PR19 Blind Year Reconciliation
of PR14 Incentive Mechanism

Supporting document

July 2020

The proposed adjustment to the revenue requirement for the PR19 Blind Year Reconciliations for PR14 Incentive mechanism and the midnight adjustment to the RCV is shown in Table 1 below. The high-level changes from the RCV and Revenue adjustments included in the Final Determination are shown in Table 1a.

Table 1: High level summary of submission (2017-18 prices)

	Water (£m)	Waste (£m)	Retail (£m)	Total (£m)
Revenue Adjustment				
Close out of PR09 (2014/15)	(11.3)	(1.0)		(12.3)
2015-20 Totex	32.3	(5.9)		26.4
Outcome Delivery Incentive	(15.2)	11.6		(3.6)
Wholesale Revenue	(13.3)	(11.6)		(24.9)
Retail Revenue			(0.0)	(0.0)
Water Trading				-
Total Revenue Adjustment	**(7.5)**	**(6.9)**	**(0.0)**	**(14.4)**
RCV Midnight Adjustment				
Close out of PR09 (2014/15)	37.0	8.4		45.5
PR09 CIS error correction	(34.5)	(38.6)		(73.1)
Outcome Delivery Incentive				-
2015-20 Totex	57.5	(6.7)		50.8
Land Sales	(0.4)	(0.0)		(0.5)
Total RCV Adjustment	**59.6**	**(36.8)**	**-**	**22.7**

Table 1a: Changes between Final Determination Allowance and Blind Year (2017-18 prices)

*Any differences are due to rounding

	Final Determination Adjustment (£m)	2019-20 Performance (£m)	Difference (£m)
Revenue Adjustment			
Close out of PR09 (2014/15)	(12.3)	(12.3)	-
2015-20 Totex	23.9	26.4	2.5
Outcome Delivery Incentive	0.1	(3.6)	(3.7)
Wholesale Revenue	(24.0)	(24.9)	(0.9)
Retail Revenue	2.0	-	(2.0)
Water Trading	-	-	-
Total Revenue Adjustment	**(10.3)**	**(14.4)**	**(4.1)**
RCV Midnight Adjustment			
Close out of PR09 (2014/15)	45.4	45.5	-
PR09 CIS error correction	(73.1)	(73.1)	-
Outcome Delivery Incentive	-	-	-
2015-20 Totex	47.0	50.8	3.8
Land Sales	(0.5)	(0.5)	0.1
Total RCV Adjustment	**18.8**	**22.7**	**3.9**

Statement of Board Assurance

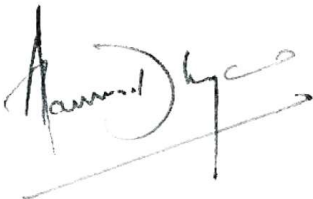PR19 Blind Year Reconciliations of PR14 Incentive Mechanisms

The Board considered the PR19 Blind Year Reconciliations of PR14 Incentive Mechanisms at its meeting held on 2 July 2020. The board made appropriate enquiries of the Executive Team, in particular the Strategy and Regulation Director and Jacobs who have been engaged to provide independent assurance and considered relevant supporting materials, our approach and the information and data that supports the assumptions used in the submission.

Having made reasonable and relevant enquiries, the Board is able to confirm that it supports the submission.

We can confirm that appropriate steps have been taken to ensure that the information on which the document is based is accurate within reasonable levels of tolerance. The tables and the required additional information have been prepared and delivered under the direction of experienced staff, using appropriate processes and internal systems of control and has accordingly been prepared to a standard that could be reasonably expected of a diligent company. The assurance process was approved by the Audit Committee on 3 June 2020.

Having regard to the information requirements in the information note 20/04 'Expectations for PR19 blind year reconciliation of PR14 incentives mechanisms' issued by the Water Services Regulation Authority on 16 April 2020, the Board has satisfied itself that our submitted models and the information provided in this document have been compiled in accordance with these requirements.

This supporting document is published with the models and data tables and contains the proposed PR19 blind year reconciliations, information and commentary as required. It sets out the accuracy of the data tables and supporting information and exposes material assumptions.

Alastair Lyons
Chairman
On behalf of the Board
2 July 2020

# 1	Methodology

## 1.1	Purpose

The PR14 Reconciliation Rulebook submission comprises of the following documents:

1. **PR19 Blind Year Submission Tables** "PR19-Business-plan-data-tables-Past-Delivery-Publication-Version-2020 CLEAN WSH.xlsb" published by Ofwat on 2 April 2020;

2. **PR19 Blind Year ODI Model** "WSH PR19 Blind year ODI performance model v1.2.xlsx", "PR19-blind-year-ODI-difference-model-v1.1-WSH.xlsx" and "F1 Asset Serviceability Non-standardised-ODI-calculation-pro-forma WSH.pdf"

3. **Totex Reconciliation Model** "Totex-menu-WSH_FD-Blind_Year.xlsx";

4. **WRFIM Model** "WRFIM_WSH_FD_Blind_Year.xlsx";

5. **Retail Reconciliation** "Residential-retail-revenue_WSH_FD_Blind_Year.xlsx"

6. **Land Sales** "Land-disposals_WSH_FD_ Blind_Year.xlsx

7. **Revenue Feeder Model** "Revenue-adjustment-feeder-model_WSH_FD_Blind_Year.xlsm"

8. **RCV Feeder model** "RCV-adjustment-feeder-model_WSH_FD_Blind_Year.xlsm"; and

9. This supporting document which contains the Board Assurance Statement, independent assurance report and outlines changes to the inputs.

## 1.2	Background

The PR19 Final Determination includes revenue and RCV adjustments for the PR14 True-up mechanisms. The revenue and RCV adjustments includes forecast performance for 2019/20. This document provides an overview of the actual performance in 2019/20, the 'Blind Year'. The difference in the performance will be reconciled in 2021/22-2024/25 performance or at PR24. We have not made any changes to the previously reported data for 2015/16 to 2018/19.

## 1.3	Structure

Section 2- MOS and ODI Reconciliation- This section provides an overview of our MOS performance including any rewards and penalties.

Section 3- Totex Menu Reconciliation- This section provides an update on the totex menu reconciliation model.

Section 4- Wholesale Revenue Forecasting Incentive Mechanism- This section provides an update of the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM).

Section 5- Household Retail Reconciliation- This section provides an update of the Household Retail Reconciliation.

Section 6- Water Trading- This section provides an overview of the PR14 Water Trading incentive.

Section 7- Land Disposals- This section provides an update of Land Disposals.

Appendix A- Assurance Process and Independent Assurance Report- This section includes the Independent Assurance report and an overview of our assurance process.

2 MOS and ODI Reconciliation

Our performance for 2015/16 to 2019/20 is measured against 31 Measures of Success (MOS). Sixteen of our MOSs have Outcome Delivery Incentives (ODIs) associated with them. The ODI reconciliation calculates the rewards and penalties based on companies' actual performance over the five years from 1 April 2015. The calculation of the ODI underperformance and outperformance payments are calculated within the ODI performance model. The financial impact is reported in App27 of the past delivery tables.

We have not made any changes to the previously reported data for 2015/16 to 2018/19.

2.1 Difference from Early Submission

Table 1 shows the difference between in the revenue adjustments included in the Final Determination and the adjustments due to updated ODI performance for 2019-20. An explanation of our performance is provided in section 3 of the Annual Performance Report.

Table 1- ODI Revenue Adjustments

	Final Determination (£m)	Blind Year Submission (£m)	Difference (£m)
Water Resources	-	-	-
Water Network Plus	(10.3)	(13.3)	(3.0)
Wastewater Network Plus	10.3	10.2	(0.1)
Bioresources	-	-	-
Residential Retail	-	-	-
Business Retail	-	-	-
Total Net Revenue Adjustments	-	(3.1)	(3.1)

2012-13 Prices

The blind year adjustment for ODI performance is calculated as £3.7m (2017-18 prices) to be returned to customers. However, in anticipation of this, our 2020/21 Scheme of Charges included a negative revenue adjustment of £2.6m for the forecast difference in ODI performance. Further information is available in our Statement of Significant Changes (Scheme of Charges 2020-21).

2.2 Water Network Plus

The ODI penalty for the AMP for water network plus is from three performance commitments; A1: Safety of drinking water, A2: Customer Acceptability and A3: Interruptions to supply.

2.3 Wastewater Network Plus

The ODI reward for the AMP for wastewater network plus is from two performance commitments; B3: Preventing Pollution and D3: Internal Sewer Flooding.

Our PR14 final determination performance commitment for each of the five performance commitments is summarised in tables 2.1- 2.5. The tables also reports the calculation of the ODI reward/penalty.

Table 2.1- A1: Safety of drinking water

A1 – Safety of drinking water					
	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment level	99.98	99.98	100.00	100.00	100.00
Actual performance level	99.96	99.97	99.96	99.97	99.94
Performance commitment level met	No	No	No	No	No
Penalty Deadband	99.95	99.95	99.95	99.95	99.95
Penalty Collar	99.91	99.91	99.91	99.91	99.91
ODI rate	£2.5m per 0.01% per year (Max penalty of £10m per Year)				
Underperformance Penalty	£0m (Actual performance is within the penalty deadband)	£0m (Actual performance is within the penalty deadband)	£0m (Actual performance is within the penalty deadband)	£0m (Actual performance is within the penalty deadband)	= 99.94 (Actual Performance)- 99.95 (Penalty Deadband) =0.01 @ £2.5m per 0.01% = £2.5m

Table 2.1- A2: Customer Acceptability

A2 - Customer Acceptability (Contacts per 1,000 Population)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment level	2.54	1.89	1.23	1.23	1.23
Actual performance level	3.08	3.2	3.19	3.28	2.80
Performance commitment level met	No	No	No	No	No
Penalty Deadband	3.2	3.2	1.23	1.23	1.23
Penalty Collar	3.4	3.4	1.43	1.43	1.43
ODI rate	£0.093m per 0.01 contacts per 1000 population (Max £1.86m in penalty or reward per annum)				
Underperformance Penalty	£0 (actual performance is better than the penalty deadband)	£0 (actual performance is better than the penalty deadband)	= 1.43 (Penalty collar) - 1.23 (Penalty Deadband) = 20 @ 0.093 = £1.8600m Maximum penalty as actual performance of 3.19 is above penalty collar)	= 1.43 (Penalty collar) - 1.23 (Penalty Deadband) = 20 @ 0.093 = £1.8600m Maximum penalty as actual performance of 3.28 is above penalty collar)	= 1.43 (Penalty collar) -1.23 (Penalty Deadband) = 20 @ 0.093 = £1.8600m Maximum penalty as actual performance of 2.80 is above penalty collar)

Table 2.2- A3: Reliability of Supply

A3 - Reliability of Supply (Customer minutes lost)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment level	36	24	12	12	12
Actual performance level	21.7	12.2	43.3	16	14.7
Performance commitment level met	Yes	Yes	No	No	No
Penalty Deadband	48	48	12	12	12
Penalty Collar	68	68	32	32	32
Reward Deadband	12	12	12	12	12
Reward Cap	0	0	0	0	0
ODI rate	£0.195m per minute (Max Reward £2.34m pa "in the year". Max Penalty £3.9m pa "in the year")				
Penalty/Reward	£0	£0	= 32 (Penalty collar) - 12(Penalty Deadband) = 20 @ 0.195 = £3.9m Maximum penalty as actual performance of 43.3 is above penalty collar)	= 16 (Actual performance) - 12 (Penalty Deadband) = 4 @0.195 = £0.78m penalty	= 14.7 (Actual performance) - 12 (Penalty Deadband) = 2.7@0.195 = £0.53m penalty)

Table 2.3- B3: Preventing Pollution

B3 - Preventing Pollutions (Category 3)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment level	161	154	131	131	131
Actual performance level	110	111	112	118	120
Performance commitment level met	Yes	Yes	Yes	Yes	Yes
Reward Deadband	131	131	131	131	131
Reward Collar	106	106	106	106	106
ODI rate	Penalty - £0.400m per incident (Max 10m pa) Reward £0.047m per incident (Max of £1.175m pa)				
Outperformance payment	= 131 (deadband) - 110 (Actual performance) = 21 * 0.047 = £0.987m	= 131 (deadband) - 111 (Actual performance) = 20 * 0.047 = £0.94m	= 131 (deadband) - 112 (Actual performance) = 19 * 0.047 = £0.893m	= 131 (deadband) - 118 (Actual performance) = 13 * 0.047 = £0.6110m	= 131 (deadband) - 120 (Actual performance) = 11 * 0.047 = £0.517m

Table 2.4- D3: Internal Sewer Flooding

D3 - Internal Sewer Flooding (Number of Properties)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Performance commitment level	310	300	292	282	269
Actual performance level	223	242	221	221	216
Performance commitment level met	Yes	Yes	Yes	Yes	Yes
Reward Deadband	271	263	256	248	238
Reward Cap	232	226	221	215	207
ODI rate	Reward £0.062m per property, Penalty £0.161m per property (Average performance over two year period in order to smooth the effects of weather variability)				
Outperformance payment	£0 (No reward or Penalty applicable in the year as it is the average performance for two years)	= 263 (deadband) - (223 + 242)/2 = 233 (Actual performance) = 30 * 0.062 = £1.86m	= 256 (deadband) - (242+221)/2 = 232 (Actual performance) = 24 * 0.062 = £1.488m	= 248 (deadband) - (221 + 221)/2 = 221 (Actual performance) = 27 * 0.062 = £1.6740m	= 238 (deadband) - (216 + 221)/ 2 = 219 (Actual performance) = 19 * 0.062 = £1.178m

3   Totex Menu Reconciliation

The totex menu reconciliation calculates the adjustments to revenue and RCV for the next price control period based on the totex performance of the company over the current price control period. The table shows the changes to the inputs from the updated reconciliation rulebook submission in July 2019. The changes reflect actual 2019/20 performance. We have not made any changes to the previously reported data for 2015/16 to 2018/19.

		Water 2019/20 Expenditure		
		Final Determination	Actual	Difference
Actual Totex	£m	328.2	351.3	23.1
Less: Third party services (opex)	£m	9.5	8.1	(1.4)
Less: Third party services (capex)	£m	0.6	3.7	3.1
Less: Pension deficit recovery costs	£m	1.8	6.1	4.3
Menu Totex	£m	316.3	333.4	17.1

		Wastewater 2019/20 Expenditure		
		Final Determination	Actual	Difference
Actual Totex	£m	342.6	345.7	3.1
Less: Third party services (opex)	£m	0.2	1.6	1.4
Less: Third party services (capex)	£m	0.1	0.4	0.3
Less: Pension deficit recovery costs	£m	1.3	4.5	3.2
Net Totex	£m	341.0	339.2	(1.8)

Menu totex for water is £17m higher than our 2019-20 forecast due to higher operating expenditure. Additional expenditure is due to atypical costs for adverse weather, additional costs on our minor works contracts and higher direct labour costs. The difference between the Final Determination allowed totex and actual totex is reported in our APR Commentary for table 4B.

3.1   Loughor Transition

Our PR19 Final Determination allowed £32.87m (2017-18 prices) transition expenditure for L2 Loughor Expenditure. The table below reports the transition expenditure included in our Annual Performance Report in table 4B. Total expenditure for 2019-20 is £25.8m, the remaining allowance will be spent in 2020-21. Transition expenditure is removed from the PR14 totex model and is included in the PR19 cost sharing model.

		2019-20
Base Expenditure	£m	0.527
Enhancement Expenditure	£m	25.225
Total	£m	25.752
Total (2017-18 Prices)	£m	24.800

4   Wholesale Revenue Forecasting Incentive Mechanism (WRFIM)

The Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) incentivises companies to accurately forecast revenue by applying a penalty to variations that fall outside the set revenue flexibility threshold. The model also adjusts companies' allowed revenue for each year to take account of any over/under-recovery in previous years which has been returned to customers within the period. Due to the two year time-lag set out within the mechanism, the difference between the allowed revenues and recovered revenues in the final two years of AMP6 (2018/19 and 2019/20) and any resulting penalty will be applied at PR19.

The table shows the changes from the 2019/20 forecast included in the Final Determination and the 2019/20 actual performance. Our 2019/20 Final Determination Forecast revenue was set to achieve the adjusted allowed revenue from the WRFIM model. Actual revenue recovered was £0.3m and £0.6m higher than forecast for water and wastewater respectively. The over-recovery arose from higher than forecast Requisition income offset by lower demand from non-household customers.

We have not made any changes to the previously reported data for 2015/16 to 2018/19.

Wholesale Water			FD 2019-20 Forecast	2019-20 Actual
Adjusted Allowed Revenue 2019/20	£m	Outturn	311.8	311.8
Revenue Recovered	£m	Outturn	311.8	312.1
Difference	£m	Outturn	0.0	0.3
Difference	%		0%	0.80%
Blind Year True-up	£m	Outturn		(0.3)
Blind Year True-up	£m	17-18 Prices		(0.3)

Wholesale Wastewater			FD 2019-20 Forecast	2019-20 Actual
Adjusted Allowed Revenue 2019/20	£m	Outturn	403.8	403.8
Revenue Recovered	£m	Outturn	403.8	404.4
Difference	£m	Outturn	0.0	0.6
Difference	%		0.0%	0.1%
Blind Year True-up	£m	Outturn		(0.6)
Blind Year True-up	£m	17-18 Prices		(0.6)

5   Household Retail Reconciliation

The household retail control is an average revenue control based on the efficient cost of retail activities and projected customer numbers. There is an automatic annual modification to the allowed household retail service revenue in each year of the price control to account for the difference between actual and forecast customer numbers and meter penetration. The retail reconciliation model sets out how differences in the forecast and actual customers' numbers in a given year will be reconciled. The model also reconciles any over or under recovery of household retail revenue per customer type.

5.1   Updated Reconciliation Rulebook Input

The table shows our forecast number of customers and revenue collected alongside the 2019/20 actual performance. We have not made any changes to the previously reported data for 2015/16 to 2018/19. When setting charges for 2019/20 we forecasted a large increase of customers on our HelpU social tariffs, forecasting a revenue sacrifice of £12.4m. The increase of customers on HelpU was slower than forecast which has resulted in an over-recovery of revenue. This revenue will be returned to customers at the end of the period.

Actual Customer Numbers (Nr)

	FD 2019-20 Forecast	2019-20 Actual	Difference
Unmetered water-only customer	51,782	52,357	575
Unmetered wastewater-only customer	47,072	49,843	2,771
Unmetered water and wastewater customer	652,145	651,405	(740)
Metered water-only customer	31,552	30,029	(1,523)
Metered wastewater-only customer	86,252	79,825	(6,427)
Metered water and wastewater customer	543,922	548,516	4,594
Total	1,412,725	1,411,975	(750)

Actual revenue collected (£m)

	FD 2019-20 Forecast	2019-20 Actual	Difference
Unmetered water-only customer	1.3	0.7	(0.7)
Unmetered wastewater-only customer	1.3	0.5	(0.7)
Unmetered water and wastewater customer	13.6	15.1	1.5
Metered water-only customer	1.1	0.7	(0.3)
Metered wastewater-only customer	2.8	2.1	(0.7)
Metered water and wastewater customer	21.0	28.0	7.0
Total	41.0	47.1	6.2

Revenue sacrifice (£m)

	FD 2019-20 Forecast	2019-20 Actual	Difference
Unmetered water-only customer	0.1	0.1	(0.0)
Unmetered wastewater-only customer	0.0	0.0	(0.0)
Unmetered water and wastewater customer	9.8	6.5	(3.4)
Metered water-only customer	0.0	0.0	(0.0)
Metered wastewater-only customer	0.0	0.0	-
Metered water and wastewater customer	2.4	1.8	(0.6)
Total	12.4	8.3	(4.1)

Actual net revenue collected (£m)

	FD 2019-20 Forecast	2019-20 Actual	Difference
Unmetered water-only customer	1.4	0.7	(0.7)
Unmetered wastewater-only customer	1.3	0.5	(0.8)
Unmetered water and wastewater customer	23.4	21.5	(1.9)
Metered water-only customer	1.1	0.8	(0.3)
Metered wastewater-only customer	2.8	2.1	(0.7)
Metered water and wastewater customer	23.4	29.8	6.4
Total	53.4	55.4	2.1

Retail Revenue Net Adjustment (£m)

	FD 2019-20 Forecast	2019-20 Actual	Difference
Unmetered water-only customer	0.0	0.7	0.7
Unmetered wastewater-only customer	0.0	0.8	0.8
Unmetered water and wastewater customer	0.0	1.8	1.8
Metered water-only customer	0.0	0.3	0.3
Metered wastewater-only customer	0.0	0.5	0.5
Metered water and wastewater customer	0.0	(6.2)	(6.2)
Total	0.0	(2.1)	(2.1)

*Any Differences are due to roundings

6   Water Trading

The water trading incentive was introduced at PR14 to encourage companies to trade water where it is beneficial to do so. We published our trading and procurement code on 25th November 2015 and it was approved by Ofwat in February 2016. We do not anticipate entering into any new trades before March 2020. We have not made any changes to the previously reported data for 2015/16 to 2018/19.

7   Land Disposals

The 2019/20 actuals are reported in table 2E of the APR and have been included in the updated submission. We have not made any changes to the previously reported data for 2015/16 to 2018/19.

Blind Year Adjustment

	2019-20 Forecast	2019-20 Actual	Difference
Water: Actual and current forecast sales (£,000)	100	53	(47.0)
Waste: Actual and current forecast sales (£,000)	100	1	(99.0)
Water: RCV Land Disposals (£m) 2017-18 FYA CPIH Deflated	(0.46)	(0.44)	0.02
Waste: RCV Land Disposals (£m) 2017-18 FYA CPIH Deflated	(0.06)	(0.02)	0.04

Appendix Assurance process and independent assurance report

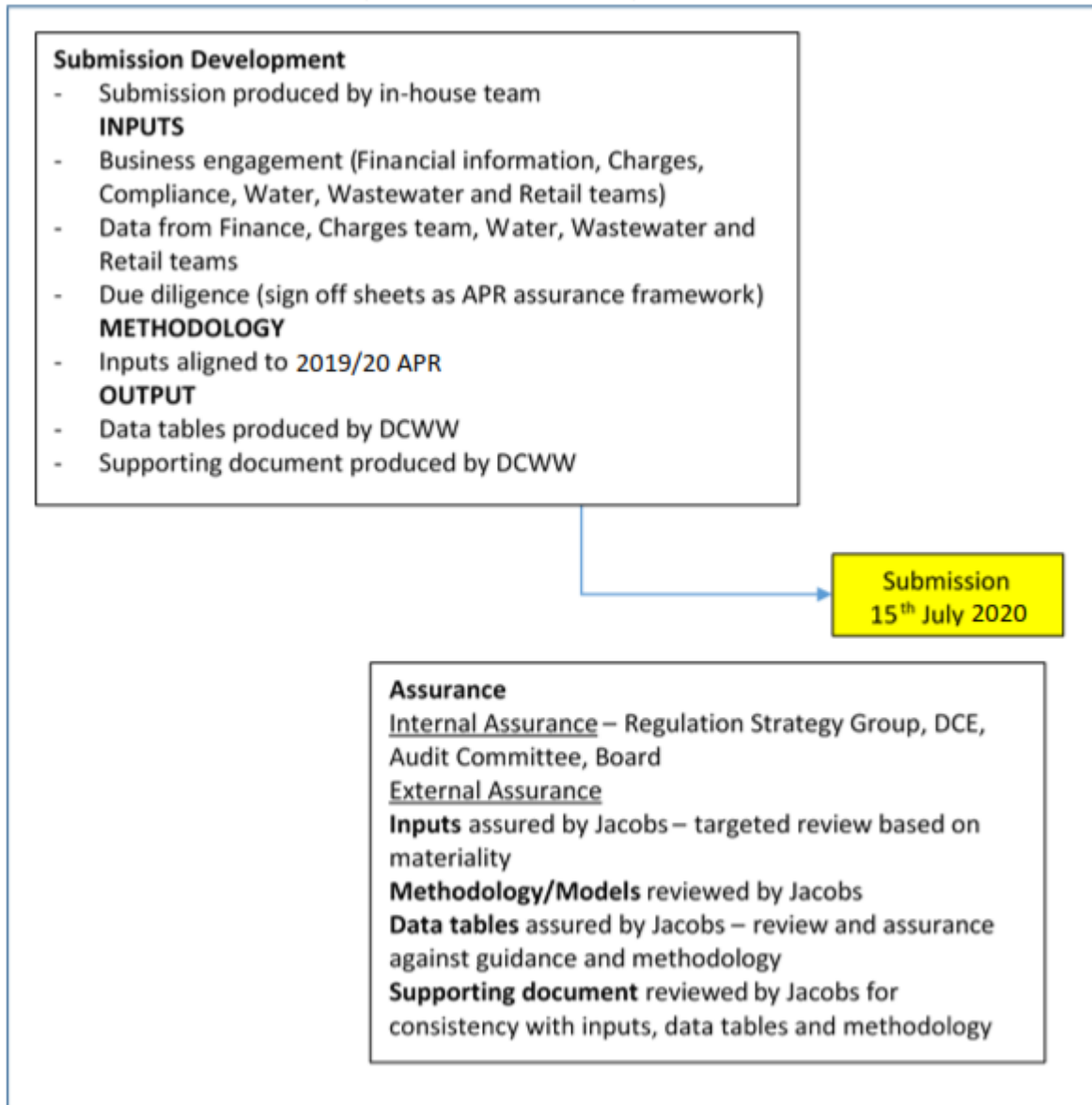The flowchart below shows the process undertaken for production and assurance of the submission.

Submission Development
- Submission produced by in-house team
  INPUTS
- Business engagement (Financial information, Charges, Compliance, Water, Wastewater and Retail teams)
- Data from Finance, Charges team, Water, Wastewater and Retail teams
- Due diligence (sign off sheets as APR assurance framework)
  METHODOLOGY
- Inputs aligned to 2019/20 APR
  OUTPUT
- Data tables produced by DCWW
- Supporting document produced by DCWW

Submission 15th July 2020

Assurance
Internal Assurance – Regulation Strategy Group, DCE, Audit Committee, Board
External Assurance
Inputs assured by Jacobs – targeted review based on materiality
Methodology/Models reviewed by Jacobs
Data tables assured by Jacobs – review and assurance against guidance and methodology
Supporting document reviewed by Jacobs for consistency with inputs, data tables and methodology

Figure A-1 Flowchart of process for production and assurance of the PR19 Blind Year Reconciliations of PR14 Incentive Mechanisms

The Statement of Board Assurance on page 2 sets out the factors and the assurance information the Board considered in support of the PR19 Blind Year Reconciliation for PR14 Incentive Mechanisms.

An independent review and assurance of the submission was undertaken by Jacobs reflecting the targeted assurance requirements. Jacobs were asked to review, in particular:

- The data used for PR19 Blind Year Reconciliation of PR14 Incentive Mechanisms
- The use of the PR14 Reconciliation rulebook models
- Output of the feeder models to the PR19 Blind Year Table

01 July 2020

Attention: The Board
DCWW
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Project Name: Dwr Cymru Welsh Water (DCWW) Non-Financial Assurance
Project Number: B2271301

Subject: DCWW PR14 Reconciliation APR20

To the Board

Part of the 2019 Price Review (PR19) was the calculation of adjustments to take account of AMP6 performance and incentive mechanisms. This was particularly important given the potential materiality of the adjustments and the fact that the way adjustments are calculated can be complex and open to different interpretations.

Ofwat produced the Price Review 2014 (PR14) reconciliation rulebook which describes the way that it will reconcile companies' 2015-2020 performance against the PR14 Final Determinations at PR19, through the following mechanisms:

- Outcome Delivery Incentives (ODIs), which provide companies with rewards for achieving stretching performance targets and compensate customers if performance is below performance targets;
- Wholesale Total Expenditure (Totex) sharing, where company over- and underperformance is shared with customers, taking into account the appropriate treatment of transition expenditure.
- Wholesale Revenue Forecasting Incentive Mechanism (WRFIM), which provides financial incentives for companies to provide accurate forecasts, and ensures under- and over-recovery is reconciled;
- PR14 Service Incentive Mechanism (SIM) over the first 4 years of AMP6;
- Household retail, where the total revenue allowance is adjusted for actual customer numbers and in your case, the specific arrangement you have for revenue sacrifice and social tariffs;
- Land sales, where the company shares the proceeds with customers.

Due to the timing of PR19 there is ultimately a final reconciliation to take account of the actual performance in the "blind year" 2019-20. As part of our APR20 assurance, you engaged us to conduct a risk-based review of your submissions relating to the Reconciliation Rule Book –

Jacobs

01 July 2020
Subject: DCWW PR14 Reconciliation APR20

Feeder Models. Our assurance focused on your interpretation of the guidance for the PR14 reconciliation rulebook and subsequent application via the feeder models. The risks identified do not reflect the robustness of the data relating to actual costs and revenues that input to the feeder models, as these are subject to separate assurance.

Companies must submit this data at the same time as the 2019-20 APR submission. Consequently, you asked us to assure your data and how the outputs of the feeder models provide the data required for the relevant APR20 submission. The detail of our risk- based approach is set out in Appendix A.

Transition expenditure was subject to separate audit. The value of your transition expenditure is £25.752m.

Observations

We note that during our audit on 22 May 2020 we identified a very limited number of instances, where the latest/final data had not been flushed through all of the relevant models and tables. This was corrected during the audit.

In our original letter of 25 May 2020, we stated that we did not identify any recommendations for improvement. We did recommend that you should ensure that any changes to input data i.e. after the audit of 22 May 2020, are identified and flushed through your models and relevant APR20 tables prior to submission.

By 01 July 2020 you had identified some changes. You notified us and informed us of the impacts. We have reviewed all of these changes and have found no material issues.

The outcome of all our data sampling (including the latest changes) has been provided to the team.

Recommendations

We did not identify any recommendations for improvement.

Conclusions

As a result of our risk based assurance, we consider that overall, for the Reconciliation Rule Book – Feeder Models:

- your team has identified data, consistent with the guidance, required to populate the feeder models. This data is consistent, where appropriate, with other APR20 tables;
- your team has employed a robust processes to populate the feeder models, in line with Ofwat guidance; and,

- your team has used outputs from the feeder models to provide data required for the Past Delivery Data Tables and any relevant APR20 tables, consistent with the respective guidance.

Yours sincerely

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Appendix A. Summary of assessment framework

As we note in the letter above, our assurance approach focuses on the level of risk associated with the data/forecast. The result of our approach is a score of A, B, C or D for each PR19 table, line or group of lines. In assessing your data, we used a standard scoring framework to produce results that are comparable across the measures. Table A.1 below summarises this framework.

Table A.1 Summary of scoring framework for the data stage of our assurance approach

Score	Meaning
A	Low risk – no weaknesses in production of data/forecast
B	Low to medium risk - no material weaknesses in production of data/forecast
C	Medium to high risk - material weakness (or number of minor ones with material effect)
D	High risk – multiple material weaknesses or data missing/not provided

Table A.2 Scores for the PR14 reconciliation models and business plan data tables we reviewed

Tables and line descriptions		Data score
PR14 reconciliation models and associated PR19 tables		B
During the face to face audit 22 May 2020 we identified a very limited number of instances, where the latest data had not been flushed through all its relevant models or tables. This was corrected during the that audit.		