

UUW95

Financial Model Commentary

October 2023

This document contains supporting commentary to the population and operation of the Ofwat PR24 Financial Model as well as the associated feeder and output models.

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1. UUW94 Ofwat financial model

- 1.1.1 We have submitted a populated version of the Ofwat financial model alongside our business plan. The Ofwat financial model is used to test the financeability of the notional company, populate tables RR10-RR16 and to determine the allowed revenues for use in the UUW actual company financial model. We have used version 4 of the mapping tool, published on 15th August, to populate the Ofwat financial model from the tables and found no issues in its use.
- 1.1.2 In modelling the notional company, we have encountered some issues concerning the operation and results of the model that we detail below. Where we have identified issues in the population and operation of the model, we have sought to address these by changing the inputs rather than the calculations within the model. We have done this to ensure that if the input tables are used to populate a new copy of the model then there will continue to be no errors flagging within the model. However, we would recommend that Ofwat looks to address these issues within future iterations of the financial model rather than relying on companies to make the adjustments within the inputs. This is because the adjustments to the inputs are only valid against the assumptions at the time of the submission and if Ofwat were to update any of the underlying assumptions i.e. the notional company gearing, then the adjustments may need revising to remain coherent. It is also possible that companies may take different approaches to rectifying the issues, making it more difficult for Ofwat to use information comparatively.

1.2 Notionalisation adjustment

Issue: The financial model does not automatically adjust the balance sheet within each price control to reflect the notionalisation of the company structure.

- 1.2.1 Companies are required to input information relating to the actual company within tables RR1-RR9, this is then used to populate Ofwat's model. The Ofwat financial model then derives the notional net debt within the 'Wholesale debt' calculations (via the 'Change in net debt') but a corresponding adjustment is not made to the retained earnings within the individual price control balance sheets. Therefore, if companies input the balance sheet items (debt and retained earnings) in line with the actual company the model returns error flags across each of the Wholesale price control as the notional net debt and retained earnings in each price control are not consistent.

Solution: We adjust the inputted 'Opening Other liabilities balance' (RR9.31-RR9.34) to reflect the notionalisation of the actual company balance sheet items.

- 1.2.2 We have included within the population of these lines the notionalisation adjustments to net debt produced by the Ofwat financial model. This removes any error flags in the model concerning the balance sheets for each price control without having to adjust the calculations within the model to make the equivalent adjustment. The adjustments made are set out in Table 1 below.

Table 1 Adjustments to Opening Other liabilities to correct for notionalisation adjustments

Line Description	Value
Opening Other liabilities balance - control - nominal (WR)	95.8
Opening Other liabilities balance - control - nominal (WN)	513.8
Opening Other liabilities balance - control - nominal (WWN)	1,129.3
Opening Other liabilities balance - control - nominal (BR)	64.1
Opening Other liabilities balance - control - nominal (Wholesale)	1,802.9

Change in net debt opening, rows 544-558 Wholesale debt, Ofwat financial model

- 1.2.3 We have used the ‘Other liabilities’ balance inputs rather than the ‘Retained earnings’ for simplicity, to contain all adjustments that we have made to ensure the model works without errors within a single set of inputs (with the remaining adjustments set out below in Other Balance sheet adjustments).
- 1.2.4 The adjustment to the input should be viewed as a temporary solution to remove the error flag(s) within the model but we recommend that a more permanent solution be implemented within the model itself. This is because any manual adjustment we make is only valid under the current assumptions for the notional company opening balances and should Ofwat, for whatever reason, decide to change either input assumption then the balance sheets will once again be incoherent. We do not capture debt or other such information at a price control level and so inputted information will always be a top-down apportionment for most balance sheet items (fixed asset information being the notable exception). Therefore we consider it would be most appropriate that the notional company model apportions appointee balances to price controls rather than companies having to create a mixture of actual and notional company values within its input to ensure there are no error flags.

1.3 Other Balance sheet adjustments

Issue: There are a number of balance sheet items that do not have specific inputs

- 1.3.1 There are a number of items that appear on the balance sheet of the actual company (table RR19) that have no corresponding input in tables RR1–RR9, and therefore cannot be automatically input in to Ofwat’s financial model. As a result, without any adjustment the balance sheet in Ofwat’s financial model would not accurately reflect all relevant line items since it uses opening asset and retained earnings positions of the actual company, whilst not allowing for corresponding liabilities to be recorded.

Solution: We have included a number of balance sheet items within lines RR9.31 – RR9.36 to ensure the outputs of Ofwat’s financial model are consistent with the RAGs.

- 1.3.2 We outline the adjustments that we have made within the table commentary for RR9 (UUW82) and also copied below for reference. The balance sheet items included in these lines are listed in Table 2 below.

Table 2 Opening balance adjustments

Table reference	Description	Comment	Value
RR19.5, RR19.10, RR19.16 & RR19.23	Financial instruments	There is no input for derivatives balances in tables RR1 – RR9	£143m
RR19.11	Cash & Cash equivalents	As discussed in table commentary for RR4 we have input a nil cash balance to allow for a cleaner view of debt required over AMP8, but the cash balance forecast for 2024-25 in the actual company is £400m as per RR19	£400m
RR19.21	Trade & other payables (non-current)	Ofwat’s financial model does not split out current and non-current trade payables so we have only input current trade payables in to RR9	£(21)m
RR19.18 less actual provisions in RR9.25 – 30	Current deferred income	As per RAG 4.11, current deferred income should be recorded within provisions in the balance sheet. However since there should be no cash flow impact, we have excluded current deferred income from provisions inputs in RR9.	£(19)m

Table reference	Description	Comment	Value
RR19.26	Non-current deferred income – grants & contributions	There is no input for non-current deferred income in tables RR1 – RR9	£(292)m
RR19.27	Non-current deferred income – adopted assets.	There is no input for non-current deferred income in tables RR1 – RR9	£(680)m
n/a	Adjustment from notional debt to balance sheet debt	Adjustment from notional debt (debt reported in table 1E) to balance sheet debt (debt reported in table 1C). For more detail please see 2022-23 APR commentary.	£111m
Total			£(358)m

1.3.3 The £358m liability has been apportioned between price controls based on individual imbalances within Ofwat’s financial model. The imbalance at a price control level is as a result of inputs, such as fixed assets, being reported at a price control level due to business as usual reporting in the APR, and inputs such as equity issuance and working capital only being reported at an Appointee level as part of business as usual reporting and apportioned via a top-down allocation method for the purpose of populating tables RR1–RR9.

1.3.4 We have also included the impact of notionalisation within Ofwat’s financial model at a price control level within the ‘Other liabilities opening balance’ for each price control as per Table 2 above. This adjustment is required as although Ofwat’s financial model notionalises actual debt, it takes actual company retained earnings as an input and does not correct it for the notionalisation adjustment.

1.4 Movement in intangible assets error

Issue: Movement in intangible assets and investments has different signage in the wholesale balance sheet as compared to the wholesale cash flow statement.

1.4.1 Movement in intangible assets and investments is incorporated in to the wholesale cash flow statements using the inputs in RR9.250 to RR9.255. The intangible assets and investments balance reported in the balance sheet is calculated in the Wholesale other tab as the opening balance as per RR9.19 to RR9.24, plus the movement in intangible assets and investments as per RR9.250 to RR9.255. If the inputs in RR9.250 to RR9.255 are positive, this results in an increase in the asset on the balance sheet, as well as a positive cash flow in the cash flow statement. This treatment is incorrect since an increase in current assets would result in a negative cash flow.

Solution: None

1.4.2 We have input nil movement in intangible assets and investments since we have reported intangible assets along with tangible assets in lines RR9.226 – RR9.237 (please see *UUW82 – Risk and Return data table commentary* for more detail) and we don’t expect our investments balance to move. If a value was entered in to lines RR9.250 to RR9.255 it would result in error flags in the financial model.

1.5 Retail dividend signage error

Issue: Dividends paid have different signage in the retail balance sheet as compared to the retail cash flow statement.

- 1.5.1 Equity dividends paid out of the retail price control are a negative cash flow, but within the retail cash flow statement they are pulled through as a positive cash flow. In the retained cash balance calculations within the Retail Residential tab, dividends are deducted from the opening cash balance i.e. they are treated as a negative cash flow.

Solution: Input 0% distribution of dividends at retail level in RR7.55

- 1.5.2 We would have assumed that 100% of profits are distributed as a dividend in the retail price control, however if a percentage is input in to RR7.55 it results in error flags in the financial model. If a value is entered in RR7.55 the retained cash balance in the balance sheet is not comparable to the increase/decrease in cash reported in the cash flow statement, so we have assumed all dividends are attributable to the wholesale price controls.

1.6 Deferred tax calculation error

Issue: The 'Temporary differences arising in year' does not account for either tax loss or the utilisation of tax losses within the calculation of deferred tax for each year.

- 1.6.1 We note that the calculation of temporary differences arising in year (Tax, rows 1223-1246) within the financial model does not account for either any tax loss arising in the year or the utilisation of any losses carried forward in offsetting the current year taxable profit. The result is that deferred tax is misstated leading to total effective tax rates (current tax + deferred tax/ PBT) that are significantly different from the headline rate of corporation tax.

Table 3 Effective tax rates for the notional company

	2026	2027	2028	2029	2030
a Profit before tax	343.7	382.2	363.2	387.0	428.9
b Current tax charge	4.1	42.9	18.3	7.7	18.8
c Movement in deferred tax provision	198.7	1.5	40.5	64.3	52.0
Effective tax rate (b + c)/a	59.0%	11.6%	16.2%	18.6%	16.5%

FinStat Appointee worksheet

Table 4 Effective tax rates for the actual company

	2026	2027	2028	2029	2030
a Profit before tax	461.2	507.6	477.7	493.6	504.2
b UK Corporation tax	0.0	54.5	31.1	20.8	26.0
c Deferred tax	118.8	76.6	94.3	109.0	104.4
Effective tax rate (b + c)/a	25.77%	25.83%	26.26%	26.29%	25.85%

RR18

- 1.6.2 We expect the total effective tax rates to be marginally above the headline rate of corporation tax due to permanent timing differences that are added to the annual deferred tax charge. However, the exclusion of in year losses and loss utilisation from the notional company calculations result in total effective tax rates that are significantly different. The consequence of this error is relatively minor and it

should only impact where any stated profit after tax is used in any calculations, the most noticeable of these is reported dividend cover ratios in RR16.17.

Solution: None

- 1.6.3 We have not sought to correct this error within the PR24 notional company model, but we do account for tax losses and loss utilisation within the deferred tax calculation for the actual company. Therefore, there will be noticeable differences between any financial ratio that uses profit after tax within the calculation e.g. dividend cover.

1.7 Retail tax

Issue: The notional company model calculates current tax within Retail Household independently of Wholesale, causing erroneous cashflows for the Appointee.

- 1.7.1 Actual tax and taxable profit is calculated at an Appointee level (or Group) and not on an individual price control basis. The issue with calculating tax separately for Retail from Wholesale is twofold;
- (1) Taxable profit is heavily influenced by allowable deductions, in particular capital allowances, the majority of which are driven by Wholesale expenditure and so excluding these from the derivation of tax will overstate the taxable profit for Retail and,
 - (2) Tax losses that are used to offset future taxable profit are held in Wholesale within the notional company model and so calculating tax in Retail separate to this will overstate the amount of tax paid as it will not factor in the 50% of losses utilised in year to offset any taxable profit.
- 1.7.2 Retail does not contain any revenue allowance for tax within the derivation of cost to serve and therefore this issue will not impact customers and the resulting bills directly. It would in theory result in tax losses in Wholesale being underutilised and therefore tax allowances being understated, but given the size of tax losses carried into AMP8 this does not impact allowed revenue for UUW. However, there will be a small impact to net interest paid within the notional company as the tax erroneously paid in Retail results in a negative retained cash balance, which in turn results in interest amounts of to be paid. Had there either been a tax allowance in Retail or the assessment of tax be undertaken at an Appointee level, this interest would not be incurred. The most obvious example of this inconsistency is in FY26, where the Appointee company has a current tax charge even though the actual company is in tax loss due to the impact of the enhanced capital allowances available to companies.

Solution: None

- 1.7.3 We have not sought to correct the notional company tax calculations but for the actual company, we calculate tax at a company level and therefore there is a difference between the notional and actual company that reflects the different approaches taken.

2. UUW97 RCV and UUW98 Revenue adjustment feeder models

2.1.1 This section provides commentary pertinent to the population of the RCV and revenue adjustment feeder models and importantly, where we have experienced issues and the solutions we have adopted to mitigate their impact for the submission. For specific commentary on the individual reconciliation models please refer to 'UUW78 - PR19 Reconciliation submission'.

2.2 UUW97 RCV feeder model

2.2.1 This section outlines the approach UUW has taken to populate the 'RCV adjustments feeder model' and any adjustments that have been made to ensure that the correct outputs are generated for use in submission table RR3.

2.2.2 Model population

2.2.3 We have populated 'version 2' of the feeder model, published in July 2023. We have not identified any issues in the RCV feeder model and so populate each input with the output of the various PR19 reconciliation models and assured that all information is reliable, accurate and complete through our internal review and assurance process.

2.2.4 PR24 transitional expenditure programme & PR24 Defra accelerated programme

2.2.5 Expenditure is sourced from CW12 and CW17 for Water schemes and CWW12 and CWW17 for Wastewater schemes for the respective programmes. This expenditure is then deflated to 2017-18 FYA (CPIH deflated) prices using the inflation assumptions within PD1. As Ofwat says on page 77 of its Final Methodology Appendix 9¹: "we will apply a time value of money adjustment to transition expenditure incurred in 2023-24". Therefore, we have applied a time value of money adjustment to transitional investment and the accelerated programme to align with Ofwat's Final Methodology. We used the AMP7 wholesale WACC of 2.92%, although we note that it could also be appropriate to use the guidance AMP8 WACC of 3.23%.

2.3 UUW98 Revenue adjustments feeder model

2.3.1 This section outlines the approach UUW has taken to populate the 'Revenue adjustments feeder model' and any adjustments that have been made to ensure that the correct outputs are generated for use in submission table RR6.

2.3.2 Model population

2.3.3 We have populated 'version 2' of the feeder model, published 14th July 2023. We submitted a query (copied below in section 2.3.8) to Ofwat on 22nd August 2023 regarding issues we have encountered when populating the Revenue adjustments feeder model. Where issues were identified, we have populated the model in line with the proposed solutions stated. For all other aspects of the model, we have sourced the relevant inputs in line with the outputs of the various PR19 reconciliation models and assured that all information is reliable, accurate and complete through our internal review and assurance process.

¹ Ofwat (2022) *Final methodology: appendix 9*. Available here: https://www.ofwat.gov.uk/wp-content/uploads/2022/12/PR24_final_methodology_Appendix_9_Setting_Expenditure-Allowances.pdf

2.3.4 Tax Uplift Eligibility Switches

2.3.5 In line with the proposed solutions to the Issues and query raised, we have changed the switch on all Residential Retail revenue adjustments to '0' to enable the revenue adjustments to be output correctly. For all other reconciliation adjustments we retain the pre-populated switches from the published model.

2.3.6 Profiling Inputs

2.3.7 To profile the revenue adjustments for all price controls, we apply them using a 'constant annuity' approach as this prevents any unnecessary spikes in customer bills, instead smoothly profiling the adjustment over each of the years. We use the AMP8 Wholesale WACC as the discount rate for Water Resources, Water Network+, Wastewater Network+ and Bioresources. Residential Retail uses the AMP8 Appointee WACC.

2.3.8 Issues and query raised

2.3.9 In populating the latest version of the PR24 revenue adjustments feeder model we have observed three issues with the way that it calculates the revenue adjustments to use within RR6, inputs into the PR24 financial model, and ultimately the allowed revenue that it calculates companies will receive for these adjustments during AMP8. These are:

- The approach to profiling the current in-period ODIs revenue adjustment appears to limit the opportunity for companies to smooth the impact on customer bills,
- An issue whereby 'PR19 ODI revenue adjustments' for Residential Retail are (erroneously) excluded from the outputs if the input tax uplift eligibility switch is on (set to 1) and,
- How the revenues output from this feeder model are subsequently used in the financial model and in the determination of allowed revenues, in particular the interaction with tax.

2.3.10 We brought these issues to the attention of Ofwat in a query dated 22 August 2023 (Query ID: 538.) We recognise that it is too late for Ofwat to make adjustments to the current workings of this feeder model or the financial model prior to companies submitting their plans in October. Therefore, this commentary sets out the approach that we have adopted for our business plan submission to mitigate their impact.

The approach to profiling the current in-period ODIs revenue adjustment appears to limit the opportunity for companies to smooth the impact on customer bills.

Issue: The model contains specific inputs for in-period ODI payments to be recovered in the first two years as well as a more non-specific input labelled 'PR19 ODI revenue adjustment'. There is no explicit guidance to differentiate between the inputs and so our interpretation is that Ofwat intends for companies to populate the reward/penalty associated with any AMP7 in-period ODIs in the former and then any end-of-period ODIs within the latter.

Populating any reward/penalty in the 'in-period' input cells will automatically assign these adjustments into years 1 and 2 of AMP8. We are currently forecasting rewards for the final two years of AMP7 – we are concerned that assigning these to the first two years of AMP8 would cause a significant and temporary spike in customer bills, which we would typically propose to smooth over the whole of AMP8. Previous customer research has shown that customers have a clear preference for smooth and predictable bills. Therefore we do not think that the automatic profiling (into years one and two of AMP8) of these revenues is best for customers. We note that as part of the in-period adjustments, companies have the ability to request deferral of revenues into future periods in order to mitigate these problems, but the ability does not currently exist in this model to do the same or to reflect the prospective requests that might be made for this.

Proposed solution: In order to address these issues for our submission we will enter all remaining AMP7 ODI revenue adjustments into the 'PR19 ODI revenue adjustment' inputs, thereby enabling the impacts to be smoothed over five years in the financial model and for setting revenues. This anticipates a request to Ofwat next year, as part of our in-period ODI determination submission, that we would defer these additional revenues in line with the established process and not to double

count these adjustments. We believe that this is the most effective and least intrusive way to alleviate the issue raised and can be accommodated within the current modelling approach.

We recognise that Ofwat states in its PR24 Final Methodology that “we remain open to amending the approach set out in the PR19 Reconciliation Rulebook for in period ODIs” (p145) and also that “companies will have the flexibility to decide the proportion of the 2024-2025 blind year adjustments recovered in each of the remaining years of 2025-2030” (p145) and believe that our query and proposed solution fits within these stated objectives.

An issue whereby ‘PR19 ODI revenue adjustments’ for Residential Retail are (erroneously) excluded from the outputs if the input tax uplift eligibility switch is on.

Issue: The ‘Outputs’ tab for ‘Residential retail revenue adjustment’, which companies use to populate RR6.25, only captures revenue adjustments that are not eligible for tax uplifts (as controlled by the ‘Tax Uplift Eligibility Switches’ within the InpS tab). These inputs have now been prepopulated by Ofwat in line with the approach set out in the PR19 reconciliation rulebook. This means that for any Retail revenue adjustment that is eligible for tax adjustments e.g. ODIs and CMEx, there is no way in which for companies to enter these into the financial model using this feeder model and RR6 as currently set.

Proposed solution: We will set the switch tax eligibility switch for all Retail revenue adjustments to 0, therefore enabling them to be captured in the output of this model without the need to adjust any formulas or create additional inputs in RR6 and the Ofwat financial model. However, this leads to a subsequent issue, as this results in retail reconciliation adjustments not being categorised as in receipt of any tax uplift – this issue is explored further in the point below.

How the revenues output from this feeder model are subsequently used in the financial model and in the determination of allowed revenues, in particular the interaction with tax.

Issue: The total revenue allowed for revenue adjustments in the Retail price control will be understated (post-tax) because of the absence of a tax allowance within the cost to serve derivation and subsequent allowed average revenue calculation. In the reconciliation rulebook, Ofwat notes that the “overarching policy goal is to ensure that we are not creating incentives for companies to comply with our price controls in a way that attempts to realise a tax gain” (p17) and that a “tax adjustment is required to ensure the full force of these incentives is experienced by companies” (p19). We support these policy goals and rationales.

In the wholesale price controls, a revenue allowance is made for tax so that, post-tax, the full incentive of the adjustment is felt through a combination of the reconciliation revenue and tax allowance. The way in which this is applied is that for revenues eligible for a tax adjustment, the full value is modelled and tax on the profit this creates is added to allowed revenue. Once the company pays the tax it is left with, post-tax, the initial value of the reconciliation adjustment. This approach is adopted in the in-period/ RFI adjustments that companies make each year and also in the PR24 Financial Model. For revenues that are not eligible, the revenue input value is reduced so that any tax calculated on the resulting profit does not add to allowances as the company would have experienced an opposing tax effect in the prior AMP and therefore over the two periods, tax paid is equated. However, Retail allowed average revenues do not include any allowance for tax. For any adjustment made, companies will pay (more/less) tax and the strength of the incentive will be weakened as a result. We do not think that, in a post-tax regulatory environment, it could be appropriate for the Retail adjustments to be effectively reduced by 33% (25% geometrically adjusted) in the PR24 revenue allowances, especially when for any corresponding in-period adjustments a tax allowance would be made to ensure that the full incentive is realised. We are assuming that this output is unintentional and in error.

Proposed solution: Rather than seeking to change any workings within the PR24 Financial model or Retail cost to serve to make a tax allowance for Retail revenue eligible for tax adjustments, we will gross up the input of Retail revenue adjustments that are eligible for tax adjustments (ODI and CMEx) in line with the PR19 Reconciliation Rulebook using the same approach that Ofwat does for the in-

period tax adjustments, by applying a geometric uplift for the rate of tax. This will result in the actual company receiving the intended value of any adjustment, post-tax.

3. UUW108 Bill waterfall model

3.1.1 We have populated version 3 of the 'PR24 Bill waterfall model', published on 14th July 2023. In the absence of any specific guidance we have sought to populate each input as accurately as possible given our interpretation of what the model is trying to achieve. For transparency, we have listed the sources for each input within the Model population section. We have also made a slight adjustment to one of the calculations performed by the model to remove what we believe is a double count of the change in customer numbers. This has been detailed in the Calculation adjustment section below.

3.2 Model population

3.2.1 For each section, we set out below the sources used to populate the input sheet. We do not make any changes to the pre-populated values for the 'Inputs' and 'Model constants' sections and so do not reference them here. Wherever possible we have tried to source the information without the need to make adjustments for use in the inputs.

3.2.2 Totex

Table 5 Totex input sources

Input	Source	Reference
Pre-inflation average totex PR19	PAYG-model_UUW_FD	PAYG summary tables'!\$N\$38 / 5
Average totex PR24	PR24-financial-model-v21a	Totex'!\$H\$292:\$H\$297 / 5
Pre-inflation average PAYG PR19	Financial-model_UUW_FD	Dashboard'!\$T\$178:\$W\$178 /
Average PAYG PR24	PR24-financial-model-v21a	Output RR10'!\$L\$14 / 5
Pre-inflation average profiled allowed revenue PR19	Financial-model_UUW_FD	Dashboard'!\$T\$198:\$W\$198 / 5
Average profiled allowed revenue PR24	PR24-financial-model-v21a	Output RR10'!\$L\$9 / 5

3.2.3 RCV

Table 6 RCV input sources

Input	Source	Reference
Pre-inflation run off PR19	Financial-model_UUW_FD	Dashboard'!\$T\$182:\$W\$182
Run off PR24	RR10	RR10'!\$N\$13
Pre-inflation average RCV PR19	Financial-model_UUW_FD	Analysis_Appointee'!L90:P90/Analysis_Appointee'!L172:P172
Average RCV PR24	PR24-financial-model-v21a	(RCV'!N1142:R1142)/(RCV'!N991:R1142)

3.2.4 Wholesale

Table 7 Wholesale input sources

Input	Source	Reference
CPIH 2017-18	PD1	AVERAGE(PD1!\$K\$24:\$K\$35)

Input	Source	Reference
CPIH 2022-23	PD1	AVERAGE(PD1!\$P\$24:\$P\$35)
Total wholesale revenues PR24	RR10	RR10!\$K\$9
Pre-inflation final profiled allowed revenues PR19	Financial-model_UUW_FD	SUM(Dashboard'!\$W\$13,Dashboard'!\$W\$16,Dashboard'!\$W\$19,Dashboard'!\$W\$22)
Final profiled allowed revenues PR24	RR10	RR10!\$K\$9
Pre-inflation final return on capital PR19	Financial-model_UUW_FD	Dashboard'!\$T\$181:\$W\$181
Final return on capital PR24	RR10	RR10!\$N\$14
Combined average bills PR19 (2022-23 prices)	Financial-model_UUW_FD	Dashboard'!\$Q\$53
Combined average bills PR24	PR24-financial-model-v21a	Dashboard'!\$Q\$42

3.2.5 Wholesale reconciliation

Table 8 Wholesale reconciliation input sources

Input	Source	Reference
Pre-inflation post financeability adjustment PR19	Financial-model_UUW_FD	SUM(Exec Summary'!\$L\$202:\$P\$202, \$L\$226:\$P\$226, \$L\$250:\$P\$250, \$L\$274:\$P\$274)
Post financeability adjustment PR24	PR24-financial-model-v21a	PrePost impacts'!\$N\$275:\$R\$280

3.2.6 Other Wholesale items

Table 9 Other Wholesale items input sources

Input	Source	Reference
Pre-inflation pension deficit repair allowance PR19	n/a	
Pension deficit repair allowance PR24	n/a	
Pre-inflation tax PR19	Financial-model_UUW_FD	Dashboard'!\$T\$183:\$W\$183
Tax PR24	PR24-financial-model-v21a	Tax Post Financeability'!\$N\$510:\$R\$514
Pre-inflation revenue profiling PR19	Financial-model_UUW_FD	Dashboard'!\$T\$189:\$W\$189
Revenue profiling PR24	PR24-financial-model-v21a	PRE wholesale revenues'!\$N\$191:\$R\$196

3.2.7 Housing

Table 10 Housing input sources

Input	Source	Reference
Housing apportionment PR19	Financial-model_UUW_FD	Weighted average of apportionments within Summary calc!'N504:R507
Housing apportionment PR24	PR24-financial-model-v21a	Weighted average of apportionments within Summary calcs!'N504:R507
Number of metered households PR19	Financial-model_UUW_FD	Bill Module!'\$L\$40:\$P\$41 + Bill Module!'\$L\$43:\$P\$43
Number of unmetered households PR19	Financial-model_UUW_FD	Bill Module!'\$L\$38:\$P\$39 + Bill Module!'\$L\$42:\$P\$42
Number of metered households PR24	PR24-financial-model-v21a	Bill Module!'\$N\$12:\$R\$12 + Bill Module!'\$N\$14:\$R\$14 + Bill Module!'\$N\$22:\$R\$22
Number of unmetered households PR24	PR24-financial-model-v21a	Bill Module!'\$N\$13:\$R\$13 + Bill Module!'\$N\$15:\$R\$15 + Bill Module!'\$N\$23:\$R\$23

3.2.8 We note that the large increase in the number of households between PR19 and PR24 is reflecting not only the forecasted increase in households between the two periods but also the difference between the ONS forecast used by Ofwat at PR19 and the UUW business plan forecast for PR24. As evidenced by the significant reconciliation adjustment forecast at PR24, the ONS forecast for household growth in UUW's region at PR19 significantly understated the growth in the region and this leads to a large increase in the difference between the two values.

3.2.9 Cost to serve

Table 11 Cost to serve input sources

Input	Source	Reference
Total retail revenue PR19	Financial-model_UUW_FD	Retail_Residential!'\$L\$216:\$P\$216
Total retail revenue PR24	PR24-financial-model-v21a	Retail Residential!'\$N\$570:\$R\$570

3.2.10 Costs breakdown

- 3.2.11 The cost allocations for PR24 are all sourced from table SUM4, therefore we do not provide detailed mapping for each cost driver as all information is contained within this table.
- 3.2.12 For PR19, we have allocated enhancement model allowances to the SUM4 categories on a prime basis i.e. each model entirely maps to only one category. We have done this for simplicity and allocated in line with the table below. As the definition of modelled botex contained enhancement expenditure at PR19 that will differ to PR24, it is not always possible to make direct comparisons between base+ expenditure allowances.

Table 12 PR19 enhancement cost driver allocations

Waterfall cost driver	PR19 enhancement model
Pre-inflation environmental PR19	Aggregated free form lines
	Chemical investigations

Waterfall cost driver	PR19 enhancement model
	Conservation drivers
	Eels regulations
	Event Durations Monitoring at Int. Dis.
	Flow monitoring at STW
	Groundwater schemes
	NEP – discharge relocation
	NEP - Monitoring pass forward flows
	Schemes for FTFT
	Wastewater Investigations
	WINEP / NEP ~ Drinking Water Protected Areas
	WINEP / NEP ~ Eels Regulations (measures at intakes)
	WINEP / NEP ~ Invasive non-native species
	WINEP / NEP ~ Investigations
	WINEP / NEP ~ Water Framework Directive measures
Pre-inflation nutrient removal PR19	Chemical removal schemes
	N removal
	NEP – P removal technology
	P removal
	Reduction in Sanitary parameters
	UV disinfection
Pre-inflation other enhancement costs PR19	First time sewerage (s101A)
	Improvements to river flows
	Improving taste / odour / colour
	Meeting lead standards
	Odour
	Security
	SEMD and non-SEMD
Pre-inflation other environmental PR19	Investment to address raw water deterioration
	Sludge quality and growth
Pre-inflation resilience PR19	Resilience
Pre-inflation storm overflows PR19	Storage at STW
	Storage in the network
Pre-inflation WRMP PR19	Metering (excluding new connections) for meters requested by optants, customers and businesses
	Supply and demand side enhancements: Total

3.3 Calculation adjustment(s)

3.3.1 We have changed the calculation which determines the 'Profiled allowed revenues per customer' in cell F38 of the 'Wholesale' worksheet from;

$$= (\$F34 - \$F35) / \$F36 * \$F37 \quad \text{to} \quad = (\$F34 - (\$F35 * (F36 / \text{SUM}(\text{InpS!F59:F60)))) / \$F36 * \$F37$$

3.3.2 The original formula is calculating the change in the allowed revenue per customer by calculating the difference between the allowed revenue at PR19 and PR24, then dividing it by the total number of households in PR24. Our interpretation of the model results is that the change in the number of households served by the company is only supposed to be reflected in the penultimate block in the waterfall, labelled 'Customer numbers & retail apportionment'. By dividing the difference in allowed revenues only by the amount of households in PR24, we believe that without change this is not just accounting for changes in total revenue but also the differences in the number of households. We therefore update the calculation to restate the PR19 revenues on a consistent basis to PR24 by increasing it by the growth in customer numbers. This prevents the subsequent adjustment factor (F44) being understated for use elsewhere in the model in calibrating the size of the Wholesale adjustments. We would note that this change has no bearing on the overall end point of combined average bills and that it is just a presentational change that prevents the balancing adjustment within the model; the 'Other wholesale items', block from being overstated. For clarity, we include the before and after chart below.

Figure 1 Bill impact waterfall prior to calculation adjustment

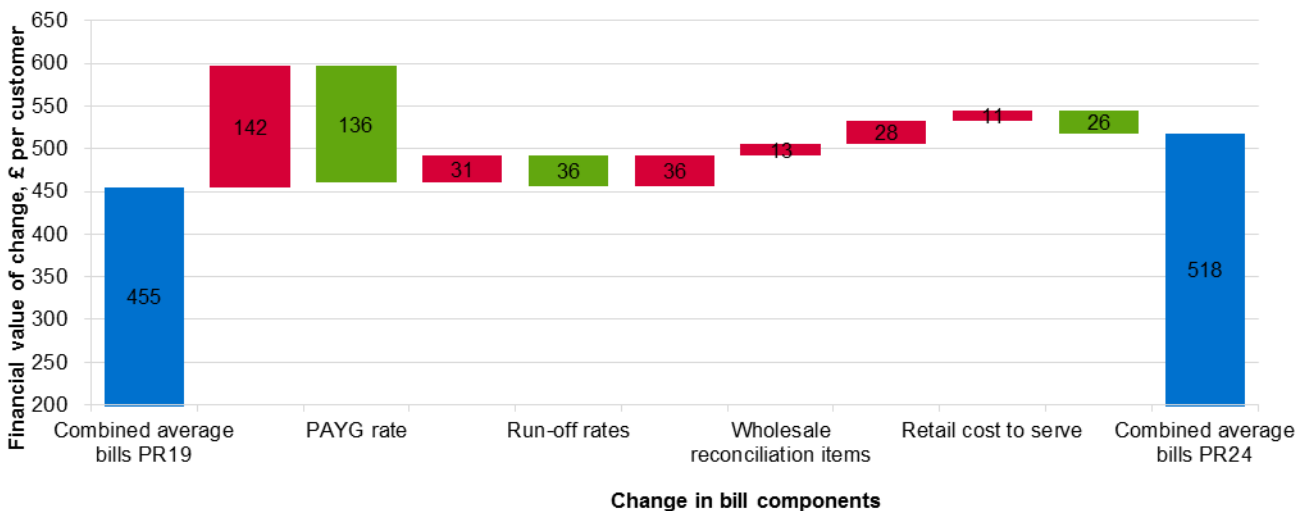
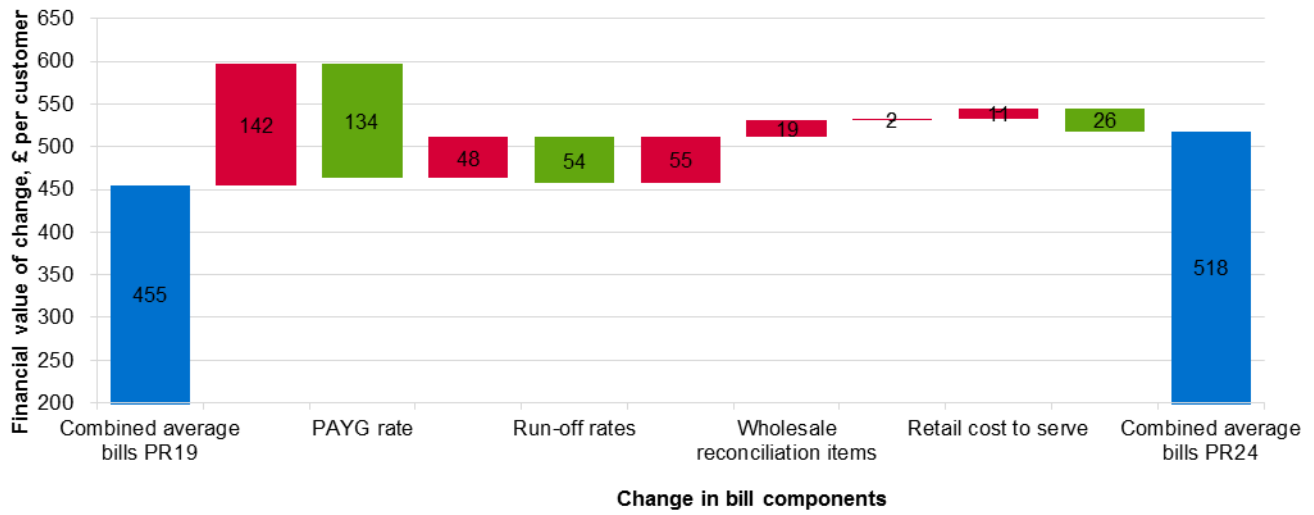


Figure 2 Bill impact waterfall after to calculation adjustment



4. UUW107 PR24 RoRE Chart tool

- 4.1.1 We have provided a populated version of the PR24 RoRE chart tool using the AMP8 averages from RR30 for each component as specified by the guidance within the model. We have also input a value for the De Minimus as per instructions on the cover sheet and amended both the primary and secondary axes on the “RoRE Range excluding uncertainty mechanisms by element” to reflect this.
- 4.1.2 In order to ensure the “RoRE range excluding and including uncertainty mechanisms” works correctly, we have remapped cells G55 and G56 in the Chart Data tab. Previously these cells were not reflecting the high case of 8.59%, but instead reflecting the Upper RoRE chart figure of 10.71% from cells F35 and F51. This had the effect of overstating the RoRE high case in the “RoRE range excluding and including uncertainty mechanisms”, and it appeared to be inconsistent with the “RoRE Range excluding uncertainty mechanisms by element”. We also filled in the blocks at the bottom of the graph according to the key, to accurately present the low case of -2.12%.

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