

PR24 final methodology queries and responses –31 July 2023

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 the end of July 2023. We will update this document regularly.

Contents

Contents	1
January 2023 queries and responses.....	2
February 2023 queries and responses.....	12
March 2023 queries and responses.....	29
April 2023 queries and responses	37
May 2023 queries and responses	58
June 2023 queries and responses	77
July 2023 queries and responses.....	85

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 development, procurement and contract management costs. These costs should be included in tables CW1, CW2, CW3 and</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.¹ Please note these assumptions will be updated in Spring 2023.</p> <p>¹ Ofwat, 'Anglian Water: Direct procurement for customers detailed action' pp 4-7, January 2019</p>

Ofwat ref.	Topic	Query	Response
		<p>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"> • financial models, • long-term delivery strategy documents; and, • 12 table commentary documents <p>are not to be considered as part of the 80 document limit for WaSCs.</p>

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>	
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"> 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? 2. When will we be required to provide Ofwat the baseline performance for 2019/20?" 	<ol style="list-style-type: none"> 1. We have not decided yet. But we will consult on this shortly. 2. Companies have already provided this. The timeline is: <ul style="list-style-type: none"> • August 2022 – water companies provided data on historical performance, including baseline period • December 2022 – We provided our understanding of these data to companies for their review, which your company has already done. <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>

Ofwat ref.	Topic	Query	Response
		<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&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 https://www.ofwat.gov.uk/publication/river-water-quality-pc-definition/</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>

Ofwat ref.	Topic	Query	Response
			<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 & 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
			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.
33	Best Value	Appendix 9 – Ofwat discuss the treatment of non-traditional solutions, can Ofwat please define non-traditional solutions?	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.
48	Data tables	<p>In table RR25, line RR25.9, asset beta is calculated $E14 + E13 * E15$ i.e. $\beta_{Asset} = \beta_{Equity} + \beta_{Debt} * Gearing$, we believe that this should be $E14 * (1 - E15) + E13 * E15$ i.e. $\beta_{Asset} = \beta_{Equity} * (1 - Gearing) + \beta_{Debt} * Gearing$.</p> <p>In table RR26, line RR26.9, asset beta is calculated similarly for each price control, where again we believe this should be $\beta_{Asset} = \beta_{Equity} * (1 - Gearing) + \beta_{Debt} * Gearing$.</p>	Thank you for pointing out this defect in the formula. We confirm that the correct formula for cell E17(Asset beta) should be $E16(\text{Unlevered beta}) + (E13(\text{Debt beta}) * E15(\text{Actual gearing}))$. 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.

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"> 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"> 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 	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.

Ofwat ref.	Topic	Query	Response
		<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"> 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. 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. 	<ol style="list-style-type: none"> 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. 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.

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). Claiming capital allowances for structures and buildings - GOV.UK (www.gov.uk)</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: 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</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 contributions that they expect to receive 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"> • Section 3: Costs (wholesale) Water (tables CW4, CW5, CW6, CW7, CW19); • Section 4: Costs (wholesale) Wastewater (tables CWW5, CWW6, CWW7a/b/c, CWW8, CWW20); and • Section 5: Water Resources (table RES1). 	<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: Mains repairs PC definition.pdf (ofwat.gov.uk)). 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)	
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)																																				

Ofwat ref.	Topic	Query	Response																																																		
			<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th colspan="5" style="background-color: #e1f5fe;">Compatible confidence grades</th> </tr> <tr> <th style="background-color: #e1f5fe;">Accuracy band</th> <th colspan="4" style="background-color: #e1f5fe;">Reliability band</th> </tr> <tr> <th style="background-color: #e1f5fe;"></th> <th style="background-color: #e1f5fe;">A</th> <th style="background-color: #e1f5fe;">B</th> <th style="background-color: #e1f5fe;">C</th> <th style="background-color: #e1f5fe;">D</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e1f5fe;">1</td> <td>A1</td> <td style="background-color: #cccccc;"></td> <td style="background-color: #cccccc;"></td> <td style="background-color: #cccccc;"></td> </tr> <tr> <td style="background-color: #e1f5fe;">2</td> <td>A2</td> <td>B2</td> <td>C2</td> <td style="background-color: #cccccc;"></td> </tr> <tr> <td style="background-color: #e1f5fe;">3</td> <td>A3</td> <td>B3</td> <td>C3</td> <td>D3</td> </tr> <tr> <td style="background-color: #e1f5fe;">4</td> <td>A4</td> <td>B4</td> <td>C4</td> <td>D4</td> </tr> <tr> <td style="background-color: #e1f5fe;">5</td> <td style="background-color: #cccccc;"></td> <td style="background-color: #cccccc;"></td> <td>C5</td> <td>D5</td> </tr> <tr> <td style="background-color: #e1f5fe;">6</td> <td style="background-color: #cccccc;"></td> <td style="background-color: #cccccc;"></td> <td style="background-color: #cccccc;"></td> <td>D6</td> </tr> <tr> <td style="background-color: #e1f5fe;">X</td> <td>AX</td> <td>BX</td> <td>CX</td> <td>DX</td> </tr> </tbody> </table>	Compatible confidence grades					Accuracy band	Reliability band					A	B	C	D	1	A1				2	A2	B2	C2		3	A3	B3	C3	D3	4	A4	B4	C4	D4	5			C5	D5	6				D6	X	AX	BX	CX	DX
Compatible confidence grades																																																					
Accuracy band	Reliability band																																																				
	A	B	C	D																																																	
1	A1																																																				
2	A2	B2	C2																																																		
3	A3	B3	C3	D3																																																	
4	A4	B4	C4	D4																																																	
5			C5	D5																																																	
6				D6																																																	
X	AX	BX	CX	DX																																																	
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
		<p>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?</p>	<p>the data tables at our online workshop on 2 March 2023. We will be making further revisions before business plan tables are finalised.</p>
70	Affordability	<p>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?</p>	<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. 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.</p>
71	Data tables	<p>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.</p>	<p>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.</p>
72	Data tables	<p>In terms of the specifics of the timetable, we note that version 3 of the data tables is due to be published in March</p>	<p>We published our updated business plan tables on 7 February 2023 which is ‘V3’.</p>

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 PR24: Developing C-MeX and D-MeX - Ofwat.</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"> • Cost sharing total costs reconciliation - https://www.ofwat.gov.uk/wp-content/uploads/2023/03/Cost-sharing-total-costs-Reconciliation-v4a.xlsm • Green Recovery cost allowance adjustment - https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-Recovery-cost-allowance-adjustment-model-final.xlsx • Green recovery time value of money adjustment (v1.3) - https://www.ofwat.gov.uk/wp-content/uploads/2021/06/Green-recovery-time-value-of-money-adjustment-model-v1.3.xlsb • business plan tables completed for years up to and including 2024-25

Ofwat ref.	Topic	Query	Response																												
			<table border="1" data-bbox="1431 266 1962 774"> <thead> <tr> <th data-bbox="1431 266 1697 336">Corresponding APR table</th> <th data-bbox="1697 266 1962 336">BP table</th> </tr> </thead> <tbody> <tr> <td data-bbox="1431 336 1697 384">2B</td> <td data-bbox="1697 336 1962 384">PD8</td> </tr> <tr> <td data-bbox="1431 384 1697 432">4C</td> <td data-bbox="1697 384 1962 432">PD9</td> </tr> <tr> <td data-bbox="1431 432 1697 480">4D</td> <td data-bbox="1697 432 1962 480">CW1</td> </tr> <tr> <td data-bbox="1431 480 1697 528">4E</td> <td data-bbox="1697 480 1962 528">CWW1</td> </tr> <tr> <td data-bbox="1431 528 1697 576">4U</td> <td data-bbox="1697 528 1962 576">PD7</td> </tr> <tr> <td data-bbox="1431 576 1697 624">4S</td> <td data-bbox="1697 576 1962 624">SUP4</td> </tr> <tr> <td data-bbox="1431 624 1697 671">4T</td> <td data-bbox="1697 624 1962 671">SUP5</td> </tr> <tr> <td data-bbox="1431 671 1697 719">10E</td> <td data-bbox="1697 671 1962 719">SUP10</td> </tr> <tr> <td data-bbox="1431 719 1697 767">n/a</td> <td data-bbox="1697 719 1962 767">PD1</td> </tr> </tbody> </table> <p data-bbox="1317 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) https://www.ofwat.gov.uk/wp-content/uploads/2020/12/Bioresources-Revenue-Reconciliation-Model-Dec-2020-v2.0.xlsx <li data-bbox="1361 1054 1993 1118">• business plan tables completed for years up to and including 2024-25 <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 1241">2M</td> <td data-bbox="1697 1193 1962 1241">PD5</td> </tr> <tr> <td data-bbox="1431 1241 1697 1289">8A</td> <td data-bbox="1697 1241 1962 1289">BIO1</td> </tr> <tr> <td data-bbox="1431 1289 1697 1337">n/a</td> <td data-bbox="1697 1289 1962 1337">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
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																														

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 eligibility guidance on whether business customers in England and Wales could switch their retailer. 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="1317 268 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="1317 480 2033 1166">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="1317 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 https://ukwir.org/new-object-179.</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
		<p>will use markets to achieve their objectives for AMP 8 and beyond?</p>	<p>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).</p>
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>	<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.</p>

Ofwat ref.	Topic	Query	Response
105	Outcomes	<p>Can you please assistance with the following PR24 query for this Std definition Storm overflows – PC definition - Ofwat</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 $12,673/275 = 46.1$ 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"> 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? 2. Is the penalty of £90k applied for each whole integer above 10. For example if the average is 11.75 its one penalty? 	<ol style="list-style-type: none"> 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. 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.
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 ΔCY 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"> • the reference at the top of page 4 is now appropriate; and • there is no longer any reference to “feedback order”.
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 IN 23/03 Expectations for monopoly company annual performance reporting 2022-23. 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.	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). We have separate data sources on meter penetration, so we have not included questions on that in these tables.
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 unmeasured 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	With respect to the funding sources described in section B7 can you clarify where: <ul style="list-style-type: none"> • Use of opex, for example during debt support schemes, is categorised • Use of shareholder funding, for example either social tariffs of debt payments, would be categorised 	Please see our response to query ref. 168
177	Pollution incidents	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). 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)?	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	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?	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	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	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 page 9 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>	<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.</p>
190	Non specific PC issues	<p>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</p>	<p>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.</p>

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: https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/pr19-reconciliation-models/</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.</p> <p>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 PR24 Performance commitment definitions - Ofwat</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>(https://www.ciwem.org/assets/uploads/CIWEM_UDG_EDM_Good_Practice_Guide_2021_final.pdf) 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 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/</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"> • "Data infilling for a single DMA or zone shall not use more than three months of historic data before moving to area average; • Data infilling taking the area average in which the DMA is located is valid if historic data is not available;" <p>To</p> <ul style="list-style-type: none"> • "Historical data specific to a single DMA or zone/tile shall not be used for more than three months before moving to area average; • Data infilling taking the area average in which the DMA or zone/tile is located is valid if historical data is not available;
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 ±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)	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> 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.	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)	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> 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	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)	<p>from CMOS, rather than being derived from an estimation or suchlike.</p> <p>Q: Should the expectation on number of void properties therefore be removed from the PC definition?</p>	as void it should still be included in the business demand performance commitment.
265	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>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.</p> <p>Q: Should the reference to where measured data is derived from instead point to CMOS?</p>	<p>We will delete the sentence that is referenced as the bullets at the end of this section provide more detailed guidance which is:</p> <p>"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;"</p>
266	Business Demand definition (PR24 Performance commitment definitions from archived version)	<p>It is unclear from the PC definition how the methodology will account for changes in premises numbers. This is twofold:</p> <p>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.</p> <p>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:</p> <p>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</p>	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 https://www.ofwat.gov.uk/publication/enhancement-and-water-balance-data-request-april-2022/.</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"> • Where the meter is located externally, we consider the consumption on the meter should be the measure of business demand (including supply pipe leakage) • Where the meter is located internally to the premises, we agree with the proposed approach • In addition, for unmeasured NHH customers we support the measure as currently defined. <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"> 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 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 	<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 & 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.	
--	--	--	--

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"> • LTDS • Financial models • 10* Commentary documents for WOCs <p>On the other hand, the following will be counted towards the document limit:</p> <ul style="list-style-type: none"> • Business plan documents • All appendixes <p>On your specific enquiries, the following will not be counted towards the document limit:</p> <ul style="list-style-type: none"> • Data table files • Revenue adjustments model • RCV adjustments model • 18 PR19 reconciliation models

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"> • a 50% reduction in leakage by 2050 from a 2017-18 baseline; • per capita consumption (PCC) of 110 l/h/d achieved by 2050; and • (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. <p>This expectation is outlined in our final PR24 methodology. Please see Ofwat, 'Creating tomorrow, together: Our final methodology for PR24 – Appendix 9 Setting expenditure allowances', 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 government's strategic priorities for Ofwat 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 ΔCY 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 ΔCY</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"> • Download Gilt breakeven inflation data from Bank of England • Take an average of spot rates for the 25-month maturity over 18/06/2007 to 27/07/2020 <p>We calculate the Swap BEI as follows:</p> <ul style="list-style-type: none"> • Download pricing information (Mid Price Close, Bid Close, Ask Close) for the 2Y RPI swap (GBRPIZ2Y) from Refinitiv • 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 <p>We calculate the ΔCY as Gilt BEI less Swap BEI, for each estimate of Swap BEI i.e. we derive three estimates for ΔCY. (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 100km² of land in the company's area'. In this instance, does 100km² 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>100km² has the normal meaning of area. For avoidance of doubt the company should divide the company area when measured in km² 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, PR24 Final Methodology – Appendix 7 Performance commitments - Ofwat</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'.¹</p> <p>Our rationale for doing so was that:</p> <ul style="list-style-type: none"> • it would ensure a consistent approach to valuing benefit impacts of enhancement initiatives; and • 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.² <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>¹ Ofwat, 'PR24 final methodology. Appendix 9: Setting expenditure allowances', December 2022, p. 26.</p> <p>² Ofwat, 'PR24 final methodology. Appendix 9: Setting expenditure allowances', December 2022, p. 134.</p>
293	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, Early view of water sector betas for PR24. 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 Early view of water sector betas for PR24. 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>
295	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>

Ofwat ref.	Topic	Query	Response
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 refine your thinking PCDs in such a way as to safeguard customers in a targeted and proportional way.</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>
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>https://www.ofwat.gov.uk/publication/pr24-business-plan-data-table-queries-and-responses/</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>

Ofwat ref.	Topic	Query	Response
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 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).	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	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 - Performance

Ofwat ref.	Topic	Query	Response
		<p>calendar year from treatment works that had a phosphorus limit.’ 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"> • All wastewater treatment works, • Or all wastewater treatment works to freshwaters only, • Or only wastewater treatment works with a phosphorus limit to freshwaters. 	<p>commitment definition – River water quality (ofwat.gov.uk).</p> $\frac{\begin{array}{l} \text{(Phosphorus emitted by relevant discharges from treatment works in 2020 minus phosphorus emitted by relevant discharges in the year)} \\ \text{(Phosphorus prevented from entering rivers from partnership working in the year minus phosphorus prevented from entering rivers from partnership working in 2020)} \end{array}}{\text{The 2020 baseline}}$ <p>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.</p>
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"> • C1–C6 – new meters for household customers. • C7–C9 – new meters installed for business (non-household) customers. • C10–C19 meter replacement costs for both household and non-household customers.

Ofwat ref.	Topic	Query	Response
			<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 WRMP data table guidance for C10-C11 and C13-C14 erroneously includes the following sentence "These lines should only be completed by 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	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	<p>We would like to clarify what costs should be included in Table 4, to ensure we are consistent with Table 7 & 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</p>	<p>As set out in our PR24 final methodology: Appendix 9 Setting expenditure allowances (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</p>

Ofwat ref.	Topic	Query	Response
		<p>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>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 calculations compared to the enhancement costs presented in table 8.</p>
335	PR24 query response for WRMP tables sent to all companies by email on the 27/07/2023	<p>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>	<p>As set out in our PR24 final methodology: Appendix 9 Setting expenditure allowances (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</p>

Ofwat ref.	Topic	Query	Response
			<p>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>
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	For New Meter installations, we assume that a 10 to 15 yr rolling programme of new meter installations would	We refer you again to page 104 of our PR24 final methodology: Appendix 9 Setting expenditure

Ofwat ref.	Topic	Query	Response
	to all companies by email on the 27/07/2023	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>allowances 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> <p>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.</p>
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	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.

Ofwat ref.	Topic	Query	Response
		whole planning period. Please advise if this assumption is correct?	
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:	<p>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. 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</p>

Ofwat ref.	Topic	Query	Response
			<p>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 (Ml/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 (Ml/d)'), 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</p>

Ofwat ref.	Topic	Query	Response
			<p>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> <p>Lines 1NY to 4NY have the following equivalents in the latest issue of the PR24 business plan tables see - PR24 Final methodology submission tables and guidance - Ofwat & PR24-BP-table-guidance-part-1-OutcomesV4.pdf (ofwat.gov.uk):</p> <ul style="list-style-type: none"> • Line 1NY – Total Household Consumption – OUT4.43 • Line 2NY – Average Household – PCC – OUT4.45 • Line 3NY – Total Non-Household Consumption – OUT4.70 • Line 4NY – Total Leakage – OUT4.31 <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</p>

Ofwat ref.	Topic	Query	Response
			<p>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 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 PR24 final methodology.</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	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	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

Ofwat ref.	Topic	Query	Response
		<p>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 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>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 Appendix 8 PR24 outcome delivery incentives, 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>We recognise that marginal costs will vary across the demand PCs. As set out in the PR24 final methodology main document, 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>

Ofwat ref.	Topic	Query	Response
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 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>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 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
		<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>	
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</p>	<p>In answer to h, we set out the following in our Further guidance on price control deliverables for PR24 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</p>

Ofwat ref.	Topic	Query	Response
		<p>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>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 PR24 final methodology states that companies should use price control deliverables where investment is material, and the delivery of benefits cannot be easily or directly linked, or the costs fully covered, by performance commitments and outcome delivery incentives. As we set out in our Further guidance on price control deliverables for PR24, 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.</p>
344	Indicative ODI rates query	<p>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</p>	<p>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.</p>

Ofwat ref.	Topic	Query	Response
		the 2020 baseline, this would result in a £10k underperformance penalty for that year?	
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 submissions to ensure that our plan aligns as best as possible to Ofwat's thinking in this area?	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.
346	Indicative ODI rates query	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: j. An assumption that historic risk is reflective of the future.	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. 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.

Ofwat ref.	Topic	Query	Response
		<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 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>
347	Indicative ODI rates query	<p>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?</p>	<p>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.</p>