



The voice for water consumers  
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

# **CCW's response to PR19 Reconciliation Rulebook Consultation**

## 1. Introduction

- 1.1 CCW is the statutory consumer organisation representing water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's PR19 Reconciliation Rulebook Consultation.

## 2. Our response

- 2.1 You note in the consultation document that in some cases the data required to perform the reconciliations is not currently collected. You will subsequently consult on the Regulatory Accounting Guidelines and companies will then report in, or alongside, their Annual Performance Reports (APRs). Ofwat's approach to data assurance will be paramount to ensuring a level playing field i.e. that companies have consistently followed the RAGs in putting together the information required for the reconciliations.
- 2.2 There are around 20 reconciliation models. As you acknowledge, the model suite is 'significantly wider than at PR14'. Of these models eight could lead to in-period adjustments and subsequent in-period bill volatility. Companies may find it challenging to explain bill variability to customers in the light of this especially when, typically, there is a lag of two years before the reconciliation comes through in bills. Ofwat needs to be mindful of this scope for in-period bill volatility, as we know from our research that customers prefer stable/predictable bills.
- 2.3 Given the number of reconciliation models, both in-period and in totality, it will be important to ensure transparency of which reconciliations are driving material changes in bills. This is particularly true for the in-period adjustments that would affect the three years 2021-23. You explain that with regard to in-period ODIs Ofwat will make relevant determinations by 15 November in each year. Where other reconciliations are affecting bills we would welcome transparency of those impacts. This could also be through the ODI determinations. With regard to the revenue forecasting incentive model we would expect transparency of any penalties where there is a significant variance between forecast and actual revenue.
- 2.4 You explain that, with the exception of ODIs, revenue adjustments for the blind-year should be spread over the last four years of the 2020-25 period. However, you indicate that it will be up to companies to elect how they want to apply the adjustments. Assuming that the adjustments are significant enough to have a material impact on bills could one company's approach lead to greater bill volatility than others? And do you expect companies to take account of customer views on this?
- 2.5 We know that many companies research often shows a preference for smoother bill profiles. We suggest that unless companies have customer evidence to the contrary, spreading the cost over the four years is preferable.
- 2.6 We note that you plan to consult on the planned redistribution of any unused monies from the £200m innovation fund. We look forward to responding in due course.

- 2.7 We support Ofwat standardising, through the new ODI performance model, companies' calculations of the variance between blind year forecast performance and outturn performance.
- 2.8 We note that companies can seek to defer or abate revenue. We would ask that where companies propose to defer revenue changes this is taken in the light of forecast performance such that bill volatility is minimised. It would not be in customers' interests if decisions to defer revenue reconciliations subsequently compounded the impacts of future years' performance.
- 2.9 You ask whether the RFI should be amended to include an adjustment for any unambiguous revenue errors in relation to your final determinations of price controls. We agree that this should be subject to a high bar for both regulatory certainty and potential implications for bill volatility. It would also be useful to understand whether this will be subject to any materiality threshold (be this a single error in its own right or the aggregation of multiple unambiguous errors).
- 2.10 With regard to the question of time value of money for cost reconciliations we agree that that the approach should not incentivise delaying or advancing expenditure.

## **Enquiries**

Enquiries about this consultation should be addressed to:

Dene Bridge  
Policy Manager  
CCW  
E-mail: [dene.bridge@ccwater.org.uk](mailto:dene.bridge@ccwater.org.uk)  
Tel: 0121 345 1062