

Jargon buster

2019 Price Review



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Introduction

Like many industries, the water sector uses a variety of jargon – words and phrases that act as shorthand when people who work within it talk to each other.

We know that people outside the industry in most cases won't understand these terms, so we try not to use them when talking to customers and other stakeholders. Despite this, we're aware that we may occasionally, and unintentionally, include some of this jargon when talking about what we do.

That's why we've come up with this brief guide to some of the language and concepts commonly used within the water business.

Financial terms

Capex

Pay for new equipment and investment on the network. This includes building of new treatment works, laying new pipes and construction of new sources of self-generated renewable energy. This investment is known as capital expenditure or CAPEX

CPI

The Consumer Prices Index is a measure of economic inflation based on a set series of goods and services set by the Office for National Statistics. This is the headline measure of inflation used in the Government's target for inflation.

Dividends

Dividends are the amounts paid to our shareholders to reward them for the capital that they have invested in the company.

K

This refers to the above-inflation (RPI) price rise a water firm is allowed to charge customers.

RCV

The Regulatory Capital Value represents the amount that we have invested that customers have not yet paid for. This therefore represents the total capital value that has been invested.

Opex

Pay for the day-to-day operations of our business, such as operating and maintaining our network and treatment works, paying our staff and our energy bills. This is known as operational expenditure or OPEX

RPI

The Retail Prices Index is an alternative measure of economic inflation to CPI. RPI is no longer an official National Statistic, due to statistical flaws in the calculation of RPI. However, it is still widely used, particularly in relation to index-linked gilts.

Totex

Totex (total expenditure) is the mechanism, introduced in PR14 (price review 2014) for planning and reporting capital (for example, buying a new car) and operational (repairing your old car) spend. The object is to achieve the optimum combination to deliver the required business plan outcomes. It applies to both water and waste (i.e. our wholesale business) but not to retail.

WACC (Weighted Average Cost of Capital)

The RCV is funded partly by shareholders (equity), and partly by borrowing (debt). When we borrow money we need to pay interest on the debt, and shareholders require dividends to reward them for the capital they have invested in the company. The WACC reflects the appropriate interest rate and return to shareholders, weighted by the appropriate proportions of debt and equity.

Price Review terms and planning documents

AIM: Abstraction Incentive Mechanism

The Abstraction Incentive Mechanism is a scheme devised by Ofwat to provide an incentive for water companies to reduce the use at a small number of selected sources that have the potential to cause environmental damage. The reductions will only be made when river flows are low, there is allowance for the reduction to be suspended under certain conditions e.g. if demand is very high or if the alternative source is not available for any reason. The AIM is only proposed as a reputational measure for AMP6 and is due to come in to force from April 2016 and may be further developed for AMP7 when it may become a financial incentive.

AMP

An 'Asset Management Period' is the five-year period covered by a water company's business plan. These are numbered; with AMP1 referring to the first such planning period after the water industry was privatized – i.e. the period from 1990 to 1995. The current period (2015 – 2020) is known as AMP6, and the period for which we are now starting to plan (2020 – 2025) will be AMP7.

C17 (Competition 17)

The Water Act 2014 will allow 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater retail services from April 2017. Retail services include things like billing and customer services. At the moment only a limited number of non-household customers across England and Wales can choose their retailer. The new market will be the largest retail water market in the world. Customers will be able to shop around and switch to the best deal. Investors and retailers will have new opportunities for growth. And the environment will benefit from customers using new water efficient services. The UK Government is committed to delivering the new market. It set up 'Open Water', a single programme of work that brings together all of the key organisations to design and deliver the new market. These include the Department for Environment Food and Rural Affairs, Ofwat and Market Operator Services Limited – a private company owned by market participants. Thames Water has a programme of business readiness for Competition 2017, to ensure we are ready for market opening from April 2017.

Final Business Plan (FBP)

Our Final Business Plan is the version we will submit to Ofwat ahead of the Price Review. They will use this to decide what price we can charge our customers.

Final Determination (FD)

The Final Determination is Ofwat's final decision on what a water company can spend on improving and maintaining its assets over the following five years. This also sets the upper limits for the bills it can charge its customers during that period.

NEP: National Environmental Programme

The NEP is a list of **environmental improvement schemes** that ensure that water companies meet European and national targets related to water.

2016 household retail price review (PR16)

In the [2014 price review](#), Ofwat set separate price controls for 2015-20 on each of the following activities; Wholesale water, Wholesale wastewater, Household retail and Non-household retail. The form of the non-household retail price controls was designed to protect customers for the two years ahead of market opening and to provide backstop protection and a comparison point for customers once the market is open. Ofwat is reviewing the non-household retail price controls ahead of market opening in April 2017 via the 2016 household retail price review.

PR19

This is short for 'Price Review 2019' – the process that will set prices for the period 2020 to 2025. The last Price Review was held in 2014 and was therefore known as PR14.

Price Review

This process takes place every five years for water companies in England and Wales. Ofwat reviews water companies' business plans and sets the upper limits they can charge their customers over the next five-year period – in this case, 2015 to 2020. As part of this, it sets the amount of money companies can invest in their assets over that period, after scrutinising their business plans to ensure value for customers' money.

Strategic Direction Statement (SDS)

Our Strategic Direction Statement is our 25-year plan. It outlines how we will respond to future challenges, such as climate change, leakage and the need to conserve water.

Water Resources Management Plan (WRMP)

Every five years we review and update our Water Resources Management Plan (WRMP) that sets out how we will maintain a balance between the demand for water in our supply area against the available water supplies, while ensuring the environment is protected.

We submit the plan to the Department for Environment, Food and Rural Affairs (Defra) and it is open to a public consultation prior to publishing.

Regulators and other organisations

Blueprint for Water

A coalition of leading environmental organisations launched this document in 2006, setting out ten steps to sustainable water. The bodies included the National Trust, RSPB and WWF.

Customer Challenge Group (CCG)

Customer Challenge Groups (CCGs) are independent local groups of customer representatives and other stakeholders. They have been established for the Price Review process to provide challenge to water companies' business plans. The CCG should ensure that local and regional issues are properly considered and that the views of the company's entire customer base are taken into account.

CMA Competition and Markets Authority

The CMA is an independent non-ministerial department tasked with promoting competition for the benefit of consumers, both within and outside the UK. Its aim is to make markets work well for consumers, businesses and the economy. Water companies have the right to appeal Ofwat's Price Determinations to the CMA if they are unable to accept Ofwat's determination. The CMA can also be involved in competition investigations.

Consumer Council for Water (CCW)

The customer watchdog for the water sector.

Defra

The Department for the Environment, Food and Rural Affairs is the Government department responsible for issues including the natural environment, environmental protection and pollution control.

Drinking Water Inspectorate (DWI)

The Drinking Water Inspectorate regulates drinking water quality in England and Wales.

Drinking water quality compliance

Our water is tested against 50 different elements to determine the microbiological, chemical, radiological and aesthetic qualities of it. These standards are outlined in the legislation to protect public health and our compliance is monitored by the DWI.

Results from water samples collected at our treatment works, service reservoirs and customer taps are compared to these quality standards and any failures are then reported to the DWI.

Environment Agency (EA)

The Environment Agency regulates our impact on the natural environment – for example, by controlling how much water we can take and the quality to which we must treat sewage.

MOSL (Market Operator Services Ltd)

The Water Act 2014 established the framework to create a retail market for non-household water and wastewater customers in England, which the 'Open Water' programme is due to deliver in April 2017. Delivery of the programme is the responsibility of Defra, Ofwat and Market Operator Services Ltd (MOSL). The partners are working together closely to ensure that the market opens on time, within budget and operates effectively. MOSL is responsible for delivering the systems, processes and interfaces required to enable the new market to operate. Key to this is the core 'Central Market Operating System' (CMOS) and the rules and codes on which the market will be based. MOSL has also taken on a number of significant responsibilities from Open Water Markets Ltd (OWML), which was wound down in July 2015. MOSL was created in October 2014 as a private business, limited by guarantee. It is owned by its members, currently 24 of 31 eligible companies.

Natural England

The Government's advisor on the natural environment, whose role includes managing wildlife and protecting Sites of Special Scientific Interest.

Open Water Markets Ltd (OWML)

The Open Water programme was set up by the UK Government to deliver the competitive market by April 2017. The key organisations responsible for delivering the new market are [Defra](#), [Ofwat](#) and [MOSL](#). The programme was overseen by Open Water Markets Limited (OWML) until August 2015, when its activities were transitioned into MOSL and Ofwat.

Ofwat

Ofwat is the economic regulator of the water and sewerage industry in England and Wales.

UKWIR

UKWIR provides a framework for the procurement of a common research programme for UK water operators on "one voice" issues

WASCs

'Water and sewerage companies' – of which Thames Water is the largest – provide both drinking water and sewerage services.

Water UK

Water UK is the industry body representing member companies' interests.

WOCs

'Water-only companies' provide drinking water but not sewerage services. Examples include the three WOCs serving London: Affinity Water, Essex & Suffolk Water, and Sutton & East Surrey Water.

WRSE

Water Resources in the South-East is a group made up of water companies, regulators and stakeholders. Its aim is to better co-ordinate and integrate water resources planning across the region, ensuring the efficient development of a best-value supply strategy over the next 50 years and beyond. Thames Water is a member, as are Sutton & East Surrey, Southern, Affinity, South-East and Portsmouth Water. WRSE has close links with the equivalent Water Resources East Anglia (WREA) group.

Regulatory terms

Infrastructure and non-infrastructure assets

Infrastructure assets are mainly our below-ground assets, such as pipes, water mains, sewers, dams and reservoirs. Non-infrastructure assets are those mainly found above ground, such as water and sewage treatment works, pumping stations, laboratories and workshops.

Instrument of Appointment

Water companies operating the public water networks hold appointments as water undertakers, and those operating the public wastewater networks hold appointments as sewerage undertakers, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to household and non-household customers who are connected to their networks.

Overall Performance Assessment (OPA)

This was a former measure of water company performance, devised by Ofwat, which reflected the broad range of services we provided to customers. This has now been replaced by SIM – the Service Incentive Mechanism.

Risk Based Review (RBR)

As part of the PR14 price review process, Ofwat carried out a risk-based review of business plans. The risk-based review contained tests for high quality business plans in key areas. In its Water 2020 consultation, Ofwat has indicated it will adopt a similar approach for PR19.

Service Incentive Mechanism (SIM)

The Service Incentive Mechanism was introduced by Ofwat to replace the OPA as a measure of the service customers experience from their water company. It is now in its second year.

There are two elements to the SIM:

- A quantitative measure awards penalty points for issues ranging from callers to our customer centre receiving an engaged tone, through to complaints.
- A qualitative measure is calculated via telephone interviews to assess the satisfaction of customers who have contacted us to resolve queries.

Water Act 2014

The water industry supplies goods and services which are essential to health, wellbeing and economic stability. These services are coming under increasing pressure as a result of a growing population and a changing climate. To meet these challenges, UK Government saw the need to change the way water is managed. Its aim was for water companies to be more innovative, more efficient and more attentive to what their customers want. The 'Water white paper' and Water for life: market reform proposals sets out the plans to deal with the challenges facing the water industry, as well as encouraging better customer service and protection for the environment. To implement some of the plans in the White Paper, the Water Act 2014 received Royal Assent on 14 May 2014.

Water Resources Management Plan (WRMP)

Our 25-year Water Resources Management Plan is updated every five years and sets out how we aim to meet the predicted demand for water in our region over that period.

Water industry terms

Assets

This cover-all term refers to all the pipework and equipment we run, including water mains, sewers, treatment works and pumping stations.

CSAT

Short for 'customer satisfaction', this refers to the qualitative component of the SIM measure.

CSOs

'Combined' sewers collect rainwater as well as foul sewage. The combined sewer overflows (or CSOs) from these systems allow wastewater to overspill into watercourses when the sewer system reaches its capacity. CSOs can therefore cause pollution of rivers and streams.

Discharge consents

Each sewage treatment works has its own discharge consent, set by the Environment Agency, which defines the quality of treated effluent we are permitted to discharge to the relevant watercourse.

ELL

The 'economic level of leakage' is the level at which it would cost more to make further reductions than to increase supply or reduce demand by other means – for example, by developing a new water source. The calculation takes into account environmental and social costs, as well as financial ones, and can therefore vary with time and between areas.

Household premises

Premises in which, or in any part of which, a person has his home (Defined in the Water Industry Act 1991 and Ofwat guidance on eligibility)

Megalitre

A megalitre is one million litres of water and is often written as Ml/day – one million litres per day.

ODIs

ODIs (Outcome Delivery Incentives) is a collective term for the financial incentives – positive and negative – that Ofwat has applied to the delivery of our five-year plan. 'Rewards' allow us to charge more over the next five years (in this case, 2020-2025), while 'penalties' allows us to charge less. Some of these ODIs measure performance in each of the five years of our current plan, while others apply only to the whole five years.

Open Water

A national programme of work that brings together key organisations to deliver changes which, from April 2017, will allow all non-household customers in England and Wales to choose their water and wastewater retailer.

Outcomes

These are the basic long-term services and benefits a water company aims to provide for customers in their current five-year plan and beyond. Thames Water has six outcomes.

Performance commitment

Outcome performance commitments that reflects customers' views and priorities of service

Pitt Review

After the 2007 floods that swamped 55,000 homes, the Government commissioned the [Pitt Review](#) to ensure it didn't happen again. It was chaired by civil servant Sir Michael Pitt.

Population equivalent (PE)

The 'population equivalent' served by a sewage works represents the local population, plus a measurement of industrial effluent, expressed as an equivalent number of people. For example, effluent from a local factory might equal that produced by 5,000 people. If the works also treats sewage from 2,000 residents, its PE would be 7,000.

Resilience

Ofwat has a new primary duty on resilience in the 2014 Water Act (specifically to “further the resilience objective”). Resilience has been defined as “the ability to cope with, and recover from, disruption, and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future”.

Retail

This term refers to any water company activities that take place once water has passed to the customer’s side of a property boundary. These include billing, payment handling, debt management, meter reading and handling billing-related calls.

Social tariff

A social tariff is a small increase in bills for the majority of customers, which reduces charges for those who most struggle to pay.

STW

Sewage treatment works.

SuDS

Sustainable drainage systems encourage rain to soak into the soil, rather than run into our sewers – examples include grassed roofs and porous paving.

Water 2020

An Ofwat work programme, which aims to establish what will be required of water and sewerage companies in the 2019 Price Review.

WFD

The Water Framework Directive for England and Wales is a major piece of European legislation to improve and protect the quality of inland, estuary and coastal waters.

Wholesale

This term covers all water company activities that take place before water passes the customer’s property boundary – resources management, abstraction, treatment, distribution (water and sewer networks), sewage collection, transportation, sewage treatment, sludge disposal and energy from waste.

WTW

Water treatment works.

Terms specific to Thames Water

CHI

The Customer Happiness Indicator is a new tool we have trialled in Wholesale Water to identify customers most likely to score us poorly for customer satisfaction. It allows us to prioritise and escalate work where customers have experienced performance issues, such as late arrival or non-attendance at a job.

Rant & Rave

Ofwat measures customer satisfaction on a quarterly basis, but we have worked with customer experience company Rant & Rave to measure this around the clock so that we can better assess our performance. When we have resolved a customer's issue, we send them a text message asking them to score our response on a scale of one to five. The data from this is known as 'Rant & Rave'.

TTT

The Thames Tideway Tunnel is a major new sewer, urgently needed to protect the tidal River Thames from pollution. London's sewerage system is no longer fit for purpose and spills millions of tonnes of sewage into the tidal section of the river every year. The tunnel will tackle the problem of overflows from the capital's Victorian sewers for at least the next 100 years, and enable the UK to meet European environmental standards.