentive rate for serious pollution rates is higher for WoCs because there is not a total pollution incentive deducted. Whilst we understand Ofwat’s explanation, namely that incentives for WASCs are partly covered in the total pollution incident valuations, does it make sense to customers and stakeholder to have different incentive rates? At the very least, we urge Ofwat to reconsider whether WoCs should have higher incentive rates?</p> <p>e. The incentive rate for discharge permit compliance is higher for WoCs because there are no wastewater sites</p>	<p>In answer to d, as set out in the final methodology, we want to set ODI incentive rates in a consistent way between companies. The out- and under-performance payments for a serious pollution incident are the same across WaSCs and WoCs, given there is no material difference in customer preferences across companies. Due to the overlap in PC definitions for WaSCs, their out- and under-performance payments are spread across two pollution incident PCs instead of one.</p> <p>In answer to e, thank you for your feedback which we will consider as we calibrate final rates for each</p>

Ofwat ref.	Topic	Query	Response
		<p>to smooth it out and the permit compliance is valued the same. When Ofwat proposed introducing an incentive rate for discharge permit compliance for WoCs in October 2022 it stated: “Due to the low number of water treatment works that WoCs have, a single failure can mean a reduction in compliance of between 2% and 25%, depending on the company. As such, there would be a degree of volatility around a discharge permit compliance measure for WoCs, given the low number of permits. This may need to be considered when looking at the overall balance of risk and return for all companies at the PR24 determination phase.” Has this been considered, or is Ofwat’s view that this will be further considered at the draft determinations?</p> <p>f. Bathing water quality: we question whether the calculation is appropriate – this weights a percentage of improvement and not the number of bathing schemes. The result is that the more bathing schemes, the lower the rate per overall percentage improvement. Is this what Ofwat intended?</p> <p>g. Water quality contacts: based on the original “batch 1” rates that were set as per the original PR24 methodology, the incentive rates for water quality contacts resulted in excessively high rates across the industry. The incentive rates now proposed, as per the top-down approach, still result in excessively high rates across the industry (albeit lower than the original approach). In the PR24 methodology (see pages 62-63 of appendix 8), Ofwat did not list water quality contacts as a PC it viewed as appropriate to include a collar on the standard incentive rate. We question whether this policy decision still stands?</p>	<p>performance commitment as part of our PR24 determinations.</p> <p>In answer to f, using the median unit rate across the sector prevents a company from having a lower unit rate due to having more schemes. Our sensitivity checks on the ODI rate treated the industry as if it was a single company. The median unit rate matches the unit rate for this “whole industry company”. We welcome any suggestions of an alternative approach.</p> <p>In answer to g, as set out in the final methodology, during the PR24 determinations we will assess the overall balance of risk and make any changes necessary, such as adjusting the aggregate sharing thresholds and the scope of caps and collars.</p>

Ofwat ref.	Topic	Query	Response
343	Indicative ODI rates query	<p>Price control deliverables (PCDs) were not covered in the session on 29 June at the outcomes working group and we would urge Ofwat to consider our feedback to the cost assessment team following the PCD workshop on 25 May. In addition:</p> <p>h. PCDs are not included as part of the indicative PR24 RoRE risk ranges for the notional company. At PR19, PCDs would have been included in ODIs and therefore included in RoRE risk, whereas now they are treated separately. This distinction is important, as Ofwat is now explicitly considering PCDs that “ideally...would track outcomes rather than outputs”, in addition to common ODIs (as opposed to only considering PCDs for output commitments). We would urge Ofwat to consider whether the implications of PCDs linked to outcomes is fully captured in PR24 RoRE risk range.</p> <p>i. We note the leakage incentives now proposed for all companies (£0.364m). At the PCD workshop on 25 May, the Ofwat cost assessment team presented proposals for a leakage PCD, based on MI/d reductions (and mains renewals if material). Ofwat indicated that leakage PCD(s) were being considered as the leakage incentive rates were (potentially) being set significantly below costs. If Ofwat is recommending that an incentive rate of £0.364m be adopted, could the outcomes team please confirm whether they concur with the cost assessment team, that a leakage PCD should also be adopted?</p>	<p>In answer to h, we set out the following in our <a href="#">Further guidance on price control deliverables for PR24</a> published on 4 July 2023:</p> <p>p. 9: "We are conscious that the combination of outcome delivery incentive payments and price control deliverable payments may expose companies to risks from non or partial delivery. We will therefore consider the extent to which we will net off outcome delivery incentive payments from price control deliverable payments once we see business plans. This will allow us to assess the uncertainty around the level of efficient costs and the potential impact of non- or under-delivery on outcome delivery incentive payments. Companies can submit evidence in business plans on the areas of expenditure where they consider that net-offs or other adjustments should be applied. We will consider the appropriate arrangements through our determinations process."</p> <p>p. 13: "We will consider the appropriate arrangements for managing risk through our determinations process as part of our considerations on the overall balance of risk and return."</p> <p>In answer to i, Appendix 9 of our <a href="#">PR24 final methodology</a> states that companies should use price control deliverables where investment is material, and the delivery of benefits cannot be easily or directly</p>

Ofwat ref.	Topic	Query	Response
			linked, or the costs fully covered, by performance commitments and outcome delivery incentives. As we set out in our <a href="#">Further guidance on price control deliverables for PR24</a> , it is for companies to explain how the combination of price control deliverables, cost sharing and outcome delivery incentive payments will more than cover the cost of the protected enhancement so that companies are worse off if they under-deliver or do not deliver the funded improvement. This applies to all performance commitments and outcome delivery incentives, including leakage.
344	Indicative ODI rates query	On river water quality, for clarification, is Ofwat recommending that £1k incentive be applied for every percentage reduction in phosphorus emissions compared to the 2020 baseline? I.e. if a company's phosphorus emissions increased by 10% compared to the 2020 baseline, this would result in a £10k underperformance penalty for that year?	As set out in the River water quality PC definition, the ODI rate will be applied on a kg of phosphorus basis. If a company outperforms the PCL by 10% from 2020 levels and this 10% difference amounts to 100kg phosphorus removed, the total payment will be 100kg x £1,000 = £100,000.
345	Indicative ODI rates query	On bespoke performance commitments, we would urge Ofwat to consider our feedback that we sent to the PR24@ofwat.go.uk email account on 23 June. In addition, could Ofwat please provide further clarity as to what level of RoRE risk is appropriate for bespoke incentives? As the initial total risk Ofwat has assumed for the top-down approach to setting incentives (a risk of 4-5% water RoRE and 3.5-4.5% wastewater RoRE) did not seem to take into account the potential for the addition of bespoke performance commitments, we would welcome this clarity ahead of the business plan	Where companies choose to use a 'top-down' approach to set bespoke incentive rates, they may assume a 0.5% RoRE allocation per PC in line with our approach for common PCs. Where an alternative approach is required, for example based on customer preferences, companies should provide an appropriate rationale and evidence. As set out in the final methodology, we will assess overall balance of risk across the package of common and bespoke ODIs during determinations to calibrate final incentive rates.

Ofwat ref.	Topic	Query	Response
		submissions to ensure that our plan aligns as best as possible to Ofwat's thinking in this area?	
346	Indicative ODI rates query	<p>We note the approach to setting the initial ODI rate based on the percentage of RoRE based on ranking of customer valuations, divided by an assumed stretch in performance based on industry historic performance. We question the logic of setting the maximum risk by looking back at PR19 (although linking to the 2022-23 RCV mitigates this in part potentially), because as performance improves (particularly if from base rather than enhancement), then the asymmetry of risk may well increase. In addition, outperformance rates at PR19 were less than underperformance, so just taking underperformance ignores the increased PR24 amount of risk. We therefore note the following assumptions with this approach, which may be questionable:</p> <p>j. An assumption that historic risk is reflective of the future.</p> <p>k. An assumption that company risk can be represented by industry average risk. But the industry risk range can be very different to the company historic range. Ofwat are using varied targets for some measures, and this is introducing a bias in the RORE range as its influencing the median rates.</p> <p>l. The approach of taking a median value implicitly assumes that the normalisation factor for each PC is proportional to notional regulated equity. This is introducing differences in risk across companies. This is giving higher rates for WoCs.</p>	<p>In answer to j, we are assuming the variation in historic performance across the industry is reflective of future variation in performance. While the past is not always a guide to the future, we consider this to be a pragmatic assumption for the purposes of our calculation. We apply the percentage performance range to a more forward-looking PCL (typically for 2024-25) to take into account that levels of performance will change based on future expenditure. We welcome any suggestions on an alternative approach.</p> <p>In answer to k, as set out in Appendix 8 of the final methodology, we intend to permit different incentive rates between companies where there are material differences in customer preferences, or for other reasons such as topography, network configuration or past performance.</p> <p>In answer to l, as set out in the final methodology, we want to set ODI incentive rates in a consistent way between companies. To mimic the marginal benefit approach as far as possible, we have set a consistent incentive rate across companies for each service incident. We are aware that this introduces a higher level of risk for companies with smaller RCVs, including some WoCs. We will consider the overall balance of risk when calibrating final rates at determinations. As set out at the outcomes work group on 29 June, we are open to discussing this issue with affected companies in advance of business plan submission.</p>

Ofwat ref.	Topic	Query	Response
347	Indicative ODI rates query	Finally, we would appreciate further guidance over how to present the various incentive packages practically within our business plan. At the outcomes working group on 29 June, we note that Ofwat recommend that “Companies should use the indicative ODI rates in their actual business plans and data tables. But we encourage companies to include feedback on both the top-down approach and the indicative rates as part of their business plan submission. This will help to inform how we set rates at draft determinations.” Would Ofwat accept, as an example, submission of data table OUT7 with the Ofwat top-down marginal benefits and benefit sharing factor and then an additional data table (say OUT7.1) that presents the alternative ODI package that a company wishes to propose?	Companies should populate a single set of marginal benefits and benefit sharing factors in table OUT7. Where these differ from the Ofwat top-down marginal benefits, companies should provide compelling evidence to support them. If companies wish to provide feedback on the top-down approach or set out the evidence for company-specific factors that should be taken into account in the calibration of final incentive rates, this should be set out in the text of the business plan or through an additional submission rather than in an additional data table.

## August 2023 queries and responses

Ofwat ref.	Topic	Query	Response
349	Outcomes	<p>We have a query related to your Final Methodology ODI Appendix that we hope you may be able to help with:</p> <p>In Appendix 8 (p60 onwards) of the Final Methodology Ofwat indicates potential use of targeted caps and collars at a PC level as a percentage of RoRE (i.e. +/- 0.5%) and an aggregate sharing mechanism.</p>	We clarify that we intend to set this at the level of water or wastewater regulatory equity, not at the appointee level. This is implied in the first paragraph of p64 of Appendix 8 of the PR24 final methodology.

Ofwat ref.	Topic	Query	Response
		<p>It is not clear in the text (other than for caps on PCC and leakage where it clearly states 'Water RoRE') whether Ofwat intends to apply these based on Water and Waste Water RoRE or at an Appointee level. We understand the final decisions on these will be made at Draft Determination, but would you be able to provide any clarification on which RoRE these caps and collars are based in your indicative view?</p> <p>This is required as an input into our RoRE modelling so it would be helpful to for us to reflect the correct assumption as it stands. Please could you confirm?</p>	
350	Data	<p>One of our assurance providers has asked if you could please provide us/them with the password to unlock the July Submission tables. They would like to use their automated tools on the spreadsheets and this is not possible with the password protection lock.</p>	<p>Alongside our publication of version 5 of the business plan tables, we also published guidance regarding the completion and validation of the business plan tables. We explained the potential impact of altering our business plan templates. We introduced a password for version 5 to reduce the risk of unhelpful changes.</p> <p>We are supportive of your work regarding the internal management of the tables. However, it is not clear that providing the password to companies is necessary to achieve effective management.</p>
351	Bathing water quality – PC definition	<p><i>Bathing waters which cannot be impacted by a water company in the discharge of its functions are excluded from this measure. Determining if/ when this applies will be undertaken in conjunction with the Environment Agency/ Natural Resources Wales prior to the start of the 2025-30 period and set out in the PR24 final determinations.</i></p>	<p>Bathing waters which cannot be impacted by a water company in the discharge of its functions are excluded from the bathing water performance commitment. Most bathing waters can be impacted by water companies by either continuous discharges from treatment works and/or storm or emergency overflows. We have completed an initial assessment of those that cannot be</p>

Ofwat ref.	Topic	Query	Response
		<p>Note here that it will be in our PR24 final determination. However, Ofwat have already made an initial review of this as contained in my assessment below:</p> <ul style="list-style-type: none"> <li>- Ofwat have removed 7 bathing waters from their initial view of bathing waters that cannot be impacted by water company in discharging their functions – this is also part of the PC definition. They comprise of 5 for Thames Water (2 remain), one for Wessex and one for Severn Trent – leaves SvT with <u>no bathing waters</u> under this measure.</li> </ul> <p>We would like to ask: ‘Ofwat have included an initial view of the bathing waters which cannot be impacted by a water company in the discharge of its functions in the assessment of Bathing Water Historical Calculations (July 2023). This is connected to the specific exclusion contained in the PC definition (May 2023). This is required in determining performance for this measure. Would it be possible for Ofwat to provide a wider assessment with the Environment Agency of bathing waters that are excluded under the exemption. This will allow a more certain assessment of our PC and upper quartile position. If you have not excluded any bathing waters from the NWL region, can you please explain the rationale and / or analysis in support of this position.’</p>	<p>impacted by a water company. A company should set out in its business plan if it considers any bathing waters in the company area which cannot be impacted by the company in the discharge of its functions.</p>
352	Bespoke PCs	<p>‘We note that the freeform lines for `bespoke PCs` (in tables OUT1, LS1, etc) in v4 of the business plan data tables have been replaced with six lines for named bespoke PCs in accordance with `PR24: Assessment of bespoke performance commitment proposals` published on 28th July.</p>	<p>Please refer to para. 12.3 of our submission table guidance issued last month <a href="https://www.ofwat.gov.uk/PR24-BP-table-guidance-part-1-OutcomesV5.pdf">PR24-BP-table-guidance-part-1-OutcomesV5.pdf (ofwat.gov.uk)</a> where it is said that:</p>



Ofwat ref.	Topic	Query	Response
		<p>As Ofwat is aware, we are planning to put forward a bespoke PC covering. notwithstanding Ofwat’s view that it is `unsuitable as a bespoke performance commitment’ as stated in the 28th July publication. As v5 of the data tables does not allow for freeform entry of bespoke PCs, this implies we will have to present it in the narrative alone.</p> <p>However, it occurs to us that other companies may be thinking similarly in relation to some of the other 35 bespoke PCs that were identified as `unsuitable as a bespoke performance commitment’ in the 28th July publication. It may be easier for Ofwat to set about assessing these proposals if they have a presence within the data tables, rather than having to hunt for the relevant information elsewhere in the business plan documentation. We would suggest, therefore, that it would be helpful to reinstate two or three freeform bespoke PC lines in the relevant tables for the purposed of version 7, due to be published on 15th August.'</p>	<p>'If a company proposes any further bespoke performance commitments in its business plan, it should provide an equivalent level of information to that required in OUT1, OUT2, OUT3, OUT7 and OUT10 in a separate excel workbook. This should include as much historical performance data as possible with commentary to how that data has been derived. For the quality part of our quality and ambition assessment, any bespoke performance commitments submitted within company business plans must take into account the feedback we have provided. If a company provides additional bespoke performance commitments that it did not provide in April 2023 it will need to: • provide compelling evidence why it was not able to submit it in April 2023; and • fully comply with our PR24 final methodology and any relevant guidance.</p>
354	AMP average PAYG rate	<p>RR11.12, .17, .22, .27, .32 &amp; .37</p> <p>In relation to the calculation of the AMP average PAYG rate, within the column headed “2025-30”, we believe the calculation of a simple average from the individual years PAYG rates is incorrect and that the AMP average PAYG rate should instead be linked to the weighted average PAYG rates calculated for table line RR11.6. This is supported by the line definitions within the Risk and Return table guidance published in February 2023 for the various “Pay as you go totex” lines (RR11.13, .18 etc.), whereby these lines should be equal to the sum of the totex allowance multiplied by the</p>	<p>Whilst the table guidance did state unweighted we agree that weighted values may be more appropriate, we will issue an updated financial model with this correction alternatively companies may choose to amend this in the current version of the financial model. The corrections should be as follows.</p> <p>BP reference Line reference Current formula New formula  RR11.12 K37 = AVERAGE(F37:J37) =OBXValues!\$F248  RR11.17 K46 = AVERAGE(F46:J46) =OBXValues!\$F249  RR11.22 K55 = AVERAGE(F55:J55) =OBXValues!\$F250</p>

Ofwat ref.	Topic	Query	Response
		<p>PAYG rate, which is only true of the AMP8 total when using the weighted average PAYG rate.</p>	<p>RR11.27 K64 = AVERAGE(F64:J64) =OBXValues!\$F251  RR11.32 K73 = AVERAGE(F73:J73) =OBXValues!\$F252  RR11.37 K82 = AVERAGE(F82:J82) =OBXValues!\$F253</p> <p>As part reviewing this issue we have also identified a correction on the net totex line on the OBX values sheet</p> <p>Line reference Current formula New formula  E219 =Totex!\$E\$292:\$X\$292 = Totex!\$E\$352:\$X\$352  E220 =Totex!\$E\$293:\$X\$293 = Totex!\$E\$353:\$X\$353  E221 =Totex!\$E\$294:\$X\$294 = Totex!\$E\$354:\$X\$354  E222 =Totex!\$E\$295:\$X\$295 = Totex!\$E\$355:\$X\$355  E223 =Totex!\$E\$296:\$X\$296 = Totex!\$E\$356:\$X\$356  E224 =Totex!\$E\$297:\$X\$297 = Totex!\$E\$357:\$X\$357</p>
355	RCV balances	<p>RR12.4 &amp; .5</p> <p>The pre 2020 and 2020–25 opening RCV balances for all price controls have been linked to the Water Resources opening RCV values within the “OBXValues” tab (cells F347 and F354), the formulas in the “Output RR12” tab of the financial model require updating to link the opening balances for each price control to the respective value in the “OBXValues” tab across cells F347–F352 and F354–F359.</p>	<p>This has been amended in the latest financial model published July 2023</p>
356	Output RR15	<p>The calculation of total retail costs within the “Output RR15” tab of the financial model appears to contain an error whereby the residential apportioned DPC infrastructure costs are multiplied by the residential apportionment percentage. We believe this element of the formula is incorrect as the residential apportionment has already been applied to the</p>	<p>We agree that this is an error, we will issue an updated financial model with this correction alternatively companies may choose to amend this in the current version of the financial model. The corrected formula should be “= (SUM(OBXValues!N496:R496) *</p>

Ofwat ref.	Topic	Query	Response
		<p>DPC infrastructure costs within the “Retail Residential” tab of the financial model and therefore the formula in table RR15 is double counting this apportionment allocation on this element of costs. We therefore believe that the formula for RR15.5 should be amended to the below:</p> <p>=SUM(SUM(OBXValues!N489:R489) * OBXValues!F502) + SUM(OBXValues!N491:R491) + SUM(OBXValues!N490:R490)"</p>	<p>(OBXValues!F509)) + SUM(OBXValues!N498:R498) + SUM(OBXValues!N497:R497)"</p>
357	Risk and Return	<p>"RR16.53</p> <p>The line definition within the Risk and Return submission table guidance issued in February 2023 stated that this line item “will be a financial model output” however tab ‘Output RR16’ within the financial model does not present values for this line. Would you therefore be able to confirm (1) if this line item should be being pulled into tab ‘ Output RR16’ of the financial model and (2) if this line item isn’t to be formulated to be pulled into tab ‘Output RR16’ of the financial model that our understanding that this value should be equal to the appointee profit after tax reported in the P&amp;L within the ‘FinStat Appointee’ tab of the financial model, being ‘pre’ post financeability adjustments in line with the calculation of financial ratios presented in table RR16?"</p>	<p>This line has been removed from this section in the latest (July 2023 tables and financial model) and is now RR16.77 this should align to Profit after tax shown in RR18.</p>
358	Output RR16	<p>"RR1.7-.12</p> <p>The line definitions within the Risk and Return submission table guidance issued in February 2023 specify that the cost of debt included in these line items, for input into the financial model, should be in nominal prices which we agree with based on the inputs required for the financial model. However these line items within the business plan table have</p>	<p>We have removed the direct links and updated our guidance to clarify that these lines should align to those populate in RR25 but will be in different price bases.</p>

Ofwat ref.	Topic	Query	Response
		<p>been formulated to link with table RR25 for which the submission table guidance states should be “in CPIH-real terms, using a long-term assumption of 2.0% CPIH.” and therefore by linking table RR1 to table RR25 the cost of debt inputs being pulled through would be in CPIH deflated prices rather than in nominal prices, as required by the financial model. Would you therefore be able to confirm that the linking of business plan tables RR1 and RR25 is incorrect or alternatively that business plan table RR25 should also be presented in nominal prices rather than in CPIH real prices?”</p>	
359	Residential retail net margin	<p>"RR15.6</p> <p>The residential retail net margin (RR15.6) is currently displayed as a £m figure, the formatting should be amended so that this value is presented as a percentage value."</p>	<p>We agree this is an error and we will amend it in the latest version of the business plan tables.</p>
360	Financial model	<p>" we have identified the below potential error in the latest version of the financial model issued in April 2023:</p> <p>“FinStat Appointee” tab – Retirement benefit liability balance (excel row 74)</p> <p>The source of the retirement benefit liability balance for the appointee balance sheet, per the “FinStat Appointee” tab within the financial model appears to be being calculated incorrectly as, on checking the source within excel rows 139–141 of the “Appointee FS calcs” tab of the financial model, the source appears to be wrongly linked with the retirement benefit asset balance rather than the liability balance. As a result of this, the appointee balance sheet in the “FinStat Appointee” tab could potentially understate liabilities.</p>	<p>"</p> <p>The retirement benefit asset/liabilities inputs have been amended in the business plan tables and July version of the financial model, we believe this issue has now been rectified. "</p>

Ofwat ref.	Topic	Query	Response
		<p>Currently both the retirement benefit asset balances and retirement benefit liability balances within the "Appointee FS Calcs" tab (excel rows 134-141), used to populate the appointee balance sheet, are linked to the same source figures within the "Appointee FS Calcs" tab (excel rows 550-557) which calculates the appointee asset balance. As such we believe an additional section to calculate the appointee liability balance should be added to the "Appointee FS Calcs" tab, to which excel rows 139-141 can then be linked."</p>	
361	D-MeX	<p>Could you please provide us with a response to the below query in preparation for our response due on 26th September.</p> <p>Consultation on the measures of experience performance commitments at PR24 - Ofwat</p> <p>Can you please be possible to confirm that Figure 3.4 (page 39) is correct. For reference, this sets out the D-MeX qualitative score split by water and wastewater metrics.</p>	<p>Thank you for your query. The difference between the values in this chart and the published scores can be explained by the calculation approach that we used for the chart. For this chart we took a simple average of overall satisfaction scores on water metrics and wastewater metrics, at a company level and an industry level. For example, if there were only two water-related metrics with satisfaction scores of 70 and 90, we would take an average of these two figures: 80. To calculate the industry average line, we took a simple average of satisfaction on all water metrics and all wastewater metrics. In contrast, in the D-MeX survey, a simple average of scores on all interviews is used to calculate overall scores - the published survey scores therefore take into account volumes of interviews completed.</p> <p>Based on your query, we have conducted further analysis. We have compared the weighted average performance on water metrics (weighted by volumes of interviews) with weighted average performance on wastewater metrics which gives us similar results, with there being an approximate difference of 3 out of 100 between the two for year 3 (which is approximately a 4%</p>

Ofwat ref.	Topic	Query	Response
			difference). This compares to our consultation, which showed a difference of 1.7 (or 2%) using our methodology outlined above.
362	Totex enhancement expenditure	<p>Re.PR24 Submission tables LS5 and LS6 – Wholesale water/wastewater totex enhancement expenditure under Common Reference scenarios</p> <p>PR24 guidance states these tables should show “enhancement expenditure required to meet long-term outcomes under each of the PR24 common reference scenarios. Where company-specific scenarios affect the enhancement requirement by triggering alternative pathways, this should also be reflected.”</p> <p>We assume the investment required for alternative pathways (e.g. Tables LS4a to LS4i) represents the delta between the core pathway in LS4 and interpret the LS5/6 guidance to be, for each common reference scenario and company-specific scenario, the sum of core pathway expenditure plus expenditure associated with one or more alternative pathways (a total expenditure view).</p>	<p>I can confirm that you are applying the guidance correctly and that;</p> <p>The investment required for alternative pathways detailed in Tables LS4a to LS4i represents the change between the core pathway in LS4, and that for the LS5 &amp; LS6 tables, for each common reference scenario and company-specific scenario, the sum of core pathway expenditure plus expenditure associated with one or more alternative pathways provides a total expenditure view.</p>
364	Financial Model	This query is in relation to RR9.268 – Could you please confirm what is meant by “Include accumulated depreciation in financial model”.	This input will be an input in the financial model to drive the switch to include accumulated depreciation on fixed assets in PR24 financial model. Please input 1 for 'Yes' and 0 for 'No'. We would expect in most instances for the value to be populated as '1'.
365	D-MeX	Could you please provide us with a response to the below query in preparation for our response due on 26th September.	Thank you for your query. The difference between the values in this chart and the published scores can be explained by the calculation approach that we used for the chart. For this chart we took a simple average of

Ofwat ref.	Topic	Query	Response
		<p>Consultation on the measures of experience performance commitments at PR24 - Ofwat</p> <p>Can you please be possible to confirm that Figure 3.4 (page 39) is correct. For reference, this sets out the D-MeX qualitative score split by water and wastewater metrics.</p> <p>The figure shows, for example,</p> <ul style="list-style-type: none"> <li>• Anglian Water having an average of above 8.0 for both water &amp; wastewater. However, their published qualitative score was 75.44 (7.54).</li> <li>• Severn Trent having an average of below 8.0 for both water and wastewater. However, their published qualitative score was 82.25 (8.22).</li> <li>• Affinity Water are shown as being above Bristol in figure 3.4. However Affinity's qualitative score was lower than Bristol published score.</li> </ul>	<p>overall satisfaction scores on water metrics and wastewater metrics, at a company level and an industry level. For example, if there were only two water-related metrics with satisfaction scores of 70 and 90, we would take an average of these two figures: 80. To calculate the industry average line, we took a simple average of satisfaction on all water metrics and all wastewater metrics. In contrast, in the D-MeX survey, a simple average of scores on all interviews is used to calculate overall scores - the published survey scores therefore take into account volumes of interviews completed.</p> <p>Based on your query, we have conducted further analysis. We have compared the weighted average performance on water metrics (weighted by volumes of interviews) with weighted average performance on wastewater metrics which gives us similar results, with there being an approximate difference of 3 out of 100 between the two for year 3 (which is approximately a 4% difference). This compares to our consultation, which showed a difference of 1.7 (or 2%) using our methodology outlined above.</p>
366	e-CAF requirements	<p>Following the attached letter from the start of July, we would like to confirm the scope for the e-CAF requirements as part of the PR24 submission? We would like to confirm two specific points:</p> <ul style="list-style-type: none"> <li>• Requirement to meet existing target for resilience against limited capability attacks, sector specific profile for CAF 'DWI SSP', by 31st March 2025: We are assuming that we are not required to submit a business case for the current in flight AMP7 programmes as we are not requesting any additional</li> </ul>	<p>Ofwat and DWI expect companies to comply with the existing target for resilience against limited capability attacks, as per NIS Regulation 2018 by 31st March 2025, however if companies are unlikely to achieve this requirement then we expect a business case and AMP8 cost forecasts to be submitted as part of the PR24 business plan.</p> <p>Ofwat and DWI expect companies to make a proposal as to how they will achieve green for the 6 specified E-CAF</p>

Ofwat ref.	Topic	Query	Response
		<p>funding for these in AMP8. In light of that, what cost data do you require in the data tables?</p> <ul style="list-style-type: none"> <li>• Requirement to meet new target for resilience against moderate capability attacks, enhanced CAF 'DWI ECAF', by 31st March 2028: Do you want us to submit a business case to achieve only the 6 specified e-CAF items as detailed by the DWI (letter attached) or a business case based on our assessment of what is appropriate to provide this level of resilience, which we consider to include converting all remaining contributing outcomes to green?</li> </ul>	<p>items by March 2028; and if their plan to achieve full green involves investment in other areas between 2028 and 2030 (depending on their flight path) companies are expected to submit further justification in terms of how the company achieves progress with the CAF.</p>
367	Outcomes	<p>I would like to query some data lines in the OUT tables. In the latest iteration – 19th July '23 – there are 'Region 1' and 'Region 2' under the 'Leakage', 'Per Capita' and 'Business demand'. Please can we get more information regarding the 'regions' as we do not currently segment our data via regions.</p>	<p>The lines for regional level performance commitments will only be populated for the relevant companies with performance commitments at a regional level, otherwise they can be left blank. This is outlined in section 3 of the PR24 business plan table guidance part 1: Outcomes.</p>
368	Bespoke PCs	<p>"We have a query in relation to bespoke PC's within the OUT10. We will not be reporting on any new bespoke PCs so why are they being pulled into this table for us if we have none. "</p>	<p>We confirm only those companies that proposed those bespoke performance commitments need to complete table OUT10.</p>
369	Data Tables	<p>As we discussed earlier, we've a query relating to the Summary of the Business Plan data tables released today – specifically the new tables, which all appear to relate to accelerated or transitional expenditure.</p> <p>The earlier version of this Summary (which applied to the V2 tables) showed [company] as not needing to submit such accelerated or transition spend tables. The same is the case for these tables in the new summary. At the same time, the extra tables that have been added have [Company] marked down as needing to complete and submit these.</p>	<p>We have reconsidered the table submission requirements for HDD. We can confirm that if you have transitional expenditure, you should complete tables CW12 and CWW12. Therefore, it follows that you should also complete tables CW4a, CW6a, CW7a, CWW6a, CWW8a and CWW20a to the extent that they are affected by your reported transitional expenditure in CW12 and CWW12. Since you do not have any accelerated expenditure, you don't have to submit CW17 and CWW17.</p>



Ofwat ref.	Topic	Query	Response
		<p>Could you kindly clarify that, consistent with Ofwat’s earlier decisions, these new tables are not required from [Company] If this clarification can also be reflected in the Summary, that would be super helpful for putting the assurance team’s minds at ease.</p>	
372	Business retail reconciliation model	<p>Following further work on the updated data tables, we note the guidance for table PD2 in the PR24 business plan table guidance on past delivery (page 10) states that we (COMPANY) need to populate and submit a populated PR19 business retail reconciliation model. We can’t find the model alongside the other reconciliation models on the Ofwat website or any reference to the model in the PR19 reconciliation rulebook. Please can you confirm that a business retail reconciliation model is required and provide a link (if appropriate) to the model.</p>	<p>We are not intending to publish a business retail model and will use the Business Plan tables PD2 and PD3 and APR tables 2G and 2H.</p>
374	Bespoke PCs	<p>When resubmitting bespoke PCs as part of the business plan, what is the evidence that is required over and above customer support and CCG support?</p>	<p>Thank you for your inquiry.</p> <p>When resubmitting bespoke PCs, companies should make reference to the guidance provided in our final methodology. Information notice 23/02, issued in February 2023, provides a succinct submission guidance <a href="https://www.ofwat.gov.uk/information-notice-23-02-submission-guidance-for-pr24-bespoke-performance-commitment-definitions.pdf">IN-23.02-Submission-guidance-for-PR24-bespoke-performance-commitment-definitions.pdf</a> (ofwat.gov.uk), including but not limited to the template and supporting evidence detailed in page 3 of the note. Companies should also refer to our reflections on the initial assessment of bespoke performance commitments issued in May 2023 <a href="https://www.ofwat.gov.uk/reflections-on-initial-assessment-of-bespoke-performance-commitments-Redacted.pdf">Reflections-on-initial-assessment-of-bespoke-performance-commitments_Redacted.pdf</a> (ofwat.gov.uk) and our assessment of bespoke performance commitment</p>

Ofwat ref.	Topic	Query	Response
			<p>proposals issued in July 2023 <a href="#">PR24: Assessment of bespoke performance commitment proposals</a> - Ofwat. Our individual feedbacks, if provided, should be addressed.</p>
381	River Water Quality	<p>We are writing to you to point out the inconsistency in definition of phosphorous load reduction. In the ofwat definition of river water quality we will not be showing a forecast wastewater phosphorus load reduction of 80% from a 2020 starting position by 2038 in our business plan, which is the requirement of the Environment Act.</p> <p>We discussed our full AMP8-AMP10 programme of Environment Act phosphorus removal schemes with the Environment Agency and agreed the basis of approach, prioritisation and full programme with them. To do so we used a consistent approach, agreed with the EA, of calculating both the baseline and forecast reduction. This meant a calculated load for the 2020 baseline position which used permit DWF and permit P concentrations.</p> <p>The Ofwat PCL uses measured flows and concentrations for the 2020 baseline position. Since we operate our sites with some headroom in order to not risk failing permit compliance, using measured actuals in 2020 leads to a lower baseline position than that agreed with the EA. We have used permit concentration levels to forecast loads removed for the PCL so as not to create a perverse incentive of being penalised through the ODI regime despite meeting permit compliance conditions. In addition we are not able to state with certainty the level of headroom we will be able to operate our treatment works at when so many of them are</p>	<p>Thank you for your email on the river water quality performance commitment (PC) definition.</p> <p>The PC is not intended to duplicate the Environment Agency monitoring of delivery of the Environment Act targets. We are aware the PC may differ from the Environment Agency measurements, and this is necessary to ensure companies do not receive outperformance payments for operating a works at a level of phosphorus removal below the permitted compliance level it has already been funded to achieve.</p> <p>As you have recognised, given the headroom, the level of phosphorus removal would be lower than the permitted compliance level. Cost allowances to upgrade sites are based on companies constructing new processes with a level of headroom. We will account for headroom when setting company PC level (PCL) for river water quality at PR24 and will consider the potential impact of lower permit limits such as the TAL of 0.25 mg/l. In setting the PCL, we will incentivise companies to optimise removal to deliver below this headroom level as it will bring better outcomes to customers and the environment. We will consider company information relating to the level of headroom it is possible to operate at when delivering a TAL 0.25 mg/l limit and we would suggest you include your views on this topic in your business plan</p>

Ofwat ref.	Topic	Query	Response
		<p>required to meet TAL of 0.25 mg/l. This approach leads to a lower percentage reduction in load from our WINEP investment than that agreed with the EA. In total we are forecasting a 77% reduction in PCL by 2038, but this equates to the 80% reduction agreed with the EA.</p> <p>We are concerned that there is increased likelihood of confusion around whether or not companies have put in place robust plans to meet statutory requirements and would welcome Ofwat's views on how together we can make the position clear. The different detailed technical approaches taken by regulators is making clear communication with our stakeholders difficult.</p> <p>We would be happy to discuss this with you further.</p>	<p>submission.</p> <p>Considering the above, you should account for headroom when forecasting its PCL and make clear in your narrative that you intend to deliver the Environment Act target. We will consider our draft determination messaging in this area to ensure the purpose of the PCL and companies' commitments to delivering Environment Act targets are explained as clearly as possible.</p>
383	C-MeX	<p>Just seeking clarification on the C-Mex and d-mex reconciliation models.</p> <p>It is my understanding that companies are being asked to submit these for the years 23/24 and 24/25 but they do not have the required industry data for these years as these are in future dates.</p> <p>Are these indeed required and if so, what will they be used for? Any extra background context would be greatly appreciated.</p>	<p>All companies need to submit their annual performance report to demonstrate compliance with their separate price controls. For C-MeX and D-MeX, Ofwat creates the reconciliation models. There is no requirement to include forecasts for C-MeX and D-MeX in the business plans companies will submit for PR24.</p>

## September 2023 queries and responses

Ofwat ref.	Topic	Query	Response
348	WACC	<p>The PR24 QAA guidance requires companies to use the Ofwat WACC (or risk a QAA penalty) and to state that the business plan is financeable on the notional and actual structure. The choice of WACC seems to be assessed under the “Ambition” assessment, whilst a statement that the business plan is financeable would be a “Quality” test.</p> <p>Does Ofwat have any guidance on what a company should submit if these requirements are incompatible? That is, if a company’s board feels it must either depart from the early view WACC in order to be able to submit a plan that is financeable or adopt the early view WACC but submit a plan that is not financeable, how should it make this choice?</p>	<p>Dear Regulatory Directors,</p> <p>Some companies have asked for further guidance on how to resolve what they see as a conflict between the following minimum expectations for business plans:</p> <ul style="list-style-type: none"> <li>• The business plan uses our early view of the allowed return on capital or provides compelling evidence that another rate is more appropriate.</li> <li>• The company's Board provides assurance that its business plan is financeable on the basis of the notional structure, and this is supported by sufficient and convincing evidence that demonstrates financeability and the steps taken to provide this assurance.</li> </ul> <p>Our Final Methodology set out an expectation for companies to base their business plans on our early view of the allowed return on capital or provide compelling evidence that another rate is more appropriate. We recognised that the period immediately preceding our data cut-off was characterised by a period of considerable market volatility. We also said that we would use our methodology to set the allowed return in draft and final determinations reflecting market data at the time.</p> <p>We wish to clarify that companies may adopt an allowed return calculated using the same methodology used to derive our early view, updated for more recent data. Provided the update is based on the same methodology and a reasonable view of the data, it would be unlikely to</p>

Ofwat ref.	Topic	Query	Response
			<p>fail the above minimum expectation for the allowed return in our quality and ambition assessment (QAA).</p> <p>Where companies choose to adopt an allowed return based on a different approach to our final methodology early view, we continue to expect compelling evidence in support of that approach. We will assess this evidence as part of our quality assessment for the QAA.</p> <p>Where companies identify a financeability constraint in their plan, we expect that their financeability assurance should consider the options set out to address this in Section 6.6. of final methodology Appendix 10: Aligning risk and Return, and adopt a solution supported by sufficient and convincing evidence.</p>
353	LTDS	<p>We have the below two queries related to our LTDS submission. Can we confirm:</p> <ol style="list-style-type: none"> <li>that the Long Term Delivery strategy should not include appendices beyond the 100 page main document?</li> </ol> <p>that the full Board Assurance statement should be included within our LTDS, despite potential duplication with the PR24 business plan?"</p>	<p>"1. that the Long Term Delivery strategy should not include appendices beyond the 100 page main document?</p> <p>That is correct</p> <p>2. that the full Board Assurance statement should be included within our LTDS, despite potential duplication with the PR24 business plan?</p> <p>Yes this is correct."</p>
371	Financial Models	<p>Guidance as to where they should be drawing the data from for the bill waterfall model. Expectation is that it would be summary tab 4, but this is pre RPE, which doesn't match bill modelling.</p>	<p>The inputs for sections Totex, RCV, Wholesale reconciliation, Other wholesale items, Housing and Cost to serve for PR24 should be populated from the submitted PR24 financial model. For PR19 values these should be populated from the PR19 financial model (in</p>

Ofwat ref.	Topic	Query	Response
			<p>the case of Anglian this will be the Interim Determination Model).</p> <p>For inputs in the cost breakdown section companies should apply their RPE assumptions to the costs in table SUM4 in order to populate the PR24 lines. Companies should populate the remaining PR19 lines based on their internal PR19 data. These figures should align to the overall totex values.</p>
385	WRMP	<p>Our revised draft plan has a target completion date of 30 September 2023. We are keen to understand the process for ultimately including the revised draft WRMP in our business plan and would welcome any further information or discussion on this point.</p>	<p>As we state in the email of the 27 July 2023 we expect companies to include their best view of their final WRMPs in their business plans. This should reflect what companies expect to be in their final WRMP which is likely to be informed by the latest stage that they are in the process.</p>
386	Bathing Water Data	<p>I hope you are well. Further to your email, we have a couple of queries on the bathing water historical calculations that we thought we would share with you to ensure our understanding and translation of the AMP8 methodology is correct and to ensure that the base data is all aligned to the new methodology.</p>	<p>Thank you for your inquiry. The purpose of confirming the historical data for bathing waters is to establish the baseline for setting an appropriate performance commitment level for PR24. We hence would expect companies to report historical data in the business plan tables based on whether a classification for a bathing water was made for the year. Data for bathing waters de-designated in AMP6 and AMP7 would be excluded following the de-designation, given the focus of the performance commitment. We are considering our approach to 2020 and will confirm how we have addressed this in our draft determinations.</p>
389	Data Tables	<p>Would it be possible to get the password for the ODI model. We cannot update the provided model for year 5 submission</p>	<p>We do not consider there is any need to release the password because having tested the published version of the model, companies should be able to input prior</p>

Ofwat ref.	Topic	Query	Response
		to include the prior 4 years of PCC penalty, it is only allowing the prepublished 2 years.	years' data into the shaded cells in sheet 'Accrued ODI payments.'

### Responses sent between 21/09/23 and 29/09/23

Ofwat ref.	Topic	Query	Response
391	PR19 reconciliation model	<p>The PR19 reconciliation model calculates an end of period RCV adjustment which feeds into table PD11 and the opening RCV for PR24. However the model as currently published (<a href="https://www.ofwat.gov.uk/wp-content/uploads/2020/12/RPI-CPIH-wedge-true-up-model-Dec-2020-v5.xlsx">https://www.ofwat.gov.uk/wp-content/uploads/2020/12/RPI-CPIH-wedge-true-up-model-Dec-2020-v5.xlsx</a>) calculates the adjustment for both revenue and RCV based on the average RCV balance for the year 2024-25. However, the RCV balance adjustment should be based on the year end balance at 2025 and not the year average. Using the year average will result in an opening RCV value post-adjustment which is inconsistent with the year end forecast value for 2025.</p> <p>Given the model already calculates the year end balances, I think this should a reasonably straightforward amendment to make such that the current revenue adjustment calculations aren't impacted.</p>	<p>We have reviewed the PR19 RPI-CPIH wedge true up model and confirm that adjustments to be carried forward into the RCV for 2025-30 should be based on the based on the 2025 year-end balance, and not the year average as is currently the case in the published model. Our draft and final determinations will reflect this change, however companies may optionally also incorporate it in their business plan submissions through performing the required edits to their populated version of the model.</p>
393	Energy Costs spreadsheet	<ol style="list-style-type: none"> <li>1) Row 8: is this commodity plus non-commodity charges net of VAT?</li> <li>2) Row 9: Is this year to year changes e.g. 18/19 to 19/20 ?</li> <li>3) Row 11: is this the Net of VAT figure?</li> <li>4) Row 14: Is this Row 8 minus Row 11?</li> </ol>	<ol style="list-style-type: none"> <li>1) Row 8: is this commodity plus non-commodity charges net of VAT?</li> </ol> <p>It is wholesale costs plus supplier and other third-party costs, such as network costs and other environmental levies. This should include VAT where this is</p>

Ofwat ref.	Topic	Query	Response
			<p>unrecoverable, otherwise the figures should be net of VAT.</p> <p>2) Row 9: Is this year to year changes e.g. 18/19 to 19/20 ?</p> <p>It is year to year changes.</p> <p>3) Row 11: is this the Net of VAT figure?</p> <p>The nominal export price (row 11) should be net of VAT.</p> <p>4) Row 14: Is this Row 8 minus Row 11?</p> <p>No – that is not correct. We expect companies to submit a 'net nominal input price' which takes into account the net expenditure on energy (imports minus exports) on a per MWh basis. The consumption value used for this calculation should be a measure of net energy usage by the wholesale or retail business unit (as relevant) where that energy usage is either imported or self-generated, and then subtracting energy exported.</p>
396	Net Zero	To explain - the problem is the operational emissions PC approach really makes no sense specifically on the topic of process emissions of nitrous oxide and methane. It will not allow you to do what you say you will do. It will give you nothing of use by which to compare or assess companies specifically in terms of process emissions. It makes it impossible for companies to report any meaningful reductions (beyond disconnecting population) – so any claims they make you will have no ability to be assessed. It doesn't allow a 'do something' or a 'do nothing' to be	Thank you your follow-up e-mail. We refer you to our response to the first of the queries you initially raised. In particular, we stated that 'The impact of Net Zero enhancement cases should be measured in line with the methodology defined for the common operational greenhouse gas performance commitments. The estimated impact should take account of both the generation and savings of GHG emissions which would result from the enhancement project, relative to a 'do nothing' scenario'. Where companies wish to submit



Ofwat ref.	Topic	Query	Response
		<p>assessed because the same EF would be used for both scenarios.</p> <p>Beyond getting people to excrete less nitrogen and organic load when they go to the loo, there is no feasible way to reduce N2O and CH4 emissions or demonstrate any baseline or reductions with a single fixed emissions factor like in the CAW (unlike for example, using less energy or chemicals year upon year).</p> <p>A science-based approach here would require companies to report based on measured data across at least the % of their assets for which they are seeking to address operational GHG emissions. Many companies are suggesting high coverage of measurement or measurement and mitigation through a large proportion of Band 6 works- and the reality is that, aligned with IPCC Tier 3 methods, companies are undertaking measurement which could be used in similar way to self reporting of compliance data from lab analysis of auto-samplers. Lab analysis of N2O is feasible but not useful as gaseous emissions along treatment trains are the issue. In-process monitoring is widely demonstrated as feasible for quantification (sufficient quantification) and is being used in other geographies for exactly this purpose in abatement for offsetting (Swiss) and regulatory frameworks (Denmark).</p>	<p>additional evidence for consideration, and in support of their enhancement cases, they can do so'.</p>
397	C-Mex	<p>I have a question with regards to the question below from the consultation:</p> <p>Q2.3: Do you agree with our proposal to make greater use of cross-sector benchmarks when allocating incentive payments for C-MeX?</p>	<p>Thanks for your query. For Figure 2.4 of our <a href="#">measures of experience consultation</a>, we used the July 2022 release of the UK Customer Satisfaction Index (UKCSI) and took the top, mean average and bottom performers from all sectors. We then compared this against 2021-22 C-MeX scores. Because of the differences between the C-MeX</p>

Ofwat ref.	Topic	Query	Response
		<p>In the Figure 2.4 (– C-MeX scores in 2021–22 under our preferred option) cross sector UKCSI best performer, average performer and worst performer.</p> <p>Please could you send me details of the make up of the cross-sector UCKSI that was used especially in relation to which sectors were included.</p> <p>Ideally if you could send me UKCSI that was use.</p>	<p>and UKCSI surveys, we use a formula to convert scores, in line with our current approach for the cross-sector benchmark for higher payments in PR19 (see, for example, page 29 of <a href="#">Affinity Water's PR19 outcomes appendix</a>). We include a spreadsheet to show our calculations.</p>

## Historic outstanding queries and responses

We are aware that some queries submitted have not been published and/or the water company has not received a response. In these cases we have reviewed all queries and updated the table below to detail how we responded to all the queries not covered in the sections above.

Ofwat ref.	Topic	Query	Response
31	PR24 Performance Commitments - Affinity Water Comments - January 2024	<p>Environmental Outcomes</p> <p>2. We understand the need to include the two metrics for Operational Greenhouse Gas Emissions into our Business Plan and will follow the guidance with our submission. However, we would welcome clarity on the points below regarding the metrics:</p> <p>a. For the % reduction metric, could you please confirm if this a percentage reduction of the absolute GHG emissions or of the normalised figure?</p> <p>b. Could you please confirm the baseline year to be used for % reductions?</p> <p>c. We understand and can comply with the requirement to “report GHG emissions reductions in APRs using a fixed national grid emissions factor”, however as this factor is updated every year, this will lead to misalignment with our other reporting of GHG emissions. We would offer the suggestion of using the BEIS emissions factor, for the relevant reporting year to maintain consistency.</p> <p>3. We welcome the introduction of a deadband for the Compliance Risk Index PC, however we have concerns at the level at which it would be set to reflect “the historic level of failures caused by customers’ internal fittings”. By its very nature, a failure attributed to customers’ internal fittings will only count for a single property which is then normalised by the total population served to</p>	<p>Question 2 was responded to by the GHG consultation. Question 3 was responded to through responses 123 to 125 and responses published in April. Question 4 responses were sent to PR24 query inbox on 28 April - the intention was for these to be published although these have not been. Questions 5 and 6 were responded to through query responses 237 to 241 and 256 and published in May. Question 7 responses were sent to PR24 query inbox on 25 April but marked as company only.</p>

Ofwat ref.	Topic	Query	Response
		<p>give the related CRI score. For context, in each the first three years of AMP7, Affinity Water's performance for this element of the PC was a CRI score of less than 0.0001 and therefore negligible to our performance. As a result, a deadband set on these principles will have no meaningful effect on the ODI risk and therefore will likely promote inefficient Totex solutions to chase diminishing returns.</p> <p>a. Could you please confirm this is the intention of the methodology?</p> <p>b. Could you also please confirm how you anticipate "an improving profile over the 2025-30 period" given the extremely small numbers?</p> <p>c. In principle, we agree with the proposal of narrowing the deadband for CRI. However, as outlined above, we have concerns that the current approach does not achieve the right outcomes. As an alternative, we suggest using the historic upper quartile score for CRI with an improving trend – this will continue to incentivise the industry to push for improving water quality whilst offering a realistic recognition of the challenges present in achieving the target.</p> <p>4. With the current Biodiversity definition, we have a number of points of clarification:</p>	

Ofwat ref.	Topic	Query	Response
		<p>a. Could you please confirm that we are able to determine who the most appropriate stakeholders would be to work with? Referenced in Biodiversity Definition Document (Section 1.2): “The company will work with relevant stakeholders to consider which land is most appropriate to nominate.”</p> <p>b. Could you please confirm what is meant by the statement: “the company has implemented appropriate processes in selecting assessors that are appropriate to the habitat being surveyed” in Biodiversity Definition Document (Section 1.2)?</p> <p>c. Could you please clarify the term “land for which the company provides monopoly services”, does this refer to our supply area? Does this exclude NAV areas?</p> <p>d. We understand the current normalisation measure would be based on the geographical size of the company’s supply area. As we do not have control of the biodiversity of the wider supply area, a more suitable normalisation approach might be for the number of hectares of land submitted into the PC or for company owned land.</p> <p>e. We have assumed that we can include biodiversity benefits derived via our WINEP programme, including on SSSI, however the Section</p>	

Ofwat ref.	Topic	Query	Response
		<p>1.3 Specific</p> <p>Exclusions references “forms of regulation”. Could you please confirm?</p> <p>5. We note the changes to the Leakage definition. There are some points where we would welcome clarity:</p> <p>a. On page 5, it states that “availability for leakage reporting across all DMAs/zones/Areas is well above 90% for the year”. We are concerned that this statement could be interpreted subjectively. Could you please clarify what is an acceptable %?</p> <p>b. On page 21, could you please clarify why the section on unmeasured nonhouseholds has been removed from the definition?</p> <p>c. On page 22, there is a statement that “Meter under and over-registration (MUR) There is historical evidence to suggest that mechanical meters tend to under-read (under registration) and that non-mechanical meters tend to over-read (over registration).” Could you please share the evidence that has been used in the development of this statement?</p> <p>d. On page 25, in regard to the water balance gap, we understand the statement if the gap is greater than 5% then it shall be applied to leakage. Could you please confirm this is symmetrical, so if &lt;-5%, it should be removed from leakage?</p>	

Ofwat ref.	Topic	Query	Response
		<p>e. On page 27, household consumption uncertainty is derived from billing. Could you please clarify the statement “The uncertainty for the household unmeasured component of the water balance will in turn depend on the coverage and accuracy of the household monitor.”? There is also duplication of this statement in the second paragraph on page 27.</p> <p>6. We understand the definition for Business Demand, although have one point which requires clarification:</p> <p>a. Could you please confirm the process to account for businesses that have new premises opening within our supply area during AMP8?</p> <p>Asset Health</p> <p>7. We note the changes to the Unplanned Outage definition, with the removal of exclusions from the PR19 definition. As you will be aware, this change will have a fundamental impact on the measure. Based on our historical data, this would equate to c. 0.5% increase per year, which would be a significant increase to our year 2 APR return of 1.19%. As a result, we will be reporting a step increase in the measure for year 1 of AMP8, and it will not be possible to compare performance between the price review periods. We understand the argument in the Final Methodology for the removal of the raw</p>	

Ofwat ref.	Topic	Query	Response
		<p>water exclusion from the definition, however we are concerned that it will drive inappropriate investment activity and not provide best value for customers. For example, we use blending solutions for some water quality contaminants such as Nitrate, Boron, Chromium and Turbidity as they can offer the best value solution for customers. However, to maximise an abstraction group performance, volume from sites with high levels of raw water contamination may be reduced to maintain the correct blending ratio. By removing the exclusion for raw water quality, we will now be required to include these contaminated sources in unplanned outage, leading us towards costly new treatment interventions which have been previously discounted as poor value. The removal of this exclusion does not improve the measure of asset health, rather it now penalises a legitimate approach to managing the legacy impact of long term raw water quality contamination.</p> <p>a. We note the opportunity to supply evidence that we follow the “most appropriate approach to mitigate the risk of poor water quality” – could you please confirm if the blending discussion above, would likely qualify for this? And if so, what evidence would be required?</p> <p>b. Health and Safety of our people will remain our top</p>	



Ofwat ref.	Topic	Query	Response
		<p>priority and will not send our teams to locations which have been deemed dangerous due to conditions such as flooding. We do not believe by removing this exclusion the definition is a better measure of asset health and is instead a reflection on the location and accessibility of sites. We would suggest it is reinstated into the definition.</p> <p>We have provided comments and clarifications on the common performance commitment definitions to help support Ofwat finalise the appropriate measures. We are happy to discuss any of these points further and look forward to receiving confirmation of the definitions in due course.</p>	
44	Bespoke PCs	<p>YKY-Query8 – Bespoke PC Definitions</p> <p>In the Final Methodology PR24 Final Methodology – Appendix 7 Performance commitments p9 Ofwat states</p> <p>Bespoke performance commitments are appropriate where:</p> <p><i>1. there are local circumstances that do not apply to most other companies and there is compelling evidence that a performance commitment is required to provide incentives to drive benefits for customers, communities and the environment; or</i></p> <p><i>2. a company provides poor service on a common issue where other companies' performance is generally adequate</i></p>	<p>Query 8 response – Bespoke PC definitions</p> <p>The first case relates to where there are local circumstances that are unique to companies, which they are able to evidence to justify a bespoke performance commitment.</p> <p>The second case is where a company makes a proposal that they can demonstrate leads to benefits for customers and the environment, which is not covered by the PR24 common performance commitments and does not have to be unique to the company. The company specific circumstances should relate to why it is a bespoke performance commitment for that company only, rather than a common performance commitment for all companies.</p>

Ofwat ref.	Topic	Query	Response
		<p><i>and the risk of performance deteriorating is low –such a performance commitment is likely to have underperformance payments only.</i></p> <p><i>We will also consider other cases where a company has compelling evidence that there are company-specific circumstances which mean a bespoke performance commitment will lead to significant additional benefits for customers and the environment that are unlikely to be realised without it.</i></p> <p>Please can Ofwat explain the difference between the two highlighted cases as it is not clear exactly how they differ?</p>	
45	Bespoke PCs	<p>YKY-Query9 – Bespoke PC Early Submission</p> <p>Please can Ofwat clarify exactly what it is expecting from Companies at the 14th April early submission? The final methodology (p9) sets out:</p> <p><i>Companies should provide an early submission for bespoke performance commitments. This is to enable companies to take account of feedback on their draft definitions and include fully developed proposals for any bespoke performance commitments in their business plan submissions. Companies should provide any proposed definitions for bespoke performance commitments by 14 April 2023. This should include any evidence of the additional benefits to customers and the environment. The definition of the performance commitment should measure the level of service provided for the particular outcome and</i></p>	<p>Query9 – Bespoke PC Early Submission</p> <p>We have published submission guidance for bespoke performance commitments, alongside a template that companies should use to submit their definition drafting and an Excel spreadsheet for submitting any supporting evidence. The company should ensure that the evidence provides convincing support for the the adoption of the proposed measure as a bespoke PC. We do not expect to see performance commitment levels or ODI rates included in the companies' submissions for the bespoke PCs.</p>

Ofwat ref.	Topic	Query	Response
		<p><i>be clear, unambiguous, complete and as concise as possible. Companies should demonstrate that the scope of the definition will help to provide appropriate incentives to deliver for customers, communities and/or the environment.</i></p> <p><i>We intend to provide feedback on draft bespoke performance commitment definitions in July 2023. Companies should take this into account in their business plan submissions. We will not provide feedback on performance commitment levels or ODI rates.</i></p> <p>We read this that Ofwat is only expecting to see definitions provided at this stage (and not levels and ODI rates) please can you confirm this is the case. What is unclear is how Ofwat expects to see the evidence of the ‘additional benefits to customers and the environment’ (green) – is this narrative to set out what the benefits are and how they are additional to the existing common PCs, or is Ofwat expecting presentation of full customer research, valuation and support of the bespoke PC as evidence at this stage?</p>	
50			
51	Queries for PR24 methodology	<p>PC definitions for PR24 - No.2 D-MeX</p> <p>Q1 - Although we appreciate Ofwat is yet to consult on its detailed proposals for DMeX for AMP8 in terms of the structure of qualitative and quantitative criteria and the range of comparative rewards and penalties, please would Ofwat indicate against which price controls it sees the reward and penalties resulting from DMeX would apply? In AMP7 these are apportioned between the water and wastewater network plus controls, but for AMP8 the</p>	<p>Query answered by <a href="https://www.ofwat.gov.uk/wp-content/uploads/2023/07/Consultation-measures-of-experience-at-pr24">https://www.ofwat.gov.uk/wp-content/uploads/2023/07/Consultation-measures-of-experience-at-pr24</a></p> <p>pdf published July 2023</p>

Ofwat ref.	Topic	Query	Response
		<p>revenues associated with DMeX in its current form are to be split with some remaining in price controls and some outside.</p> <p>Q2- In the detailed design of DMeX, as it is fundamentally about the customer experience delivered through new connections services to developers, SLPs and NAVs, will Ofwat remove the revenues associated with upstream network reinforcement expenditures (collected through infrastructure charges) from the reward and penalty calculations for AMP8? These network reinforcement related revenues will be retained within the network plus price controls and could confuse or conflate a more consistent incentivisation of incumbents looking to improve the customer experience for customers of their new connections services?</p>	
73	Data Table	<p>River Water Quality Please could you confirm the normalising population number for this performance measure</p> <p>Total Population BN2620 + BN2630 + BN2590 or Residential Population total of BN2630 + BN2590</p>	Query answered when responding to more detailed points raised by MOSL on 16 May 2023
86	Bespoke PCs	Bespoke Performance Commitment (Embedded GHG Emissions) Appendix 9 (page 94) of the final methodology stated outside of the operational GHG emission performance commitment, Ofwat expect embedded emissions reductions to be appropriately tracked, most likely through a price control deliverable (PCD). Please can you also confirm which	In answer to part b of your query, we wrote to you on 3 April with detailed feedback on your presentation including the use of technology scenarios.

Ofwat ref.	Topic	Query	Response
		<p>enhancement spend you are intending will be related to this PCD as Appendix 9 (page 75 &amp; 90) of the final methodology states that any enhancements put forward for the Net Zero Challenge Fund should be linked to operational emissions only under the common performance commitment? Would Ofwat apply a PCD to embedded emissions if companies put forward a bespoke performance commitments linked to embedded GHG emissions reduction at PR24?</p>	
89	PCD	<p>Biodiversity ODI/PCD Ofwat previously proposed that there would be a Biodiversity PCD that would sit alongside the Biodiversity PC/ODI in AMP8. Please can Ofwat advise whether companies they intend to publish details on the common form of the Biodiversity PCD and how it is intended to sit alongside the common PC? We assume that this detail will be published prior to Business Plan submission.</p>	<p>Biodiversity PCDs may be required to protect customers from under- or non-delivery where i) biodiversity benefits have a material impact on the choice or cost of a solution for a material investment; and ii) the biodiversity common PC would not provide sufficient protection to customers for the delivery of these benefits (e.g. where the ODI rate is materially below the unit cost of delivering the biodiversity benefits). If the biodiversity benefits of the investment are difficult to measure and/or track over time then the use of an output based PCD (such as green storage capacity) would be more appropriate.</p> <p>We do not intend to publish a common form of a Biodiversity PCD and expect water companies to proposed PCDs based on the principles set out on p118 and 119 of Appendix 9 which may lead to different results for each company:</p> <p>1. Benefits of the investment not linked to or fully protected by PCs. Companies should use PCDs where performance commitments are not expected to provide adequate protection to customers either because i) benefits of the investment will be delivered outside the</p>

Ofwat ref.	Topic	Query	Response
			<p>control period, ii) benefits cannot be directly linked to performance commitment levels, iii) outperformance delivery incentives rates are set significantly below costs, and/or iv) collars on outperformance delivery incentives would mean that investment would not be fully protected.</p> <p>2. PCDs should be used to protect customers for material enhancement investments. We would not expect immaterial enhancement lines or projects to require PCDs, although similar activities of work (including across enhancement lines) should be combined to ensure full protection and reduce duplication.</p> <p>3. Outcomes over outputs/inputs. Where possible, PCDs should be set at an outcome rather than an output level. Where the outcomes cannot be easily observed or measured, companies should set PCDs at an output level (eg water supplied, additional storage capacity). Output PCDs may also be appropriate where it would be disproportionate to track multiple outcomes where there is no obvious alternative to the proposed solution (eg a PCD on number of meters to be installed can be used to track the delivery of a company's metering programme).</p> <p>4. Level of aggregation PCDs could be set at a scheme, programme or benefit level. Companies should set PCDs at the highest level possible to retain flexibility over the benefits to deliver using the most efficient solutions. This will also help minimise the number of PCDs required. PCDs at a scheme level may still be required to track the delivery of major schemes.</p>

Ofwat ref.	Topic	Query	Response
90	Queries on the draft definitions for the water and wastewater operational greenhouse gas emissions performance commitments	Operational GHG emissions performance commitment – water only The two PC definitions are identical, yet we suggest that references to activities or emissions relating to wastewater and bioresources should not be included in the Water PC definition. For example, A1.2 table 1 lists “Emissions reductions: exported biomethane” and emissions from sludge to land, but we do not think they apply to water operations, and they only need to appear within table 1 of the Wastewater PC. As stated in our response to Question 1, our interpretation is that the sludge to land activity relates to sewage sludge disposal only. Please can Ofwat confirm if these relevant emissions should be listed only in the Wastewater PC definition?	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023
91		Operational GHG emissions performance commitment – wastewater only Is it Ofwat’s intention to provide guidance on the definitions of the relevant emissions for the operational GHG emissions PC and also the preferred estimation methodologies? This would enable consistent reporting between companies for all the activities listed in Table 1. For example, wastewater process emissions is one component of the “Process and Fugitive emissions”, but this is likely to change to take into consideration the outcomes of the recent research and monitoring of wastewater process emissions. The methodology chosen will also need to be incorporated in the AMP8 PC Reporting Tool in consultation between Ofwat and companies as per Question 3 of this consultation.	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023

Ofwat ref.	Topic	Query	Response
92		Operational GHG emissions performance commitment – both water and wastewater Will further details be provided on how any normalising value chosen for PC performance reporting takes into consideration regional disparities to avoid unfair benefit or penalties, for both water and wastewater? For example, to consider companies with variable operational impacts from their WINEP, or with different geographies such as those who serve a comparatively large proportion of rural areas.	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023
93		Operational GHG emissions performance commitment – both water and wastewater Will growth pressures be taken into account when setting PC Levels (PCLs), for example from the operational emissions impact of environmental regulatory requirements?	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023
94		Operational GHG emissions performance commitment – both water and wastewater Please can you confirm if reporting emissions from carbon capture and storage projects under the emissions reductions section within the operational GHG emissions PC (Table 1 Relevant Emissions) is acceptable within the PC scope?	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023
95		Operational GHG emissions performance commitment – both water and wastewater The consultation states companies are to “report its GHG emissions using the fixed national grid factor for 2021-22”. As this applies to scope 2 emissions only, can Ofwat confirm which baseline year should be used for other emission factors (such as fuels, waste, etc.)? It is our interpretation that these factors will be set at PR24 Final Determinations	Question was answered by publication of Consultation on regulatory reporting for 2022-23 – Responses document in April 2023



Ofwat ref.	Topic	Query	Response
		and then fixed for the five year period using the AMP8 PC Reporting Tool. Please can Ofwat confirm if our interpretation here is correct?	
101	Green Recovery	<p>Please see our query below on the application of cost sharing on green recovery expenditure.</p> <p>We've been reviewing the green recovery calculations in the cost reconciliation model and note that cost sharing isn't being applied as per the Green Recovery Decision documents. In particular, the application should be as follows:</p> <ul style="list-style-type: none"> <li>• Green recovery draft decisions (page 10) states "Cost sharing rates for green recovery allowances are listed in Table 3.1. These apply at a company level rather than a scheme specific level and show the proportions the company has to pay or gets to keep."</li> <li>• Green recovery Final decisions (page 14) states "Our final decision is to retain our draft decisions on cost sharing in full."</li> </ul> <p>The reason for this approach (at least our understanding) is that green recovery is different to normal price controls and with projects to help with economic recovery and environmental improvement, as such sharing is at the total level. We therefore think a revised cost reconciliation model with cost sharing calculated at the total level will need to be re-issued in due course or some form of adjustment applied.</p>	<p>Thank you for your query. We agree that the calculation in the reconciliation model does not reflect the Green Recovery decision documents. We will update the reconciliation model to calculate which rate to apply based on total company green recovery expenditure and will then apply that rate to each price control. This is the same method as the one we use to calculate which cost sharing rate applies to the wholesale water controls.</p>
114		I have a question regarding how rechargeable works in the 20-25 period will be reconciled at PR24.	"Revenue from rechargeable works are part of the price control under the PR19 final determination as set out in

Ofwat ref.	Topic	Query	Response
		<p>Back in 2021, rechargeable works were moved in the RAGs from third party not governed by price control to third party governed by price control. When queried, Ofwat responded saying it would address this issue at PR24 as part of the revenue reconciliation. Apologies if I've missed it, however I cannot find any reference to it in the Final Methodology and how it will be reconciled.</p>	<p>your notification letter. Such revenue will be reconciled in our published model with all other price control revenue”.</p>
115	Business Plan Submission	<p>Please could you let me know if the detail of the 'PR24 data to be submitted alongside the 2022-23 annual performance report' has been confirmed yet? Has this been fully covered as part of the new lines added to APR23, or will a separate submission be required to sit alongside APR23?</p> <p>If a separate submission is required, please could you let me know where I can find this information, or if it has not been confirmed yet, could you let me know when this information is expected to be available?</p>	<p>Please see IN 23/03 Expectations for monopoly company annual performance reporting 2022-23 - Ofwat, published which sets out the early submissions we require alongside PR24.</p>
117		<p>We would be grateful if you could clarify whether for areas of enhancement expenditure of where there will be commonality across the industry in the nature of the schemes delivered (e.g., river restoration within WINEP or Smart Metering), are Ofwat expecting alignment in the way companies are defining PCDs and the associated metrics?</p>	<p>In our information notice <a href="#">IN 23/05 on further guidance on price control deliverables for PR24</a> we stated that we expect to set a common definition of the price control deliverable outcome or output across the sector for same areas of investment (see page 5). We also set out our expectation on the definition of price control deliverable outcomes or outputs for key areas of expenditure, including supply-side improvements/interconnectors, leakage, metering, nutrients and storm overflows. We will continue to refine our approach to price control deliverables through the draft and final determination process.</p>

Ofwat ref.	Topic	Query	Response
119	ODI Rates	I wondered if you were able to advise when the second batch of marginal benefit rates would be published? Apologies if I have missed the email, I have searched through our inbox and can only see the batch 1 data.	The second batch of marginal benefit rates will be shared at the outcomes working group scheduled to take place next week on Wednesday 19 April.
134	ODI Rates	Thanks for this, appreciated. Do you have a timescale for the asset health MBs that are due in May? And indeed for the MBs for biodiversity and greenhouse gases for example that I think you have said will be set on market rates?	The asset health ODI rates were shared with companies at the last outcomes working group meeting which took place on Wednesday 19 April. The ODI rates for the biodiversity and greenhouse gas performance commitments will be released at the draft determinations stage.
196		Could you please confirm that we are able to determine who the most appropriate stakeholders would be to work with? Referenced in Biodiversity Definition Document (Section 1.2): "The company will work with relevant stakeholders to consider which land is most appropriate to nominate."	It is important that companies are not unreasonably selective about the stakeholders with whom they engage. We will clarify section 1.2 of the PC that the company should undertake and keep under review a comprehensive stakeholder mapping exercise to identify relevant stakeholders throughout the period, and that the company will consult and work with stakeholders whom it is reasonable to consider would want to be involved, both in the consideration of appropriate land to nominate and also more generally in relation to the company's activities regarding this performance commitment. We will also clarify at section 1.4 of the PC that the company must provide assurance that it has identified, engaged with and conscientiously taken into account the views of such stakeholders.
197	Biodiversity	Could you please confirm what is meant by the statement: "the company has implemented appropriate processes in	It is important that companies are not unreasonably selective about the stakeholders with whom they engage. We will clarify section 1.2 of the PC that the company

Ofwat ref.	Topic	Query	Response
		selecting assessors that are appropriate to the habitat being surveyed” in Biodiversity Definition Document (Section 1.2)?	should undertake and keep under review a comprehensive stakeholder mapping exercise to identify relevant stakeholders throughout the period, and that the company will consult and work with stakeholders whom it is reasonable to consider would want to be involved, both in the consideration of appropriate land to nominate and also more generally in relation to the company's activities regarding this performance commitment. We will also clarify at section 1.4 of the PC that the company must provide assurance that it has identified, engaged with and conscientiously taken into account the views of such stakeholders.
198	NAVs	Could you please clarify the term “land for which the company provides monopoly services”, does this refer to our supply area? Does this exclude NAV areas?	We mean "the Area" as defined in Condition A of each company's instrument of appointment, which excludes NAV areas.
199	Biodiversity	We understand the current normalisation measure would be based on the geographical size of the company’s supply area. As we do not have control of the biodiversity of the wider supply area, a more suitable normalisation approach might be for the number of hectares of land submitted into the PC or for company owned land.	As set out in Appendix 7 to our final methodology, after we receive business plans we will consider whether the monopoly area remains the most appropriate normalisation. If it is not, we will use an alternative in our determinations.
200	Biodiversity	We have assumed that we can include biodiversity benefits derived via our WINEP programme, including on SSSI, however the Section 1.3 Specific Exclusions references “forms of regulation”. Could you please confirm?	We confirm changes in biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), can be included in this performance commitment. This includes those arising from any obligations to further conservation and/or manage Sites of Special Scientific Interest from regulations such as the Natural Environment and Rural Communities Act 2006.
201	Biodiversity	The Ofwat PC documentation sets out how the company will work with stakeholders to define the area that falls under	We confirm that land can be nominated at any time. Note however, that land surveyed after 1 April 2026 will not be

Ofwat ref.	Topic	Query	Response
		the PC. Can land be added to the PC at any time if agreed with stakeholders, or do we have to define this within our business plan submission? Ofwat have stated “The company can, in consultation with relevant stakeholders, nominate areas of company-owned land as well as other land where habitat is improved in the process of the water company carrying out its functions”.	the subject of ODI payments in the 2025-30 period, as it will not be resurveyed during the period and so no change in biodiversity will be measured before 1 April 2030.
202	Biodiversity	The definition states that “increases in biodiversity units that arise as a result of conditions or obligations relating to other forms of regulation, including planning processes will be excluded”. Please can Ofwat give more guidance here, does this include regulations such as our NERC Act (strengthened by the Environment Act) obligations to further conservation and/or manager SSSI land?	We confirm changes in biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), can be included in this performance commitment. This includes those arising from any obligations to further conservation and/or manage Sites of Special Scientific Interest from regulations such as the Natural Environment and Rural Communities Act 2006.
203	Biodiversity	Ofwat provide a compliance checklist in the definition but do not say what it is to be used for. Is Ofwat’s intention for the Compliance Checklist to be completed prior to business plan submission, or during the AMP cycle when reporting?	Information on the compliance checklist should be provided when reporting actual data, not forecast data (forecast data should be reported in PR24 business plan tables OUT4 and OUT5). The company will need to gather and record appropriate information when conducting four-yearly surveys of land and should use the compliance checklist to ensure that it does so. A company should report in its business plan if it expects it will not be able to report compliance against any element of the checklist.
204	Biodiversity	Immediate habitat change will likely result in a decrease in unit value for several years (e.g., woodland planting may take 12/16/20 years' worth of monitoring to result in an increase in biodiversity units), the definition at the moment appears to dissuade this, is that intentional?	The PC is focused on the reporting of the outcomes of company interventions to improve biodiversity. We expect biodiversity commitments to continue in the longer term and companies to plan for the long term. We expect that companies will explain to stakeholders the reasons for

Ofwat ref.	Topic	Query	Response
			any short-term reduction in biodiversity for greater biodiversity in the longer term.
205	Biodiversity	Will Ofwat accept water company biodiversity strategies as a 'local strategy' under the metric if there is approval from stakeholders as defined in the company's assurance process?	As set out in the Biodiversity Metric which Natural England published, the relevant local authority will approve local plans, strategies or policies (rather than generic "stakeholders").
206	Biodiversity	Ofwat details that where a company suspects habitats have recently deteriorated, we should take 2020 as the baseline. As per Natural England's BNG guidance, will this principle be acceptable for positive outcomes as well, for example if a company has planned investment in positive habitat management for 2024 prior to AMP8, can the baseline be taken to be its 2023 state if surveyed under an agreed process, or should the company defer its investment until 2025 to fall under the PC? Natural England text if of use "Habitat created or enhanced after 30 January 2020 will be eligible for registration and sale of the associated biodiversity gains"	The company can survey land now and does not need to delay investment. The baseline assessment must comply with the requirements of the biodiversity metric unless the company suspects biodiversity has deteriorated. It cannot reduce the baseline, which would lead to larger net improvements being recorded in biodiversity beyond the efforts of the company, which we are trying to measure through this PC. We encourage companies to survey land before 2025. Companies may survey land before the land is nominated in consultation with stakeholders. If following the stakeholder consultation it is inappropriate to nominate the land (for example stakeholders raise reasonable objections to its nomination or reasonable concerns on the execution of the survey), the survey information will not be used for the purpose of the biodiversity PC.
207	Biodiversity	Is there any potential to run a bespoke session on this PC with Ofwat and the stakeholder group to run through these and other questions?	We consider that the questions stakeholders have raised can be answered through this query process. But we will keep under review if an online meeting would be helpful based on feedback to our responses.
208	Biodiversity	We note that although Biodiversity Metric 3.1 is intended to be used for this PC in AMP8, Defra intends to launch an	We will shortly update the performance commitment definition to Biodiversity Metric 4.0. If a company has

Ofwat ref.	Topic	Query	Response
		updated version of the Biodiversity Metric (4.0) ahead of mandatory biodiversity net gain for developments coming into force in November 2025. To ensure comparability of the baseline preintervention assessment with later surveys and to maintain alignment with versions used by other organisations, we ask for reaffirmation that while Metric 3.1 will be used to baseline and to register improvements in AMP8 that companies should also collect data using the latest version of the metric across sequential surveys periods.	used Biodiversity Metric 3.1 to survey land, the next survey (ie four years later) must collect sufficient information to be able to calculate: i) the change in biodiversity units between the earlier survey and that next survey in relation to the relevant site; and ii) the new baseline against which future changes in biodiversity units relating to the relevant site will be assessed in accordance with the biodiversity metric stated in the current version of the performance commitment.
209	Biodiversity	To ensure companies are encouraged to implement decisions which drive the best ecological outcomes, establishing an incentive rate which doesn't rule out high benefit yet more expensive interventions is crucial. We note the incentive rate may be able to reflect regional variations in unit cost for interventions.	Companies will be able to provide their view of the marginal benefit and benefit sharing factor for the biodiversity PC in their business plans. We set out our intended approach in Box 2.1 of Appendix 8 to our final methodology.
210	Biodiversity	We ask for more clarity on the approach for target setting for this measure. For instance, whether an overall biodiversity unit target will be set, or if instead targets should be agreed for each site within scope in consultation with stakeholders.	The performance commitment level for biodiversity will be set in our determinations at a company level. We set out policy on performance commitment levels in section 4 of Appendix 9 to our final methodology.
211	PCDs	We also seek more detail on how targets for the Price Control Deliverable (PCD) which will sit alongside this PC will be forecast. We recommend that there should be future opportunity to re-estimate the number of biodiversity units to be created over the course of multiple AMPs as more data becomes available. We ask for confirmation that WINEP WEO estimates will not be used as the sole source of data to set targets for improvement in the PCD. These estimates were created on high level assumptions to enable wider	Price control deliverables are not meant to be altered in period. They have the purpose of protecting customers from under- or non-delivery of material investments which otherwise would not be sufficiently protected under our outcomes regime. As set out in section 5.4.4 of Appendix 9 of our Final Methodology price control deliverables can be applied to wider benefits (such as biodiversity gains) which have been used to justify best value investment and are material enough to require

Ofwat ref.	Topic	Query	Response
		<p>environmental considerations to be taken into account for the WINEP process, therefore we would be concerned if these estimates were used to set targets for a PCD without further assessment.</p>	<p>tracking. Benefits captured in price control deliverables should be measurable, verifiable and have a material impact on the choice of solution or impact on totex allowances.</p> <p>Companies should set out their proposed price control deliverables alongside their business plans. To inform level of price control deliverables, companies can use the evidence submitted as part of their WINEP but are not limited to this evidence. Companies can use more recent data, analysis and/or sources that have become available following the company's WINEP submission to inform price control deliverables but any material differences in the evidence considered need to be explained.</p>
212	Biodiversity	<p>As companies are encouraged to start to conduct baseline pre-intervention assessments prior to the start of AMP8 to capture benefits during this period, clarity on whether sites baselined prior to the formation of a 'scrutiny panel' are eligible to be included within scope is needed. We recommend improvements recorded on sites companies have baselined in the three years prior to AMP8 should be included within scope if resurveyed in 2026.</p>	<p>The baseline assessment must comply with the requirements of the "Biodiversity Metric". This assessment can be carried out before 2025. Companies may survey land before the land is nominated in consultation with stakeholders. If following the stakeholder consultation it is inappropriate to nominate the land (for example stakeholders raise reasonable objections to its nomination or reasonable concerns on the execution of the survey), the survey information will not be used for the purpose of the biodiversity PC. Land surveyed in 2023 should be surveyed for a second time in 2027 to fit with a four-year review cycle.</p>
213	Biodiversity	<p>The definition states that "increases in biodiversity units that arise as a result of conditions or obligations relating to other forms of regulation, including planning processes will be excluded". We ask for Ofwat to be explicit on the</p>	<p>Exclusions include those for planning purposes. We confirm changes in biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), can be included in this performance</p>



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		conditions and obligations which will be excluded from this PC.	commitment. This includes those arising from any obligations to further conservation and/or manage Sites of Special Scientific Interest from regulations such as the Natural Environment and Rural Communities Act 2006.
214	Biodiversity	We consider that companies could be penalised by the temporary loss of biodiversity units that can occur through habitat creation, especially where intended habitats take a long time to reach target condition, even in situations where this is the right ecological decision for the long term. We recommend with suitable assurance on companies' decision making by third parties and 'scrutiny panels' that companies are not penalised for temporary losses in this circumstance.	The performance commitment measures the outcome. While companies may record a short-term loss in biodiversity at sites where it has taken recent action for long-term gain, it may also benefit from earlier action taken by the company which is now leading to biodiversity benefits. We expect that companies will explain to stakeholders the reasons for any short-term reduction in biodiversity for greater biodiversity in the long term.
215	Biodiversity	<p>Whilst we agree with the approach to report any biodiversity improvements in the intervening years between assessments, we think that the requirement on page 3 of the PC definition (to record zero units if the three conditions do not hold) may lead to unwarranted and significant fluctuations in APRs. For example, we may include an SSSI site with a baseline of 400 biodiversity units with a PCL to improve it by, say, 10 units. Should all three conditions not be considered met in a year then we would report a loss of 400 units, as the PC definition is currently written. This would not be an accurate representation of biodiversity. If a company had not proved that the improvement of 10 had been delivered, then that should not imply that all 400 baseline units of the site's biodiversity has been lost. Should the final sentence on page 3 instead say:</p> <p>"If any of these conditions do not hold, the company shall conduct an interim survey and record the results of it or otherwise record zero biodiversity units on that site, resulting in a negative net change on that site."?</p>	A company should not be able to obtain advantage where there is circumstantial evidence that it may be allowing biodiversity to deteriorate or is unreasonably avoiding or delaying surveys. We also note that there may be reasons, such as access to land, that actions may not be delivered. A historical example is past foot and mouth restricted access to land. We will shortly publish a revised performance commitment definition with an amendment to take this into account.

Ofwat ref.	Topic	Query	Response
216	Biodiversity	<p>We consider that section 1.3 “Specific Exclusions” should be more specific in the types of activity that are excluded from this PC.</p> <p>Q: To avoid ambiguity and achieve consistent performance reporting, do you agree that the section should be reworded to say: “1.3 Specific exclusions Improvements in biodiversity that arise as a result of conditions or obligations relating to planning processes will be excluded from this performance commitment. This includes biodiversity units associated with credits from the Secretary of State as outlined in Section 101 of the Environment Act 2021. Records of biodiversity units that are excluded that are measured on appointed business land should be recorded separately.”</p>	<p>We do not agree with the proposed change. Changes in biodiversity as a result of environmental legislation can be included in this performance commitment. This includes those arising from any obligations to further conservation and/or manage Sites of Special Scientific Interest from regulations such as the Natural Environment and Rural Communities Act 2006 (strengthened by the Environment Act 2021).</p>
218	Biodiversity	<p>The normalisation is “per 100km<sup>2</sup> for which the company provides monopoly services”. We agree with the premise of normalisation but are unclear whether this relates to “total land owned” or “total operational area within our region”. We believe that “total land owned” is the most appropriate denominator to use in the normalisation.</p>	<p>We proposed in Appendix 7 to our final methodology that the normalisation is each company's monopoly area, which is set out in Condition A of each company's instrument of appointment. We also set out, after we receive business plans, we will consider whether the monopoly area remains the most appropriate normalisation. If it is not, we will use an alternative in our determinations.</p>
219	Biodiversity	<p>The methodology refers to third party land on which we are working in accordance with our statutory functions. As there are differing legal interpretations of what our statutory functions are, it would be beneficial for Ofwat to confirm their meaning of ‘statutory functions’ in the definition of this performance commitment.</p>	<p>Companies need to understand what activities are part of their statutory functions for a variety of reasons. And it is their responsibility to make sure they are confident about their legal obligations through seeking expert external advice where appropriate. We do not consider further clarification set out in the definition is required.</p>
220	Biodiversity	<p>We note that referenced to “company-owned land” has been removed from two sentences in the “detailed definition of performance measure” on page 2. We also note that on this</p>	<p>We will update the definition to make this clear replacing "all sites" with "all other company owned sites".</p>

Ofwat ref.	Topic	Query	Response
		<p>same page there is reference to “The company can, in consultation with relevant stakeholders, nominate areas of company-owned land as well as other land where habitat is improved in the process of the water company carrying out its functions. The company will provide assurance that overall biodiversity across sites which are not included in the performance commitment is not deteriorating.”</p> <p>On the assurance requirement, it is unclear based on the current wording whether Ofwat is referring to all land owned by the company not included in the performance commitment, or just specific company sites, such as those with designations not included in the performance commitment?</p>	
221	Biodiversity	<p>We note that there is no reference to any land designated as a site of special scientific interest (SSSI). Anecdotally, we are aware that Ofwat has said to at least one company that the performance commitment will not include work or actions on SSSIs that seek to improve condition relative to features noted in the SSSI citation. However within the Biodiversity Task and Finish Group discussion meetings for this performance commitment, Ofwat has said that the new performance commitment can include such activity and that this activity will count towards the biodiversity net change.</p> <p>Could Ofwat please confirm whether SSSIs related work will count towards the biodiversity net change?”</p>	<p>We confirm changes in biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), can be included in this performance commitment. This includes those arising from any obligations to further conservation and/or manage Sites of Special Scientific Interest from regulations such as the Natural Environment and Rural Communities Act 2006.</p>

Ofwat ref.	Topic	Query	Response
222	Biodiversity	Will Ofwat have a formula to work out individual BNG targets for each company and if so when will it inform companies of it?	<p>We set out policy on performance commitment levels (PCLs) in section 4 of Appendix 9 to our final methodology, in particular that PCLs for the Biodiversity PC will be set on a company specific basis. We have not set out that we will have a formula. Our guidance is set out in section 4.4.2.</p> <p>"For company-specific PCLs and bespoke performance commitments, we are mindful of greater asymmetry of information due to the absence of comparator data. Companies need to provide sufficient and convincing evidence that their proposed baseline position is appropriately justified. The baseline position should be set in the context of company outturn performance, forecast improvements and the PR19 PCL if appropriate."</p> <p>We have asked companies to provide information on habitat information for land in business plan table OUT 9. We will use this information to help understand the PCLs that companies propose in business plans.</p>
223	Biodiversity	For the PR24 Biodiversity performance commitment, would you be able to confirm if we should be using the latest v4.0 Biodiversity Metric, or the v3.1 as referenced in the Ofwat PR24 performance commitment definitions webpage?	We will shortly update the performance commitment definition to Biodiversity Metric 4.0. If a company has used Biodiversity Metric 3.1 to survey land, the next survey (ie four years later) must collect sufficient information to be able to calculate: i) the change in biodiversity units between the earlier survey and that next survey in relation to the relevant site; and ii) the new baseline against which future changes in biodiversity units relating to the relevant site will be assessed in accordance with the biodiversity metric stated in the current version of the performance commitment.

Ofwat ref.	Topic	Query	Response
235	ODI	<p>On the ODI rates for Biodiversity and GHG emissions, thank you for confirming that these will not be released until the draft determinations stage. Could you please advise how companies should consider the impact of these ODI rates on RORE for the business plan submissions? If the indicative ODI range (excluding C-MeX, D-MeX and BR-MeX) is up to +3% or -3% RoRE, should we assume that Biodiversity and GHG emissions make up a standard percentage, for example 0.1% for Biodiversity and 0.1% for GHG emissions? Or is there another approach that Ofwat would advise we adopt?</p>	<p>We do not require companies to provide probability estimates for individual performance commitments in their business plans. For the purpose of estimating risk in their business plans, companies can assume potential returns of <math>\pm 1\%</math> to <math>\pm 3\%</math> of regulatory equity. We will set out our risk estimation methodology in the draft determinations.<sup>1</sup></p> <p>1. Ofwat, 'PR24 final methodology – Appendix 8 Outcomes delivery incentives', December 2022, pp. 74-75.</p>
236	RoRE	<p>For the marginal benefit rates our interpretation of the approach outlined on slide 13 is that for each PC, a range of performance is determined for the industry. Then 0.5% of RoRE is calculated for the industry and divided by the performance range. Is that correct or are the performance ranges and 0.5% of RoRE company specific? Would it be possible to see the calculations which derived the marginal benefit rates?</p> <p>I understand that Ofwat has adjusted the incentive rates based on past performance. E.g. for mains repairs this is to reflect mains replacement rates. I understand the principle but I'm not clear on the rationale for the exact level of adjustment. Is that something you could elaborate on?</p> <p>We would like to confirm the input data units for the CRI calculation. One set of data in the input tab is the total hours per year of boil water/do not use notice incidents (Input tab rows 49 to 53). This data is used in the CRI calculation step 2 (rows 287 to 31 in the CRI tab). In this calculation the values are reported as incidents not hours and are treated as such in the calculation. In the</p>	<p>Our objective in setting the indicative ODI rates is obtaining a consistent rate across companies ahead of any company-specific adjustments at the draft determination stage. The steps we followed to set the indicative ODI rates using a top-down approach for asset health PCs were as follows:</p> <ul style="list-style-type: none"> <li>• Calculate company-specific performance ranges and an associated company-specific incentive rate based on 0.5% of RoRE. This is based on the final methodology which said we are considering setting the collar for asset health-related performance commitments at -0.5% RoRE.</li> <li>• Set a uniform 'per unit' rate (eg per mains repair) for all companies. Our starting point was typically to use the median unit rate across all companies.</li> <li>• Adjust the rate up or down based on PR19 performance to date. This step also involved judgement based on past performance as well as how tight the cap and collar were thought to be based on the +0.25% to -0.5% range of RoRE set out in the final methodology.</li> </ul>

Ofwat ref.	Topic	Query	Response
		<p>calculation the input units are multiplied by the Boil Water Notice and Do Not Use Notice values for a 2 day duration incident. Can you confirm the input units?</p>	<p>The data in the input tab rows 49 to 53 has been labelled incorrectly. The label should say 'Total Boil water/DnD incidents of 48 hours duration per year'. We will correct this when we issue the final batch of rates in early June and will make it clear to companies when we do so.</p>
276	Funding	<p>As part of the Accelerated Funding Scheme, [COMPANY] has been given an allowance to bring forward part of the costs and volumes relating to the AMP8 metering programme into years 3 and 4 of AMP7. These will be reported in Table CW17 as per the guidance. However, it's not clear from the guidance whether or not these costs should also be included in CW7.</p> <p>Please can you confirm whether we should be including the costs for accelerated programmes in both CW17 and CW7, or only in CW17.</p> <p>Also, if we should be including them in CW7, can they be presented as part of the wider AMP8 programme or do they need to be separate from it? So, can you confirm whether we need to fill out CW7 according to our PR24 submission or the actual AMP7/AMP8 delivery plan?</p>	<p>Please only submit forecasts in CW7 for the remaining years of the PR19 programme (2022-23, 2023-24 and 2024-25) and the PR24 programme (excluding accelerated process).</p> <p>Please do not include the accelerated programmes in CW7 only in CW17.</p> <p>We will issue an additional table for APR24 where accelerated spend and benefits can be recorded.</p>
278	Rapid	<p>In the RAPID gate one decision for Fenland Reservoir there is no split of the funding allowance (page 13 <a href="https://www.ofwat.gov.uk/wp-content/uploads/2021/12/Standard-gate-one-final-decision-for-Fens-reservoir.pdf">https://www.ofwat.gov.uk/wp-content/uploads/2021/12/Standard-gate-one-final-decision-for-Fens-reservoir.pdf</a>) between price controls. This scheme was unfunded at PR19 and therefore funding will need to be recovered through the Strategic Water Resources Reconciliation Model. This model requires a split</p>	<p>You will need to provide us with the split (which was the case for the other projects) as part of the business plan submission and the evidence for that split.</p>

Ofwat ref.	Topic	Query	Response
		of the totex funding allowance between the Water Resources and Water Network plus price controls. Please could Ofwat advise of / publish the split of the totex allowance across the price controls?	
280	Data Tables	<p>I know the window for the next set of table queries hasn't opened yet but I wanted to raise this one now if that's ok in relation to OUT9 – our table compilers have raised the following query:</p> <ul style="list-style-type: none"> <li>- The definition for OUT9.3 states “do not include land in line OUT9.2” and it follows through all subsequent definitions to exclude land from all previous lines. Could we confirm what is intended by ‘do not include land in line OUTX.X’: is the intention that any area of company land reportable under, for example, 9.2 is not eligible for reporting in line 9.3? i.e. is the intention that the company land analysed for each line reduces in area the further down Table OUT9 we go? <ul style="list-style-type: none"> <li>o It feels like there is some implied hierarchical prioritisation of land type here (if that's the right word) and we're not sure if this is the intention?</li> </ul> </li> <li>- Should we take ‘2015’ as a typo to mean ‘2025’ in the definition for OUT9.7, or is 2015 correct?</li> </ul>	Raaised through BP process and answered
285	Data Tables	<p>We would like to bring to your attention a potential error within the PR24 Financial Model Post External Review in the calculation of the 5-year weighted average RCV run-off rate in the ‘RCV’ tab rows 1079–1110 that feeds into the ‘RR11’ output tab row 30 via the ‘OBXValues’ tab for completing the RR11 data table.</p> <p>The calculation takes the total calculated periodic nominal</p>	Thank you for identifying this, we agree that additions need to be included in this calculation and we will amend the model. To be consistent with the calculation of run off in the year of acquisitions we will only include 50% of the additions in year.

Ofwat ref.	Topic	Query	Response
		<p>RCV run-off for each price control in £m and then divides this by the corresponding periods opening RCV + inflation in £m via a series of sumproduct formulae. This calculation does not consider additions to RCV in each period that have incurred run-off and therefore overstating the weighted run-off percentage. We believe the sum of additions to RCV must be included for each period in the denominator, adjusted for the 1st year apportioned rate for new additions, to correctly calculate the weighted average RCV run-off rate.</p>	
294	Research	<p>please circulate the following research: PJM economics, Collaborative ODI research, June 2023 that has been referenced in relation to the recently published ODI rates.</p>	<p>Please see the report that you refer to attached. It was sent to all companies earlier this week, but has not yet been uploaded to the Collaborative Research web pages.</p>
297	PCDs	<p><a href="https://www.ofwat.gov.uk/publication/in-23-05-further-guidance-on-price-control-deliverables-for-pr24/">https://www.ofwat.gov.uk/publication/in-23-05-further-guidance-on-price-control-deliverables-for-pr24/</a>  <a href="https://www.ofwat.gov.uk/publication/appendix-3-in-23-05-further-guidance-on-price-control-deliverables-for-pr24/">https://www.ofwat.gov.uk/publication/appendix-3-in-23-05-further-guidance-on-price-control-deliverables-for-pr24/</a></p> <p>I have only had a very quick read at this stage so apologies if these queries are actually answered within the documents, but I wanted to ask two questions rapidly as they are quite material:</p> <ul style="list-style-type: none"> <li>- Appendix 3 on the spill reduction network tab asks for EDM spills for 2023 – should this be 2022? As 2023 is obviously not complete yet</li> <li>- This is called a data request within the spreadsheet but I don't think I can see a submission deadline. Is this to be submitted alongside the business plan in October, or an earlier submission deadline – and if the latter, what is the date please (noting that it contains forecast AMP8</li> </ul>	<p>Your assumption is correct, current spills should not refer to those recorded via EDM for 2023. However we are conscious that 2022 was a dry year so please provide the number of spills recorded via EDM for each of the years 2020, 2021 and 2022. Please also provide your model predicted current (annual) spills for 2025. If the model predicted current spills used to inform business plan deviates from the model predicted current spills for 2025 please provide commentary. We will update the data request to reflect these changes.</p>



Ofwat ref.	Topic	Query	Response
		expenditure that I would have anticipated to be submitted alongside the business plan)?	
298	Waste Water Treatment	<p>We have not previously considered waste treatment in the treatment codes as our plants producing waste were already classed as W5 works due to the complexity of those works. We are now returning a works into supply in AMP8 which will have chlorination and RGF but will then need clarification to treat the waste generated by this treatment. Please can you confirm whether we should include the clarification process for this works as this would classify it as a W3 rather than a W2.?</p>	<p>Waste treatment process streams are not to be included in the classification of 'Water treatment – treatment type' analysis CW4 table lines.</p> <p>Therefore, please classify the returning works accordingly as per PR24_BP_table_guidance_Costs_wholesale_waterV3.pdf (ofwat.gov.uk), CW4 Additional guidance, point 7.3</p>
301	Data Table	<p>In V4 of the data tables we identified an error in the calculation of the average number of minutes lost per property (Water supply interruptions) where using the normalisation constant in OUT4.4 resulted in an incorrect number in OUT4.6. For example, for the year 2021/22 we reported 00:03:43 in table 3F of our APR but the calculation in OUT4 is currently showing as 00:00:00</p>	Duplicate with business plan data query 455
302	Data Tables	<p>Hi Ofwat</p> <p>We have a couple of questions below, regarding the Tables and lines we need to complete, that it would be very helpful if you could provide confirmation on:</p> <ul style="list-style-type: none"> <li>• Bespoke ODIs – we are not expecting to input any data for the following bespoke ODIs in tables OUT1, OUT2, OUT3, OUT7, LS1 and LS2 and hence SUM1 will be blank for these lines and OUT10 will be completely blank for SEW, is that</li> </ul>	<p>We confirm [company] does not need to provide any data for bespoke PCs. A water company only needs to provide data when it is proposing the bespoke PC in its business plan.</p>

Ofwat ref.	Topic	Query	Response
		<p>correct?:</p> <ul style="list-style-type: none"> <li>o Abstraction Incentive Mechanism (AIM)</li> <li>o Embedded greenhouse gas emissions</li> <li>o Low carbon concrete</li> <li>o Low pressure</li> <li>o Street works collaboration</li> <li>o Water softening</li> <li>• The '230707-Summary-Tables-for-publication_v2' document has RES1 as not being required for SEW, is that correct? We would have expected to have to provide this information.</li> </ul>	
305	Data Table	<p>The Performance commitment definition - Customer contacts about water quality clearly states “the number of contacts for all appearance, taste, and odour contacts”. The DWI data for “appearance” is then subdivided by into seven sub-categories of which only two use the term “discoloured” as shown below. So we think the OUT4.9 line definition uses the term “Discoloured” in error, and this should be amended to “appearance”. Please see subsequent email with screenshots.</p>	Duplicate with business plan data query 462
307	Costs (wholesale) - wastewater CWW5	<p>Should a Separate Class be Added to Denote Green Solutions In the Waste Treatment Works Classification Table Under the WINEP driver U_IMP7 septic tanks, primary treatment is upgraded to secondary treatment. Roughly half of the solutions we have identified are “green” comprising either wetlands, reed beds or French drains. Under the current classification these fall under “Secondary Biological Filtration” . Our new wetland site at Clifton falls under Tertiary B 1 Would OFWAT consider appropriate to extend the classification codes to enable a clearer demarcation</p>	<p>We assume your query is relating more to CWW7c on treatment type, rather than CWW5 which is for large sewage treatment works. The deadline has passed for making any further changes to the data tables, these are the final versions for PR24. If you wish to add further commentary providing further details on numbers of more nature-based solutions, then this will be useful. You can provide commentary on lines CWW3.91 - 93 (Septic tank replacements - treatment solution) and CWW20.11 (Total number of septic tank replacement projects) and</p>

Ofwat ref.	Topic	Query	Response
		between the emerging “green” low cost solutions and the more traditional grey (biological and filtration) solutions. This relates to CWW5 and CWW7a.	you can provide some explanation in your commentary on Table CWW7c if required.
308	Phosphorus Removal schemes	Which Financial Year are Phosphorus Removal schemes with an " In Year Compliance Date" assigned to ? We have a number of Phosphorus schemes in Amp 7 with December compliance dates. It is not clear whether these are reported as new limits within that financial year or the alternative of first “complete financial year”. The latter would mean at least 3 months of OPEX is being excluded . Also that there is no tangible inclusion of Enhancement schemes with compliance dates of 31 March 2030 as these default into 2030-31 which is not in the CWW5 table. Example is Compliance Date is 01 Dec 2024- is this new limit counted in the 2024-25 year category or the first full financial year 2025-26 ?	If a scheme has a new phosphorus (or other new permit determined) part way through the reporting year include this within the same reporting year e.g. if a scheme permit date in December 2026, then please include it in 25/26 tables. Please include a short note in your commentary to highlight where this is the case. We will be able to cross reference data from this table with that from CWW19 and the WINEP/NEP sheets which include permit dates. For schemes with March 2030 dates include these in the 29/30 data and add some commentary to highlight where this is the case. As above we will be able to cross reference data from CWW19 and the WINEP/NEP sheets. We will update the table definitions to reflect this.
309	Error is present in the CW15 table	As per query 458 We think this error is also present in the CW15 table. As the additional 11 rows 131 -141 have been given the same PR24 BP reference as the rows above them (CW15.111 - 21). Please see subsequent email with screenshot.	Thank you for your query. You are correct that line numbers have been duplicated however, we do not think this should cause major problems for companies in completing the table.
310	Error in this table. As row 38 = CW5.30	we think there is still an error in this table. As row 38 = CW5.30 is a calculated line and the denominator in the spreadsheet is CW5.39 Distribution input (pre-MLE) whereas in the guidance it states it should be CW5.38 Distribution input (Post MLE). please see subsequent email with screenshot.	We have reviewed this query and find that the line equations are correct, but the line equation description is incorrect.  CW5.30, Peak 7 day rolling average distribution input/annual average distribution input, description equation should reference CW5.39 not CW5.38.

Ofwat ref.	Topic	Query	Response
			<p>The calculated % equation is correct using pre-MLE data: CW5.29, Peak 7 day rolling average distribution input (prior to any MLE adjustment) and CW5.39, Distribution input (pre-MLE).</p> <p>We will update the table definitions to reflect this.</p>
311	Costs table CW16	In the July version of the OFWAT Table CW16, 11 additional lines have been added to encompass ""Investigations - multiple surveys, and/or monitoring locations, and/or complex modelling"" these additional rows in the table have been given the same PR24 BP reference as the rows above them	Thank you for your query. You are correct that line numbers have been duplicated however, we do not think this should cause major problems for companies in completing the table.
312	Query is regarding CWW21 and CW20	Query is regarding CWW21 and CW20 around the number of cohorts in the additional guidance .xls file. By our calculation there are over 2000 possible cohorts (based on the number of materials, age groupings, etc.) many of which have a small meterage associated with them therefore deviate significantly from the allowable +/-50% tolerance for collapses/bursts which Ofwat stipulates. Our question is whether we should simply submit our data as is or apply a grouping methodology to remove some of the extreme data points?	Thank you for your query. The minimum number of cohorts should cover the 9 primary material types, 9 primary age bands, and 4 primary diameters. Please retain these as a minimum. Grouping can be undertaken against secondary variables as required. Our assumption is that any small cohorts will have minimal impact on the overall condition grading table (CWW20) as these will represent a small proportion of the overall asset base.
313	Query is regarding CWW21 and CW20	Query for CWW21 and CW20 is regarding collapses/burst where we have unknown fields (e.g. we know the purpose and size of the asset but not the age). Should these unknown values become their own individual cohorts, or should they be grouped together? If they become their own cohorts, we will increase the number of total cohorts quite significantly and for the reasons explained above that might not be the right approach.	Thank you for your query. Please include an unknown variable on each of the primary variables. We acknowledge that this may create additional small cohorts, but as with query 459 our assumption is that any small cohorts will have minimal impact on the overall condition grading table (CWW20) as these will be a small proportion of the overall asset base but will ensure that we have sufficient granularity for any future analysis.

Ofwat ref.	Topic	Query	Response
330		<p>please could you provide clarification on the Wastewater treatment works that should be included in the base performance data for 2020.</p> <p>In S1.1 paragraph 1, pg3, the definition refers to phosphorus discharged by all WWTWs to be used when calculating the 2020 baseline.</p> <p>Paragraph 4 pg3 defines "relevant discharges" (as referred to in the method for calculating reduction in P emissions) as discharges of treated wastewater ..... into freshwaters.</p> <p>On page 3 Phosphorus Emitted from treatment works refers to the P emitted from treatment works as the sum of all works with a P limit in place.</p> <p>Could you therefore confirm which discharges should be included please?</p>	<p>The treatment work discharges that need to be included are different between the calculations for reductions in phosphorus (the numerator of the percentage) and how the baseline is calculated (the denominator of the percentage). Please find the definition as copied from our publication below for easy reference F(Ofwat, 'PR24 Common performance commitments - River water quality (phosphorus)', June 2023, p.3):</p> <p>The reduction in phosphorus (numerator) is only assessed at treatment works that discharge into river catchments (ie. freshwater) and have a phosphorus limit that was in place for 1 January to 31 December in the latest year. For example a theoretical company only has two treatment works that discharge into rivers. One had a phosphorus limit in 2020, but the other is not expected to have phosphorus limit for a full year until 2027. In completing the business plan tables in 2025 and 2026 the reduction in phosphorus will only be calculated at one works. For 2027 onwards the reduction in phosphorus will be measured at both works.</p> <p>"The 2020 baseline" (denominator) means the cumulative total load of phosphorus from relevant discharges of all of the company's waste water treatment works from 1 January 2020 to 31 December 2020. As set out in the definition, "relevant discharges" means discharges of treated waste water from the company's waste water treatment works into freshwaters. The 2020 baseline will not change from that assumed at the time of final</p>

Ofwat ref.	Topic	Query	Response
			<p>determinations in 2024. Therefore in the theoretical example the "2020 baseline" includes both treatment works. In another words, whether a wastewater treatment works has a phosphorus limit permit is not relevant for the purpose of denominator – all will be included anyway.</p>
332	Data Tables	<p>We note that version 5 of the Data Tables are password protected at all levels, in order to support our internal management of the tables (we wish to lock cells and tabs as they complete the audit process). Would it be possible to share the password for the Version 5 data tables? We will ensure that the final submission to Ofwat will be on a clean copy of the version 5 tables with all passwords intact.</p>	<p>Alongside our publication of version 5 of the business plan tables, we also published guidance regarding the completion and validation of the business plan tables. We explained the potential impact of altering our business plan templates. We introduced a password for version 5 to reduce the risk of unhelpful changes.</p> <p>We are supportive of your work regarding the internal management of the tables. However, it is not clear that providing the password to companies is necessary to achieve effective management.</p>
107	Financial Models	<p>"We welcome the publication of the mapping tool between the business plan tables and the financial model. The current version of the financial model and mapping tool result in several misalignments for opening balances. The table below provides an initial view of the misalignments. Taking Opening retained cash balance – residential – nominal (Financial Model Inps sheet row 1217, RR7.35) for example, the business plan table reports opening balances for 2025-26 in the year 2025-26 for the business plan tables. When Opening retained cash balance is then used in the financial model in Retail Residential rows 59-64, the Last pre forecast period flag is in the year ending 31 March 2025, therefore the opening balance for 2025-26 data is not being</p>	<p>Thank you for identifying these we have subsequently updated the mapping tool and believe most of these issues have been rectified. We will shortly publish an updated mapping tool correcting any outstanding issues which we have identified as</p> <ol style="list-style-type: none"> <li>1. Debtors other – nominal</li> <li>2. Retail – corporation tax creditor b/f – nominal</li> <li>3. Trade and other payables – wholesale creditors – residential retail – nominal</li> <li>4. Wholesale and retail line item split – capex creditors – residential retail – nominal</li> <li>5. Wholesale and retail line item split – actual company structure – capex creditor – business retail</li> </ol>

Ofwat ref.	Topic	Query	Response
		<p>picked up. The table below provides a comparison of the treatment of opening balances between the PR19 and PR24 financial model.</p> <p>Therefore, we believe that for such instances, the mapping tool or financial model should be updated to ensure that the opening balances are being appropriately captured. The mapping tool could be updated to map columns F to O (or E to N for RR8) in the business plan tables to columns M to V in the financial model inputs tab, so that the opening 2025-26 inputs are treated as closing 31 March 2025 values. This is consistent with how the "Ofwat inputs" in the model for the lines above are treated."</p>	
108	Financial Models	<p>"It appears from a review of the financial model that only 50% of the profits have been given relief through brought forward trading losses, whereas the loss restriction rules (which were introduced from 1 April 2017) also included a £5m allowance.</p> <p>Under the rules, the total amount of brought forward tax losses which may be used is restricted to an annual allowance of £5 million, plus 50% of the remaining profits after the deduction of the allowance. Therefore, if profits were £20m then up to £12.5m of brought forward losses could be used. This being £5m, plus 50% x (£20m - £5m).</p> <p>The tax model does not include an adjustment to take account of the £5m allowance and we would suggest that this should be included."</p>	<p>We agree that this was incorrect in the previous iteration of the financial model, this has subsequently been updated in the current financial model.</p>
109	Financial Models	<p>We have been reviewing the PR24 financial model and have noticed a difference in the approach to calculating the 'Apportioned wholesale charge for Residential/Business Retail' between the approach at PR19 and PR24.</p>	<p>We do not propose to amend the calculation at this time. The change is due to the model calculating both Pre and Post financeability adjustment revenues simultaneously within the model, the differences in the apportionment to</p>

Ofwat ref.	Topic	Query	Response
		<p>The PR19 financial model calculates the 'Residential apportionment' ('Retail_Residential' tab line 58) as the percentage of revenue charged between measured/unmeasured and residential and business multiplied by the wholesale revenue including post financeability adjustments.</p> <p>The PR24 model on the other hand calculates the 'Residential apportionment' ('Retail_Residential' tab line 13) as the percentage of revenue charged between measured/unmeasured and residential and business multiplied by the wholesale revenue excluding post financeability adjustments.</p> <p>As the percentage of revenue charged between residential and business customers varies between price control, larger or smaller post financeability adjustments will impact the proportion of revenue allocated to the residential and business price control. This impacts the overall company revenue due to the different margins between residential and business customers.</p> <p>We believe that the PR24 model should be adjusted so that the Residential apportionment is calculated to include the post financeability adjustments.</p>	<p>be immaterial and amending would create a circularity error.</p>
111	Financial Models	<p>Query on Equity Issuance Cost functionality in Ofwat's model</p> <p>As set out in Ofwat's PR24 Final Methodology – Appendix 10: Aligning Risk and Return, we understand you consider there is no need to provide an additional allowance for equity issuance costs related to reducing gearing to the notional</p>	<p>The equity issuance costs in the financial model are included both as a separate line item and included as part of the gross operating costs. Where equity issuance is required the associated costs (2%) will be funded and can be recovered.</p>



Ofwat ref.	Topic	Query	Response
		<p>level at the start of AMP8 (see page. 25). On the other hand, in the exceptional cases of companies undergoing large scale investments, a 2% equity issuance cost allowance for the related equity injections will be provided (see page. 48).</p> <p>In the PR24 financial model, we find equity issuance cost is excluded only from total net operating expenditure allowable for tax deductions (See Row 197-202 in the tab “Totex”), rather than being excluded from net Opex used to determine net Totex, hence PAYG revenue. This means that, if equity issuance costs are included in the gross Opex input to the model, these will be recovered in allowed revenue, i.e. company would earn revenue on its equity issuance costs, contrarily to the approach set out in the Final Methodology.</p> <p>Could you please confirm if our understanding is correct and clarify the correct approach to input equity issuance costs in the model, in the case in which equity issuance costs are not allowed, as well as in the alternative case where the 2% allowance is provided?</p> <p>Do you suggest that companies should set out in the business plan data tables whether equity issuance costs should be recovered on the basis of the 2% allowance? For example, if a company believes they are eligible for applying 2% allowance on equity issuance costs, they should add the equity issuance cost into the gross Opex input (without netting it off Opex under “Equity issuance costs - real”, i.e. BP inputs RR2.13 – RR2.18).</p>	

Ofwat ref.	Topic	Query	Response
112	Financial Models	<p>Query on treatment of “Proceeds from share issues” in Ofwat’s model</p> <p>We have identified a potential inconsistency in the treatment of “Proceeds from share issues” in the cash movement calculations of the PR24 model. Within the retained cash balance, the net cash generated in financing activities is determined as the sum of dividend paid and proceeds from share issues (See Row 557 in the tab “Appointee FS calcs” and Row 54 in the tab “FinStat Appointee”), where “Proceeds from share issues” increase cash flow in financing activities, and hence increase retained cash balance. On the other hand, however, the calculation of cash movement used to determine cash interest expenses excludes “Proceeds from share issues”, and suggests equity raised will reduce the cash flow (See Row 989–994 in the tab “Wholesale debt”).</p> <p>Could you please confirm if our understanding of the model calculations is correct and, if that is the case, whether the proceeds from share capital should then be added accordingly as a positive amount to the cash movement in the formula in Row 989–994 of the tab “Wholesale debt”?”</p>	<p>We agree that this was incorrect in the previous iteration of the financial model, this has subsequently been updated in the current financial model.</p>
277	Financial Models	<p>I had a question regarding the level of floating rate debt in the notional company. Referring to Appendices 10 and 11, I found the following on p.67 / pdf.68 of Appendix 11:</p> <p>We set out the results of our analysis in Table 4.2 and 4.3 and Figures 4.1 and 4.2, inflating CPI and RPI-linked debt to a nominal basis using an assumption of 2.0% CPIH and 2.9% RPI. We</p>	<p>The financial model is based on the notional structure with opening ILD set to 33% of net debt. The model calculates a "fixed rate debt element" which is the sum of actual fixed and floating rate debt and any adjustment to ILD required to achieve the 33% ILD target value, the model assumes a single notional cost of debt/interest rate allowing these elements to be bundled into the single "fixed rate debt element". There is a separate adjustment</p>

Ofwat ref.	Topic	Query	Response
		<p>report both company-level 'All' in cost which is a weighted average of eligible instrument costs according to our inclusion criteria, and 'Actual-notional' where company-level cost is assumed to be a weighted average of the company's fixed-rate interest rate and its indexlinked interest rate,137 reweighted to be consistent with the notional structure of 33% indexlinked debt and 67% floating rate debt.</p> <p>Reviewing the PR24 notional company model, it appears to show a level of fixed rate debt at the beginning of AMP8 which is run down over the AMP. For the new issuance over the AMP, 33% is assumed to be index-linked (in line with the notional capital structure). Is the remaining 67% fixed rate, or floating rate such that it broadly aligns to the iBoxx index?</p>	<p>for net debt to achieve the notional gearing level, this is also subject to the same interest rate.</p>
76	Outcomes	<p>I wondered if you could help with what further guidance Ofwat will be providing as part of the PR24 process on 'business demand'. We are aware of two issues:</p> <ol style="list-style-type: none"> <li>1. PC definition - will a final performance commitment definition be published for 'business demand' and when</li> <li>2. ODI values - I believe Ofwat have mentioned that they will provide guidance on the PR24 'business demand' target (in line with the Defra 9% by 2038) and ODI values. Is this correct and if so when is it expected.</li> </ol>	<p>Query answered when responding to more detailed points raised by MOSL on 16 May 2023</p>
99	Outcomes	<p>"Many thanks for sending over the indicative Batch 1 marginal benefit rates.</p> <p>For clarification, could you confirm what price base the marginal rates are being shown in? We assume these reflect</p>	<p>Question was answered through the Outcomes Working Group. For the final indicative rates that we shared with water companies in July 2023, they are in 2022-23 financial year average prices.</p>

Ofwat ref.	Topic	Query	Response
		2021-22 prices and that these should be further indexed to reflect 2022-23 prices?"	
50	Outcomes	<p>We require several clarifications relating to the biodiversity PC definition. We would be grateful for guidance from Ofwat in relation to these points:</p> <p>– Biodiversity definition of the PC</p> <ol style="list-style-type: none"> <li>1. The Ofwat PC documentation sets out how the company will work with stakeholders to define the area that falls under the PC. Can land be added to the PC at any time if agreed with stakeholders, or do we have to define this within our business plan submission? Ofwat have stated “The company can, in consultation with relevant stakeholders, nominate areas of company-owned land as well as other land where habitat is improved in the process of the water company carrying out its functions”.</li> <li>2. The definition states that “increases in biodiversity units that arise as a result of conditions or obligations relating to other forms of regulation, including planning processes will be excluded”. Please can Ofwat give more guidance here, does this include regulations such as our NERC Act (strengthened by the Environment Act) obligations to further conservation and/or manager SSSI land?</li> <li>3. Ofwat provide a compliance checklist in the definition but do not say what it is to be used for. Is Ofwat’s intention for the Compliance Checklist to be completed prior to business plan submission, or during the AMP cycle when reporting?</li> <li>4. Immediate habitat change will likely result in a decrease in unit value for several years (e.g., woodland planting may take 12/16/20 years' worth of monitoring to</li> </ol>	<p>We will shortly update the performance commitment definition to Biodiversity Metric 4.0. If a company has used Biodiversity Metric 3.1 to survey land, the next survey (ie four years later) must collect sufficient information to be able to calculate: i) the change in biodiversity units between the earlier survey and that next survey in relation to the relevant site; and ii) the new baseline against which future changes in biodiversity units relating to the relevant site will be assessed in accordance with the biodiversity metric stated in the current version of the performance commitment.</p>

Ofwat ref.	Topic	Query	Response
		<p>result in an increase in biodiversity units), the definition at the moment appears to dissuade this, is that intentional?</p> <p>5. Will Ofwat accept water company biodiversity strategies as a 'local strategy' under the metric if there is approval from stakeholders as defined in the company's assurance process?</p> <p>6. Ofwat details that where a company suspects habitats have recently deteriorated, we should take 2020 as the baseline. As per Natural England's BNG guidance, will this principle be acceptable for positive outcomes as well, for example if a company has planned investment in positive habitat management for 2024 prior to AMP8, can the baseline be taken to be its 2023 state if surveyed under an agreed process, or should the company defer its investment until 2025 to fall under the PC? Natural England text if of use "Habitat created or enhanced after 30 January 2020 will be eligible for registration and sale of the associated biodiversity gains"</p> <p>7. Is there any potential to run a bespoke session on this PC with Ofwat and the stakeholder group to run through these and other questions?</p>	
194	Business Plan Submission	<p>We will publish the documents on our website and provide a guide to reading the plan alongside this on the website with the links to aid the reading.</p> <p>However, what we wanted to query was whether you expected anything in addition to this for when we upload the documents to what we assume will be a SharePoint site or similar to yourselves; were you expecting some kind of PDF that contains links to the documents within the submission (i.e. something within a zip file or similar)? We are planning to provide a document that contains a guide and links to the</p>	Responded in Information Notice dated 1 September 2023

Ofwat ref.	Topic	Query	Response
		documents on our website, but we are concerned that anything we send to yourselves that tries to link within files on your SharePoint/similar could easily stop working if/when documents are moved etc.	