

PwC-led PR19 Consortium

Delivery Partner Solution

21 June 2018

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Question 1

Understanding of and approach to the requirement

- A. Please provide your proposed overall approach to meeting Ofwat's requirement for the Delivery Partner, taking into account and demonstrating your understanding of the Statement of Requirements and the scope and parameters of the Delivery Partner role set out in the Statement of Requirements. If the assumed skills mix differs to the skills mix used in the pricing matrix (as shown in Table 2), bidders should provide an explanation of the approach used and why it is appropriate

Use of a Delivery Partner

In PR14, Ofwat's use of a Delivery Partner (DP) was an innovative way of procuring consultancy support for a UK economic regulator. Ofwat manages a concentrated amount of price control activity for a larger number of companies compared to Ofgem, Ofcom, ORR and the CAA. This means that both the resource pressure on Ofwat at the peak of its periodic review is proportionally greater than other regulators, and there is a greater risk of integrating different and potentially inconsistent consultancy inputs. A DP contracting arrangement solves these two challenges. A DP can provide access to the scale of peak resources Ofwat requires, the flexibility to vary team members across different skill areas and the commitment to the same outcomes as Ofwat: a successful price control in its entirety, rather than merely an exemplary consultancy project.

Our role in PR14

PwC was delighted to lead a consortium supporting Ofwat as its DP for PR14. [REDACTED]. We published five reports in PwC's name and prepared for 16 Ofwat Board meetings. We covered the breadth of the programme needs, from technical expertise on the cost of capital, to scrutinising special cost factor claims. When Thames Water initiated its 2013 IDoK request, we mobilised an additional team to limit the impact on the DP team and successfully helped Ofwat rebut Thames' claims for an increase in its water bills.

Feedback from Ofwat's leadership on our PR14 DP role is provided below:

"This is one of the most exceptional pieces of work I've been involved with and that reflects really well on PwC. What really matters to a client is delivery: with some consultants there can be an over-focus on process rather than on the result. There was none of that on this project; it was all about delivery. The team made hard work a pleasure." **Sonia Brown, Chief Regulation Officer, Ofwat.**

"People here really enjoyed working with PwC. The quality of the people was great. Really importantly, we were asking PwC to build the capability and knowledge within Ofwat so that the Ofwat team would be left stronger, more capable and energised; looking forward to the future. PwC imparted knowledge and skills, and different ways of working. People really valued the opportunity to grow and develop, working alongside PwC colleagues. This was our pathfinder programme." **Cathryn Ross, CEO, Ofwat.**

We were particularly pleased to be recognised for our work with Ofwat in the prestigious MCA project of the year awards for 2016 in the category of Environmental and Social value.

PR19 vs PR14

PR19 is not a re-run of PR14. While PR19 builds on many of the principles set out for PR14, the regulatory regime has evolved. Changes that affect the scale and scope of the DP for PR19 are set out below:

Reduced requirements for DP support

- More extensive final methodology compared to PR14
- Fully functioning financial model published before final methodology means less model development time is required
- Streamlined data capture from companies
- Learning from PR14 (on both company, Ofwat and our sides). Areas include the Risk-Based Review process, the scrutiny of cost models by the CMA in the Bristol Water appeal and data on ODI performance to calibrate future ODI targets.
- Publication of early view on WACC (earlier than PR14 risk and reward guidance)
- Continuity of senior team (e.g. Jonson Cox, David Black) and reduced need for programme leadership support

Increased requirements for DP support

- Fewer interim roles
- Movement from four price controls to six
- Bottom-up cost models used to support econometric models
- Movement to econometric modelling of retail costs (away from Average Cost To Serve)
- Greater emphasis and assessment of innovation
- Resilience testing
- Direct procurement
- More categories of business plan (from 3 to 4)
- Increased political uncertainty (meaning greater agility required to respond to political events)
- Ofwat challenge to companies to raise quality of customer engagement

It is clear that the nature of the DP requirements for PR19 are materially different to PR14, but in overall terms we consider the overall resource needs are slightly higher. While the methodology is clearer and policy decisions more advanced, the quantity of work is greater and at a more granular level of detail for PR19.

Learning points from PR14

There is much that worked well from our joint experience at PR14, which we would seek to preserve in our approach to PR19. By way of example, the contracting nature of the DP, the shared values for the programme, agile and transparent resourcing, stringent quality control and heat maps for identifying issues are a number of the features which we consider worked particularly well. However, as we consider our approach for the DP in PR19, we set out some of our key learning points from PR14, which we think can make an even better PR19. These are:

- The 'red-run' practice for the Risk-Based Review in PR14 was definitely helpful, but we think the dry-run plans can be made more realistic and senior team members can work with more junior analysts to refine the IAP guidance in PR19 to reduce the effort required later in the review process (contributing to efficient delivery and increasing value for money);
- With better technology, we think PR19 can be run with greater transparency on task-by-task progress monitoring. This will be particularly helpful during the IAP when there is a concentration of effort to review business plans;
- There was an inconsistency in how presentations and documents were prepared. More training on the use of templates and style of expected deliverables will help the cross-cutting team and reviewers focus on important issues and cross-industry comparisons; and
- There was insufficient attention to the bigger picture of likely outcomes at the end of the PR14 process. We think a simplified analysis of the whole industry can be maintained during the PR19 process, so that the likely endpoint of the final determinations can be monitored (e.g. overall bill changes, total investment etc.). We have created such an analysis to prepare this response (used in Question 4).

Your requirements

Your key requirements are spread across eight functional workstreams. These incorporate supporting processes such as data management, financial modelling, document review, and assisting Ofwat's review of company business plans across its nine test areas¹. Furthermore you require preparing independent consultant reports (on the cost of capital and retail margins, real price effects and specific scheme evaluation).

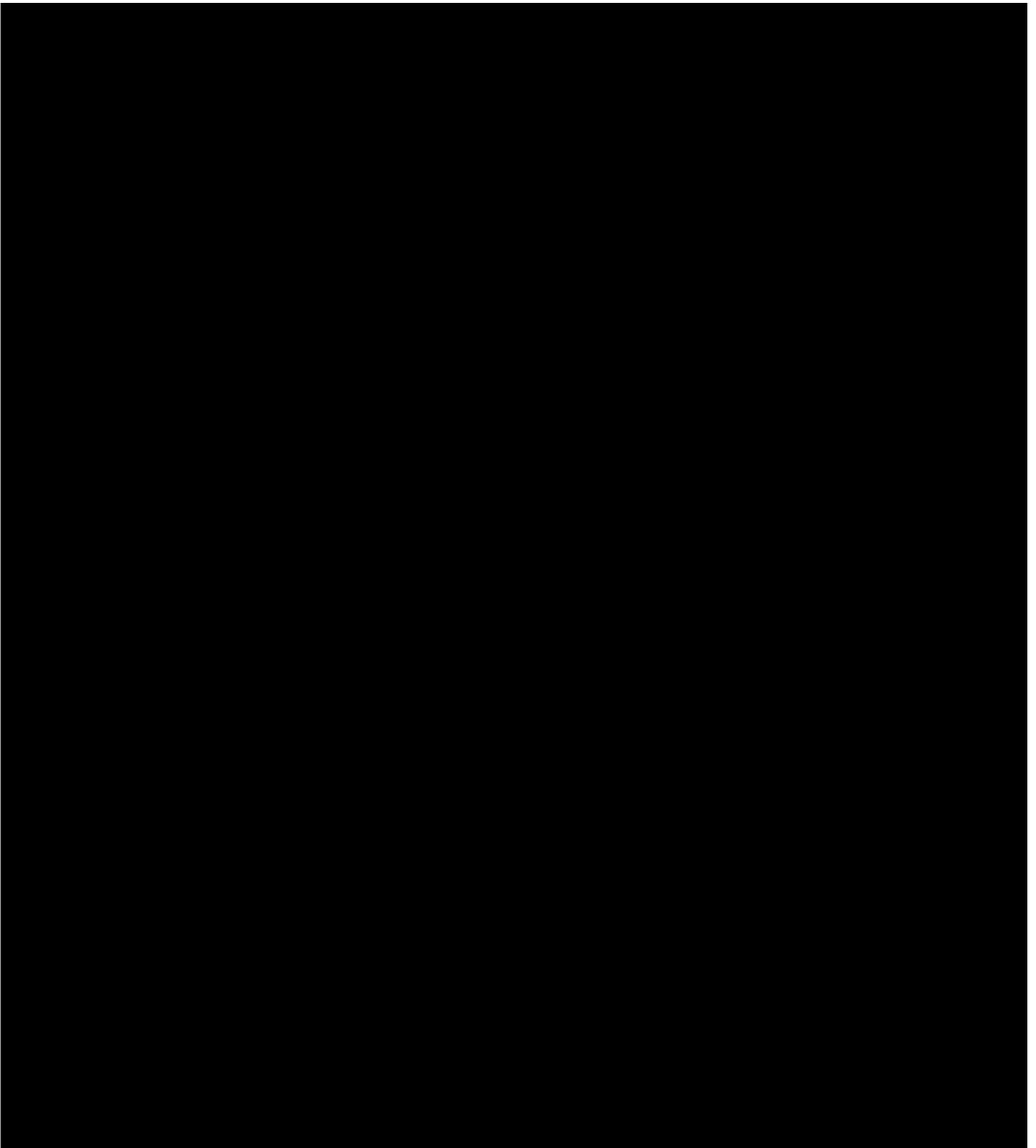
You require DP support through the whole PR19 programme, in five distinct phases, from planning the initial assessment of business plans through to the final determinations (and some possible support after final determinations).

¹ 10 test areas if Board transparency and assurance on governance and financing is made a separate test.

Our overall approach to creating a DP

We have formed a consortium between PwC, Europe Economics (EE) and Mott MacDonald (MM), supported by a number of sub-contractors. We combine specialist regulatory, economics and engineering expertise that will provide Ofwat access to the depth and breadth of skills it requires.

All three firms are well known to you: PwC and EE have supported Ofwat in creating the PR19 methodology (through published reports on the balance of risk, balance of incentives, retail costs and the cost of capital) and MM is currently supporting Ofwat on water resource management plans. We are therefore fully up to speed with your objectives for PR19 and the issues you will face. We will use a select number of additional sub-contractors and are therefore confident that we can provide all the skills and resources you require.



Key features of our approach

In this section we set out our principles for how we will work with you, as reflected throughout our proposal.

How we will work with you

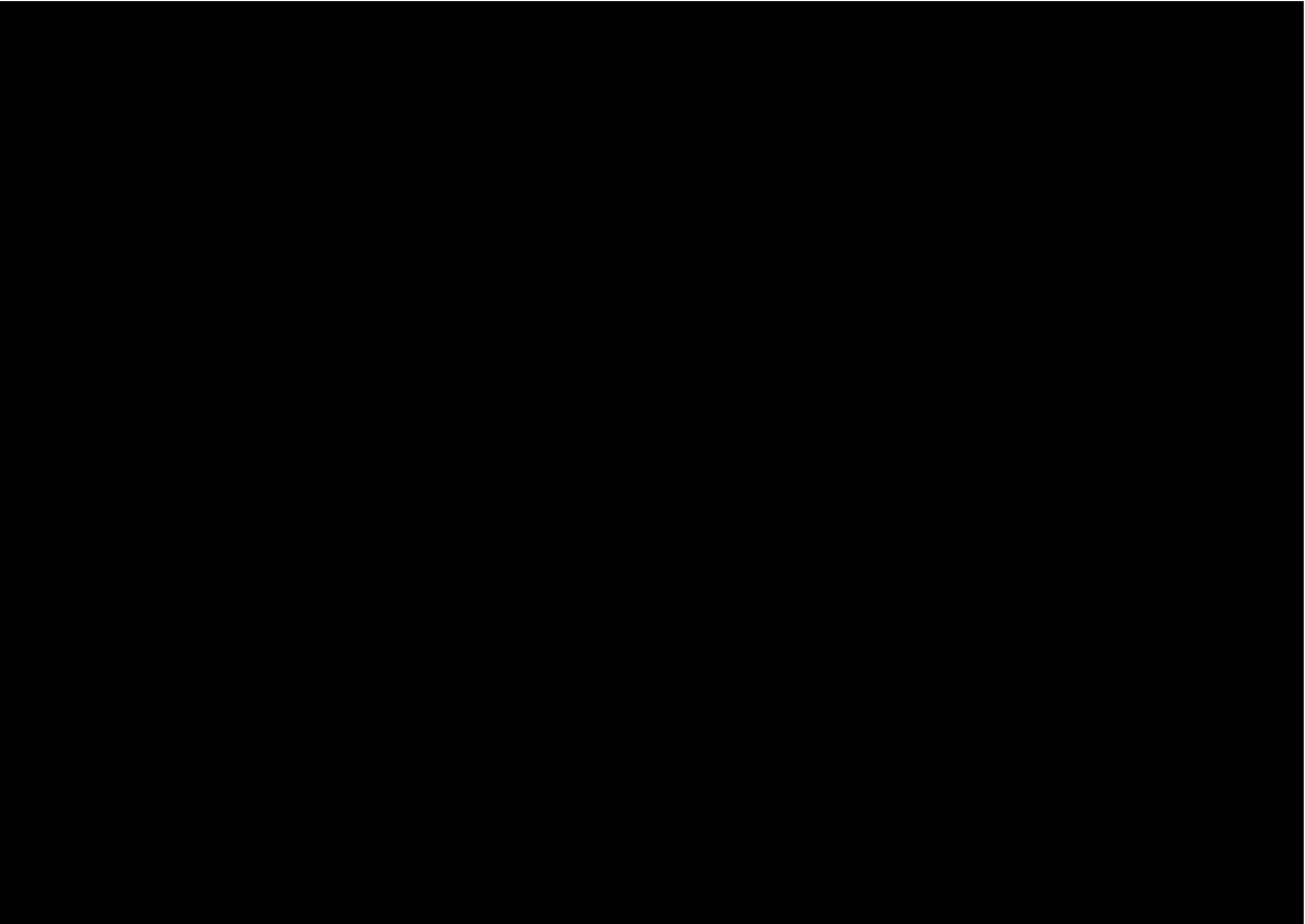
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| Partnership | <ul style="list-style-type: none">• We will bring our institutional knowledge of PR14 to enable PR19 to improve on PR14• We will align our teams throughout all DP and Ofwat grade levels (no Ofwat PR19 staff will be without DP named contacts)• We will build in training, coaching, feedback, lessons learnt and skills transfer activities, throughout the programme• Wherever possible, and desirable we will work onsite, alongside Ofwat project teams (providing skill transfer where possible) |
|--------------------|---|

How we will deliver our approach

- | | |
|--------------------|---|
| Efficiency | <ul style="list-style-type: none">• We will use our existing knowledge of the PR19 methodology to on-board our staff efficiently and at no cost to you• We will continuously review workstream project plans to identify potential savings and/or change to lower cost resourcing where appropriate |
| Excellence | <ul style="list-style-type: none">• We will pick the right people with the right skills (from across the consortium) for the right job• We will provide training and guidance (e.g. style guide, use of templates)• Supervision and QA will be integral to our work |
| Flexibility | <ul style="list-style-type: none">• We will use the right mix between specialist staff attached to workstreams and generalists who can be deployed flexibly around the programme• Ofwat will have the ability to tap into DP wider skills and experience• We will use sub-contractors to provide specialist skills augmentation and ensuring cost-effective implementation. |
| Innovation | <ul style="list-style-type: none">• We will use latest work flow techniques to provide enhanced transparency on progress• We will encourage the use of technology (e.g. use of electronic networks that allow collaborative working from different locations) to enable teams to work more flexibly and efficiently |

How we will manage for outcomes

- | | |
|-----------------------|---|
| Management | <ul style="list-style-type: none">• We will manage our own people and teams to drive success and resolve issues• We will use internal communications to share successes, clarify requirements and provide essential information• We will anticipate and manage risks (through a risk register) before they materialise• We will have zero tolerance for conflict issues |
| Accountability | <ul style="list-style-type: none">• Our leadership team (from the three firms) will be jointly accountable for our overall DP support• We will answer to the Ofwat Leadership and Ofwat Board (in a supporting role to Ofwat PR19 leadership)• Senior members of the team involved in the different tasks will be accountable for the work undertaken in their work-streams.• We will link our performance to our fees, and reward our staff for delivering what Ofwat wants |



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industry and the different companies.

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4. How we will add value

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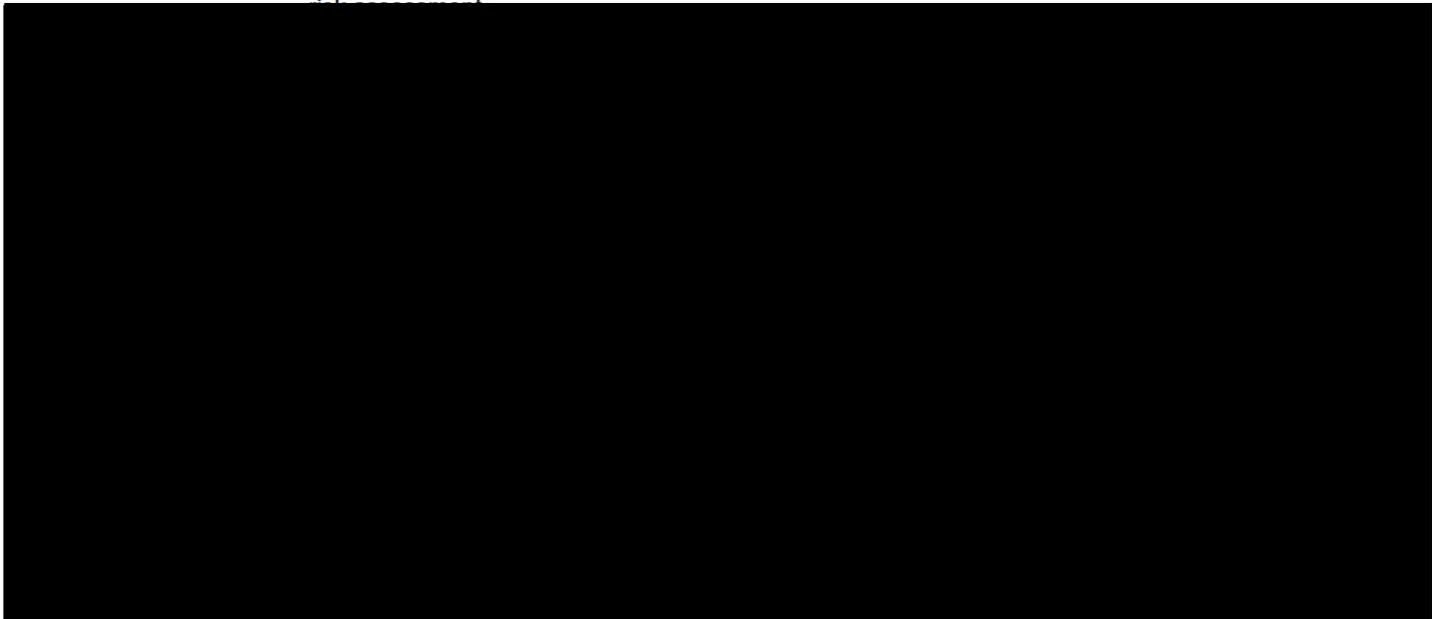
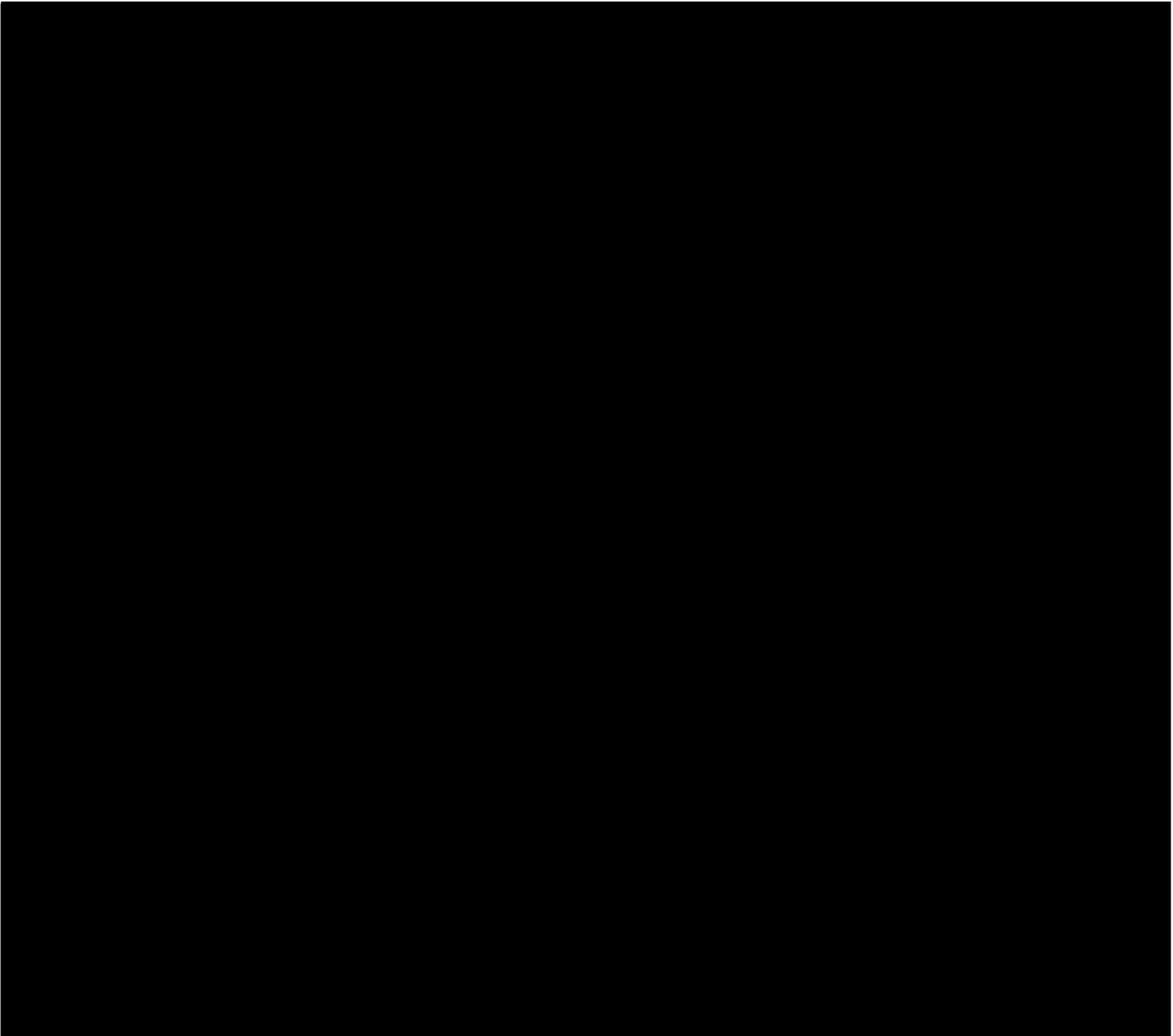
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(ii) Undertaking the assessment of company specific adjustments to the cost baselines

1. Objectives

Cost models can never capture every item that drives company costs. Companies may have local or regional drivers that make their costs atypical. The cost adjustment process ensures these costs are captured, assessed, challenged and ultimately included within a company's cost allowance if they can demonstrate a compelling case for uniqueness. A successful cost adjustment process should:

- Be used only where costs are uncontrollable and not reflected in the cost baseline or any other 'policy additions';
- Protect customers from bill impacts associated with atypical costs;
- Benefit customers where necessary by also applying more symmetrical downward adjustments;
- Have a high evidential bar that promotes compelling analysis and consequently utilises resources effectively and efficiently in areas of greatest need;
- Have a cascading trigger process where claims not meeting materiality requirements are not considered and where the level of analysis and review is commensurate with complexity and scale; and
- Fully mitigate the limitations of any econometric modelling derived from benchmarking analysis.



and programming

Delivery of draft determinations (exceptional and fast track): January 2019 - March/April 2019

Assess company responses

- Analyse company representations for cost adjustment claims. Assess any further information provided. Provide documents and evidence
- Rerun baseline cost models (if required)
- Protects companies from costs not reflected in the cost baselines
- Protects customers from bill impacts from any non-modelled items

Delivery of draft determinations (slow track and significant scrutiny): April 2019 - July 2019

Assess company responses

- Analyse company representations for cost adjustment claims. Assess any further information provided. Provide documents and evidence
- Rerun baseline cost models (if required)
- Protects companies from costs not reflected in the cost baselines
- Protects customers from bill impacts from any non-modelled items

Delivery of final determinations: July 2019 - December 2019

Assess company responses

- Analyse company representations for cost adjustment claims. Assess any further information provided. Provide documents and evidence
- Rerun baseline cost models (if required)
- Protects companies from costs not reflected in the cost baselines
- Protects customers from bill impacts from any non-modelled items

4. How we will add value

1. Objectives

In setting wholesale price controls, Ofwat has to determine the appropriate revenues that companies need to collect through their water and wastewater charges. The approach to set the allowed revenues is based on estimates of each company's expenditure requirements over the five-year control period. The expenditure requirements are determined by Ofwat in a way that are in line with the industry's efficiency frontier, and this is done by benchmarking companies to a representative "industry efficient" firm.

Since PR14, Ofwat has used a totex-based approach for assessing companies' efficient expenditures. Ofwat's assessment is supported by a range of econometric models, all aimed at estimating an efficiency frontier (representing "best practice") which is used to derive expenditure requirements (inefficiency and efficiency scores of water and wastewater companies are computed relative to this frontier).

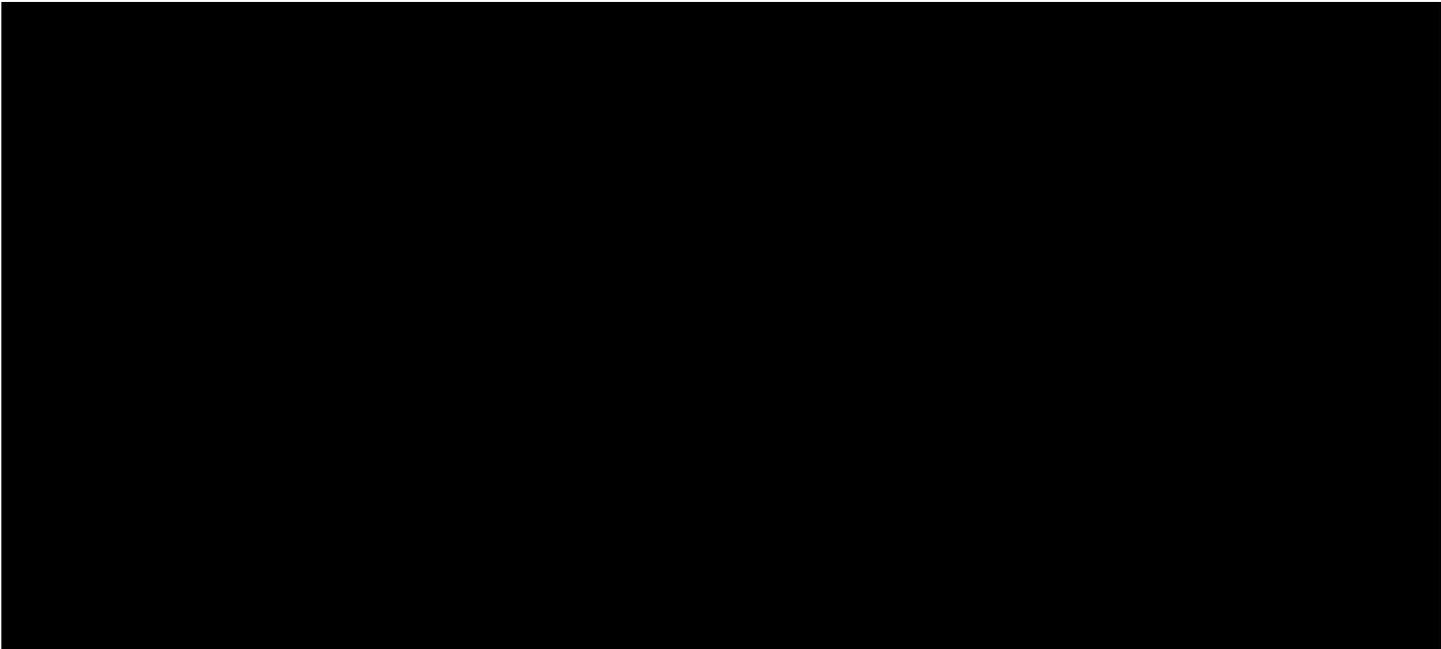
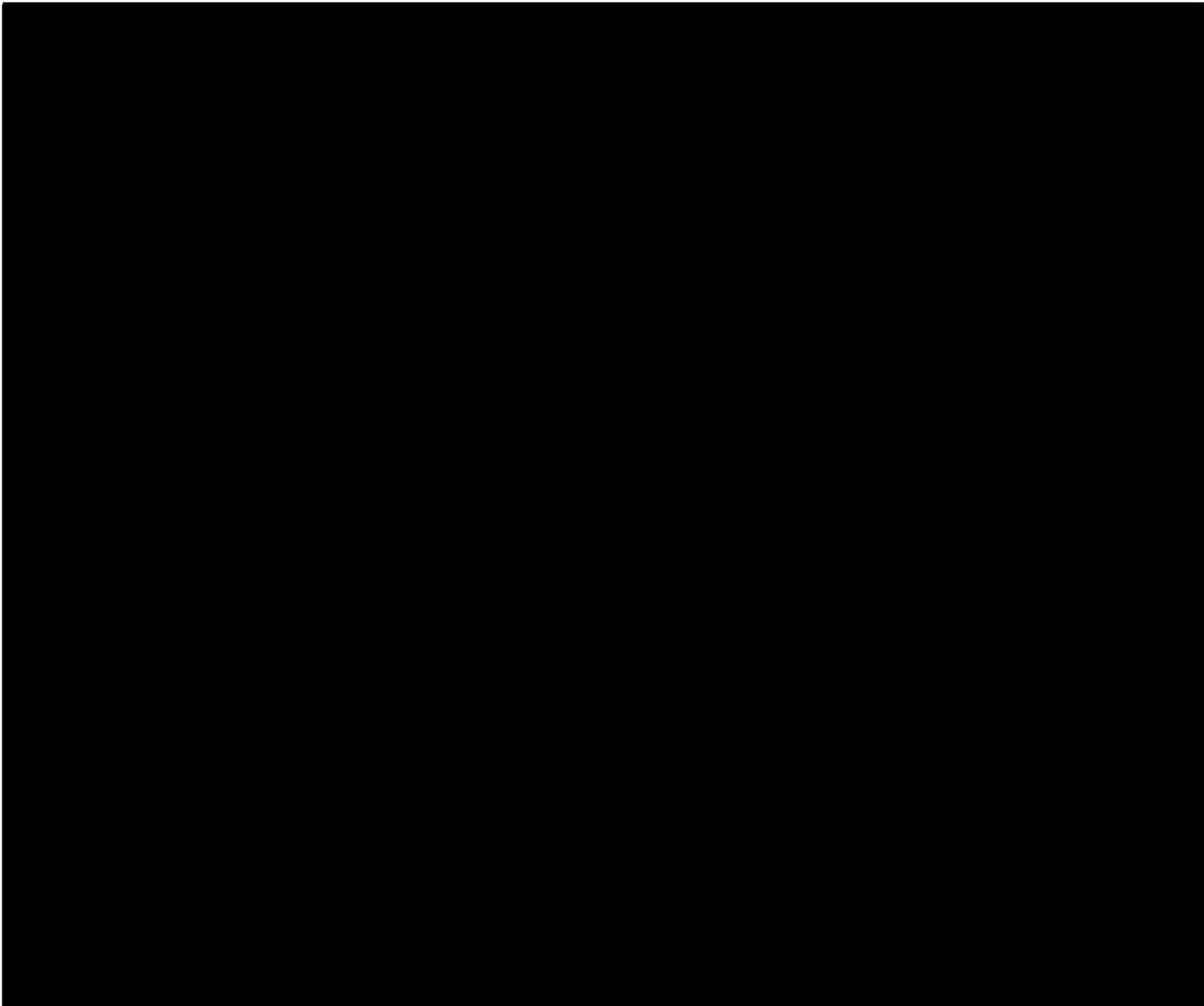
At PR19, Ofwat will use comparative benchmarking to assess efficiency in wholesale (as in PR14) but also in residential retail services. The use of econometric approaches will allow Ofwat to simultaneously account for multiple factors that drive differences in costs across companies, also in retail activities (type and number of customers, customer bill size, regional differences or other factors).

In this context, econometric benchmarking will be successful insofar as it:

- Delivers an adequate allowance for efficiently-incurred costs;
- Takes account of differences between firms (i.e. allows firms to conduct their business given their different nature);
- Provides the minimum allowance under the assumptions of efficient-management, dynamically-innovative, (so consumers pay no more than necessary);
- Provides firms with the right incentives to increase efficiency (innovate or to invest) such that costs fall over time (or rise as slowly as is feasible); and
- Establishes a form of competition between firms (so firms must match or out-perform each other, in order to be profitable).

Ofwat's PR14 models were subject to scrutiny and criticism, in particular by the CMA, which identified weaknesses regarding the selection of dependent variable, the selection of explanatory variables/cost drivers, functional forms, and robustness and model fitting. Other issues included:

- **Dependent variable** - companies have highlighted the “lumpy” feature of capital expenditure. The use of a smoothed capex profile may reduce the lumpiness of capex profiles, and could be considered to be a pragmatic approach to dealing with this issue in the totex cost assessment. The CMA focused on modelling base expenditure;
- **Explanatory variables/cost drivers** - the responses from companies criticised the fact that PR14 models are not able to capture different aspects of companies’ wholesale activities. This included aspects related to the complexity of treatment works (companies will face different costs in this regard depending on the raw water that is abstracted); quality of service; age of network (In general, older assets will require greater maintenance); or the effects of inflation;
- **Functional form** - a translog cost function may lead to complex relationships between explanatory variables and costs (the translog terms in the models are not easily interpreted and may be subject to multicollinearity between the regressors);
- **Econometric robustness and model fitting** - there are options in relation to OLS techniques or random effects techniques;
- **Approach to cost drivers** - in some cases economic and engineering intuition has been prioritised over statistical significance. This means clear rules will be required for balancing economic and engineering intuition and statistical significance;
- **Robustness** - as the PR14 cost models were subject to a number of important criticisms, PR19 models need to respond appropriately by absorbing those criticisms where they are fair and helpful, but also rejecting them where they are unjustified and respond to vested interests (and not economic rationale); and
- **Number of comparators** - the mergers in recent years have reduced the number of firms (by two) in the benchmarking models. While not a substantial drop, the approach may need to be adapted, relative to that taken in PR14, in some areas, to take account of the reduced number of firms.



(iv) Calculating the allowed cost of capital

1. Objectives

The cost of capital determination is intended to provide firms, in the price control, with a sufficient allowance, relative to their assets, that an efficiently-managed firm will be able to provide a return to investors that reflects the risks those investors have taken, whilst providing incentives for efficient investment in the future.

Ofwat's core cost of capital model is a WACC-CAPM model — i.e. a model of the weighted average cost of capital (WACC), with the Capital Asset Pricing Model (CAPM) serving as a main basis for the assessment of the cost of equity.

The cost of capital is a key parameter in a price control. It has a potentially large impact on bills and can therefore be the subject of much contentious debate. Ofwat therefore needs a well-evidenced and robust estimate of the cost of capital.

Since PR14 there have been some changes in both methods for calculating the cost of capital and the macroeconomic and financial market context. New methods include a new means of indexing the cost of debt and a new dividend growth model-based data-driven approach to assessing the Total Market Return. Ofwat

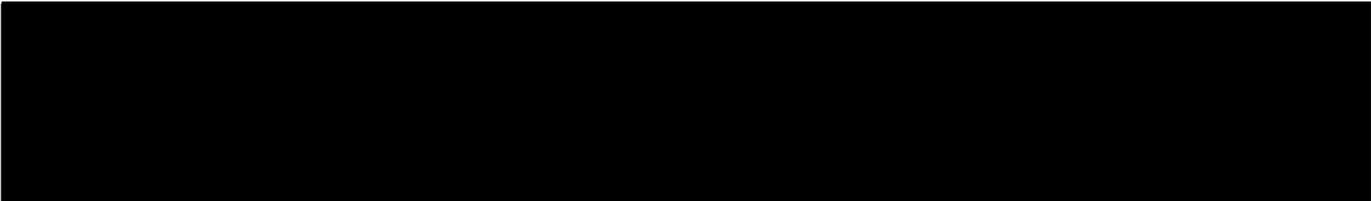
has also become more data-driven in its approach to the risk-free rate (supported by the recent UKRN report on estimating the cost of capital).

Ofwat's view at the time of the early view on PR19 cost of capital was that there would be no basis for a material difference between the costs of capital of different sub-controls (e.g. bio resources, water resources, etc.). The arguments for this were largely negative (i.e. that there was not a good basis for differentiating), and thus in principle some further information could arise to cause this position to be revisited.

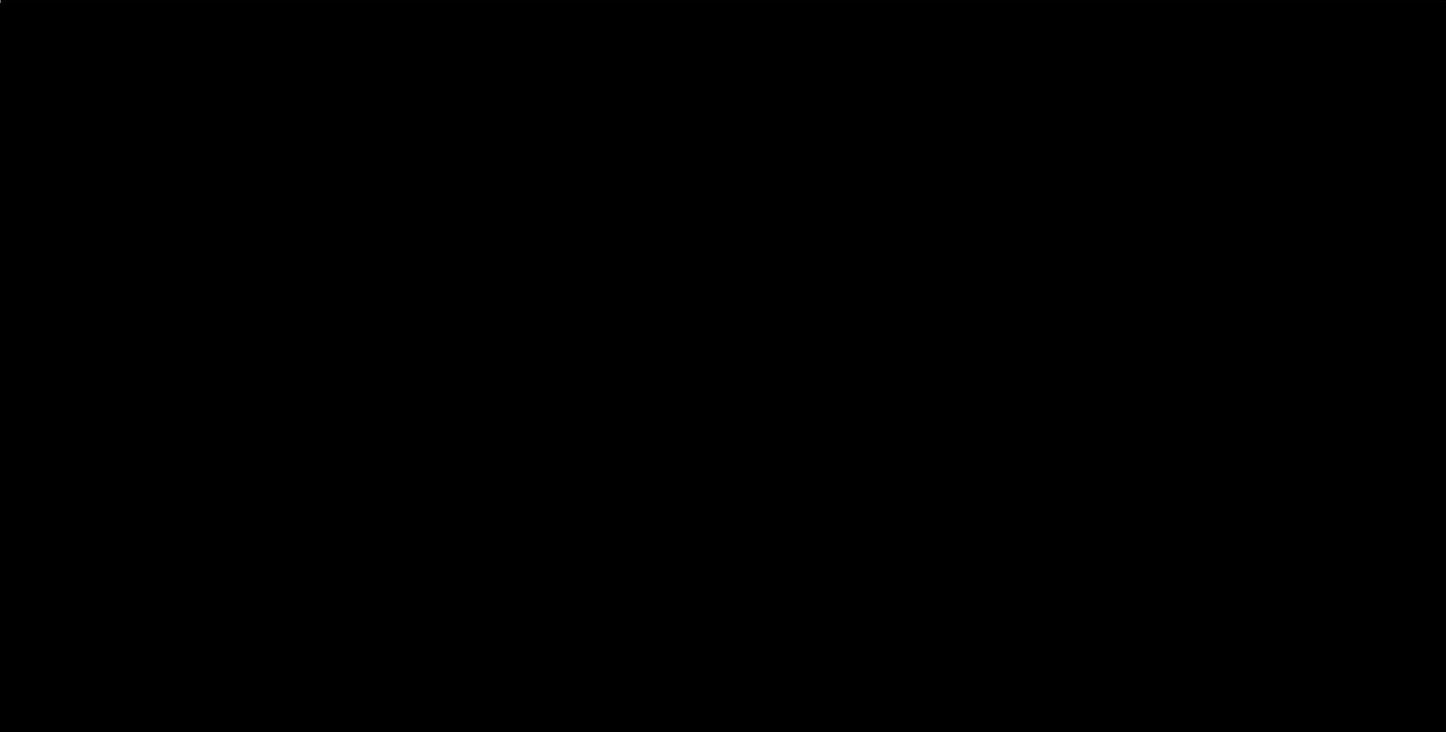
Ofwat placed the onus on companies to justify a different debt premium for water-only companies, to reflect some difference in financing or issuance costs. The calculation of issuance costs, more generally, appealed mainly to past regulatory precedent. We expect company submissions or analysis will provide more detail. PwC provided a specific report on company-specific adjustments to the cost of capital for PR14 (rebutting any need for a cost of equity uplift and constraining the cost of debt uplift to that supported by market evidence, and where WoCs could demonstrated a commensurate benefit to customers).

Ofwat chose not to "aim up" explicitly on its figures (picking a point estimate above the midpoint of a reasonable range). This is unusual for regulators in recent years, but the practice of aiming up has been questioned by some (including the recent UKRN report which mentioned the limited case for it). For the final assessment of WACC, Ofwat will need a more thorough assessment of the benefits and risks of selecting a point estimate for the WACC at or above the mid-point in the WACC range.

The financeability analysis needs to be completed once there is more detail on the totex model and associated company cashflows. While the move to CPI indexation (for half the RCV and new RCV additions) helps to increase in-year cash returns in place of long-term RCV growth, financeability ratios (particularly the adjusted interest cover ratio) are likely to be constrained by the low returns environment. Moody's has already increased the number of companies with a negative outlook from two to six, citing the low return environment and corresponding shift in Ofwat WACC estimate. Our preliminary view is that any financeability challenges (for the notionally financed company) can be solved through cash flow profile adjustments (e.g. alterations to the RCV run-off rate) and not require any long-term increase to customer bills. The financeability analysis may also be used to recalibrate the notional gearing assumption.

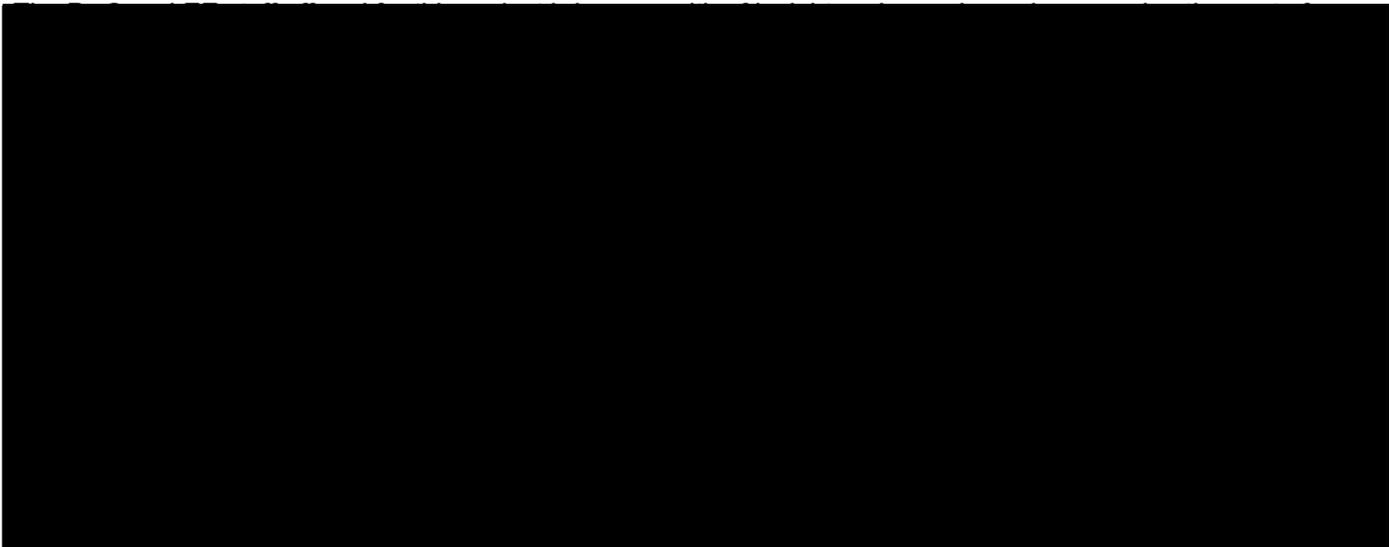


3. Proposed approach





4. How we will add value



(v) Assessing the proposed design and level of a company's outcome delivery incentives.

1. Objectives

Through the price review process, companies develop performance commitments with their customers on the quality of their services and the outcomes they will deliver. At PR19, these will take the form of 14 common performance commitments, with common definitions across the sector. These will be supplemented with an array of bespoke commitments (including existing commitments carried over from AMP6), based on the more specific needs of a company's customers. Ofwat expects companies' performance commitments to be stretching. For example, for some of the common performance commitments, commitment levels must be set at least at the forecast upper quartile level of performance.

Companies will also define and quantify a range of 'outcome delivery incentives' (ODIs) that incentivise companies to outperform their commitments. ODIs are an important tool that encourage companies to deliver what their customers want. They reward companies for making operational and investment decisions that put customers first. But they also provide mechanisms through which companies compensate their customers (through lower bills) if they fail to meet their commitments.

Good performance commitments should have the following qualities:

- **Accurately represent the outcomes** that customers (and, where appropriate, wider society) 'care about';
- Be **controllable** by the water companies, so that they are rewarded (penalised) for good (bad) performance, but not exposed to risk beyond their control;
- Be **quantifiable and not subject to mis-measurement** so that they can be used – in conjunction with other parameters below – to accurately calculate changes in revenues; and
- Be **objective** so that any two parties calculating the metric would arrive at the same answer.

3. Payment rate

The payment rate relates to financial ODIs. It is the incentive payment (or penalty) per unit of performance above (or below) the level of commitment. Payment rates should be set to reflect the marginal benefits to society of improving the ODI by one unit. This includes benefits to customers, and potentially also wider

stakeholders to capture externalities. Appropriate payment rates should be evidence-based. This evidence should include: econometric / revealed preference research and/or stated preference / willingness to pay analysis.

4. Shape

Normally, ODIs will have a constant incentive rate. However, for 'enhanced ODIs' companies may propose a higher payment rate for exceptionally good performance and/or additional penalties for exceptionally poor performance. Non-constant payment rates could be used to reflect:

- A finding that consumers' (and society's) willingness to pay varies depending on the level of performance (e.g. 'diminishing returns' suggest a strong rationale for more punitive penalties if performance is especially bad); and/or
- That exceptional performance can lead to 'frontier shift' innovations which then get replicated across the industry (a positive externality which justifies 'subsidising' the company which generates the benefit).

Any proposals for non-linearities should include: (i) a detailed rationale; (ii) evidence on the appropriate 'thresholds' where the higher rates 'kick-in'; (iii) evidence on the appropriate level of the increased payment rates; and (iv) an assessment of whether the introduction of the non-linearity affects the expected financial neutrality of the regime.

2. Lessons learned from PR14 and key considerations for PR19

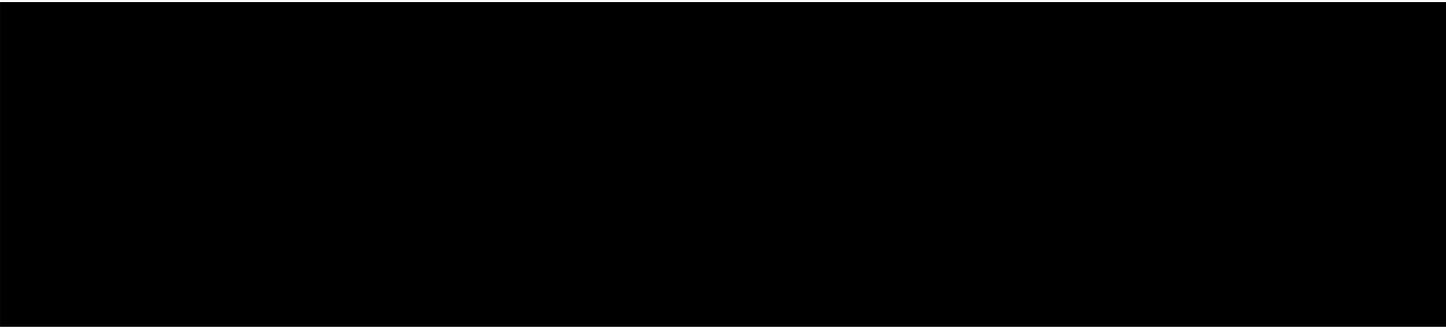
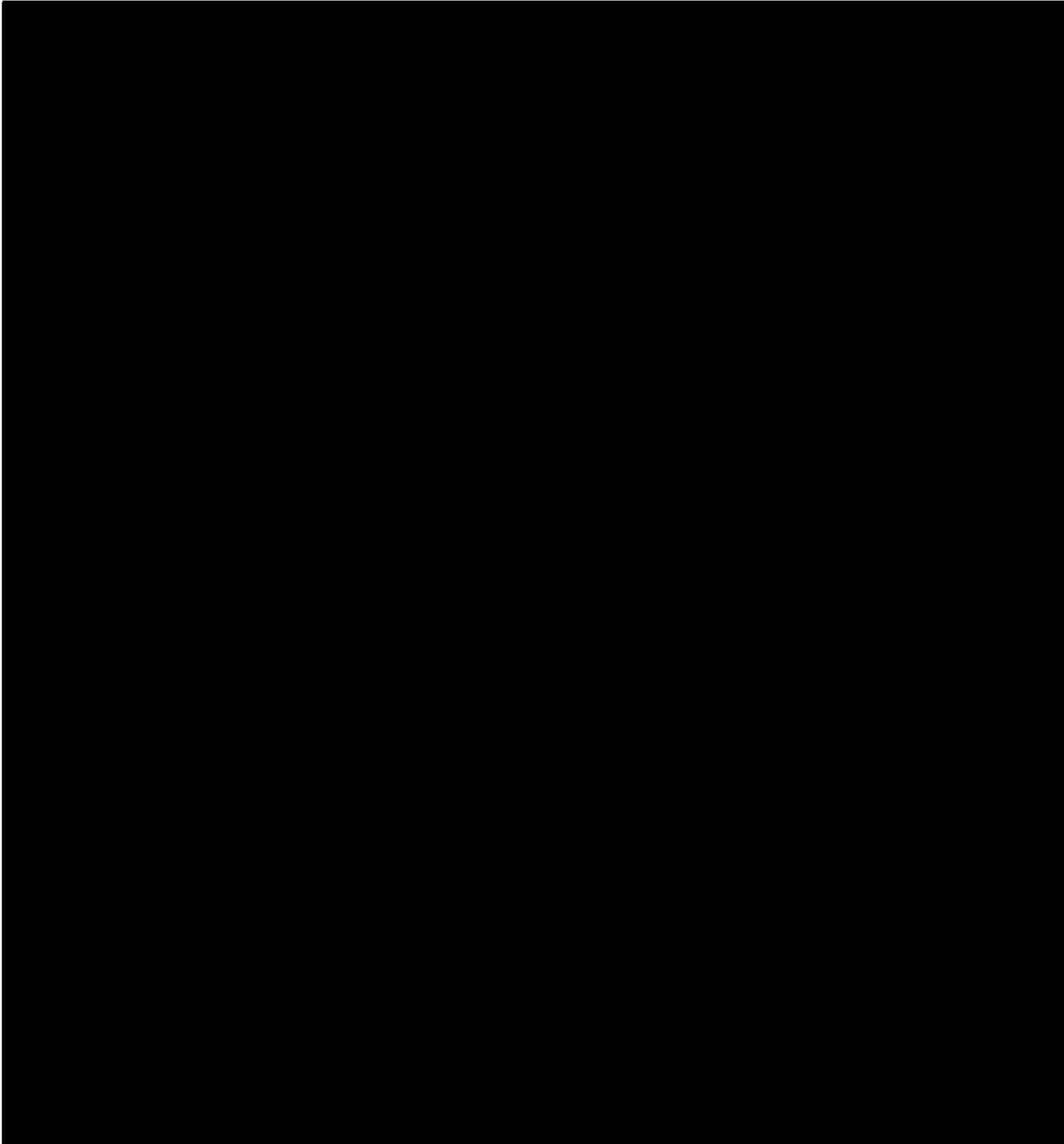
ODIs were at the heart of Ofwat's approach to regulation for PR14. As part of PR19, Ofwat is placing increased weight on them, and making a number of changes to better promote what customers want in both the short- and long-term. Some of the most prominent changes being implemented through PR19 include:

- Aligning definitions across 14 common performance commitments to facilitate consistency and comparability across the industry (whilst continuing to allow bespoke approaches to reflect local needs);
- Removing the cap on ODI exposure;
- Requiring justification if companies intend not placing financial incentives on a commitment;
- Linking a greater proportion of revenues to ODI performance to strengthen their incentive properties;
- Aligning timing of payments and performance to align companies' rewards with their actions;
- Introducing 'enhanced' outperformance payments – higher payments for particularly high or low performance – to help encourage innovation (which may ultimately 'spill over' to the rest of the industry) and dissuade especially poor performance (reflecting evidence about customers' preferences); and
- Requiring companies to justify any instances where they are removing bespoke performance commitments put in place at PR14, especially where performance has been poor through AMP6.

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- [Redacted list item]

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Question 2

Flexibility, responsiveness and quality control

Outline your approach to meeting the key requirements of the Delivery Partner in the following areas:

- Ofwat's requirements for flexible resources – to include how you intend to provide a flexible and responsive solution to resourcing requirements (e.g. service level commitments on turnaround times for sourcing and placing staff on the project);
- Dealing with specific requirements/discrete pieces of work to include your approach to scoping and pricing of these discrete pieces of work;
- Ensuring quality control and assurance of the work undertaken in a context where resources will be embedded within Ofwat teams, and responsiveness to any issues identified on the quality and or timeliness of the work.

How we will provide flexible resource

There are a number of dimensions to providing an appropriate and flexible resource plan to suit Ofwat's needs during the price control:

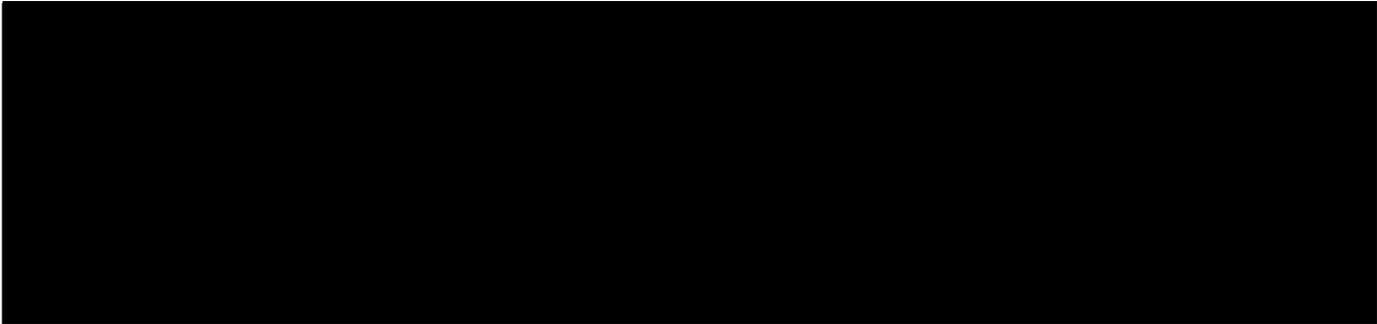
- A good understanding of the cadence, stages and activities involved in a price control and the knowledge of the skills required to complete different activities;
- Expert assessment and understanding of the uncertainties that might arise;
- Experience in different tasks so that a flexible and adaptable workforce can be proposed in order to react swiftly and effectively to Ofwat's needs; and
- Smart working that takes advantage of technological solutions to increase the flexibility of our staff.

The price control resource plan



Throughout the project we will be mindful of the balance of work between Ofwat and DP staff and the extent to which Ofwat is able to deploy internal resources to the relevant workstreams. But there will be key milestones during the price control when we will need to collaborate with you to update resource profiles in line with PR19 programme needs. This is likely to be following submission of the company business plans in September 2018; following the decision on the number of companies within the categories of exceptional, fast track, slow track, and significant scrutiny, and following the completion draft determinations.

At these times, our DP leaders will collaborate with Ofwat workstream leads to discuss the implications of emerging information on the planned resource profile. We will then produce an updated full resource profile (version 2) for the remainder of the programme, within the budget envelope. Given the dates of the key milestones are known well in advance and we will have a good understanding of whether resource needs will be likely to rise, we will flag possible additional resource needs with our internal resource teams, to minimize the speed with which we could deploy additional staff.



Our general approach to flexible resourcing

Most of our clients require flexible resourcing models, with the ability to quickly scale up/down our staff numbers to meet customer-led requirements and timescales. The consortium takes advantage of the following factors to ensure our clients' resourcing demands are met:



We have provided examples of our approach to flexible resourcing in our response to the PQQs. These included:

- **Ofwat DP PR14** – In which our approach to resourcing was highlighted by Ofwat as being one of the highlights of the DP model. A number of the key staff members who managed PR14 workstreams will be part of the PR19 DP team;

[Redacted content]

Dealing with specific requirements/discrete pieces of work

During the course of the 18 month price review, there are likely to be times and activities in which Ofwat will need to rely more heavily on the DP. These may include completing discrete pieces of work, or indeed, as happened during PR14, one or more secondments to Ofwat.

Ofwat has already identified three discrete pieces of work that it expects the DP to deliver:

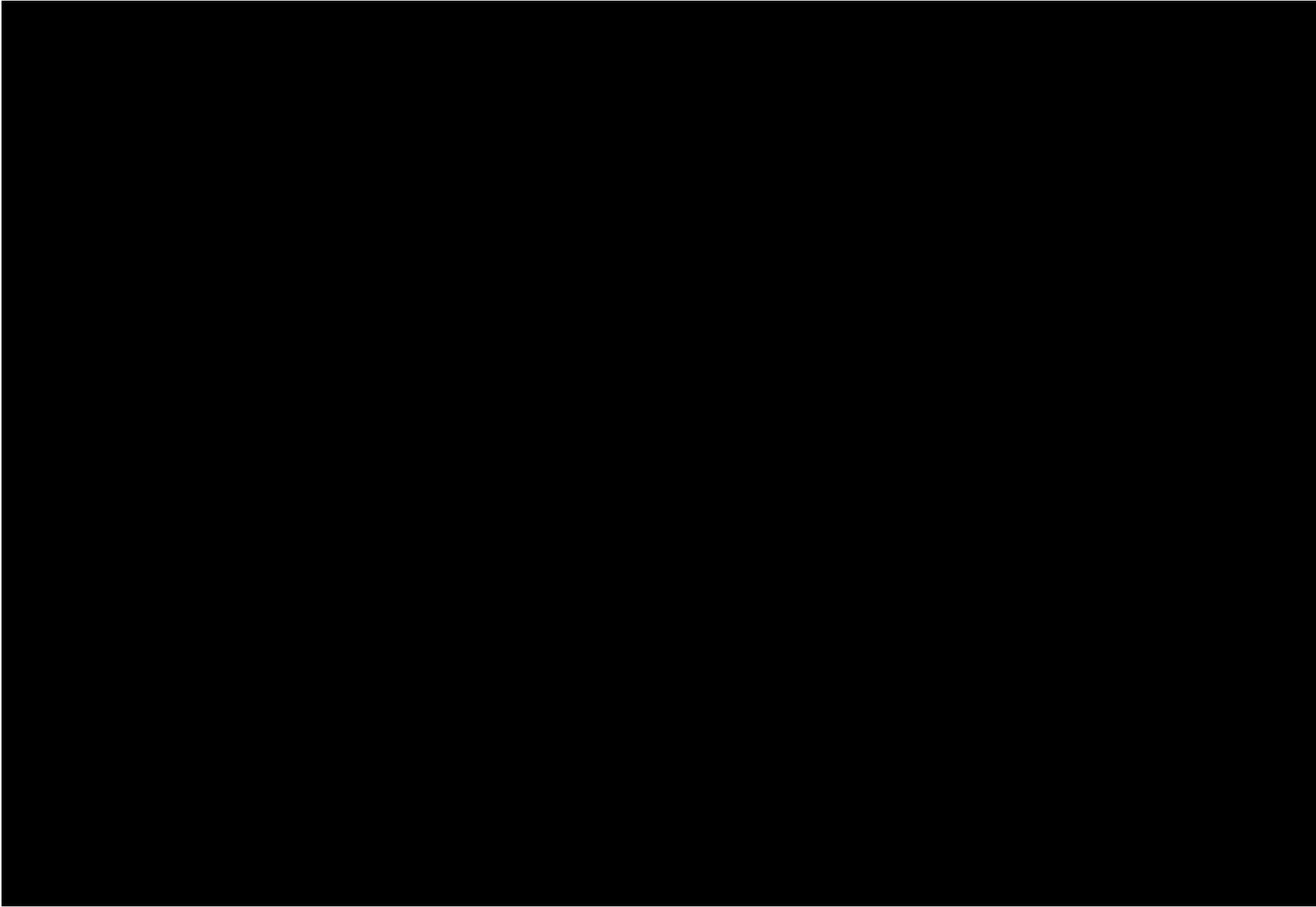
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We are comfortable that the resources we have put forward have the skills and expertise to complete these pieces of work. We have identified in the table above who will lead these separate specific requirements.

For these pieces, and where other additional discrete activities emerge, we will produce a short scoping document. This will set out the objectives, activities, deliverables and proposed resource profile for discussion with Ofwat. In producing this document we will also explore the use of mixed teams of Ofwat and DP staff, depending on the availability of Ofwat staff members.

Ensuring quality control and assurance of the work undertaken

As a consortium we pride ourselves on the quality of the work we produce and the processes we put in place to maintain the highest standards of output. For a programme of the size and length of PR19, we will have a dedicated team for quality control and assurance (QA), which will work alongside Ofwat's QA team. The role of this team will be to manage the QA process of high profile deliverables and key programme activities.



Question 3

Contract and relationship management

Please detail your approach to contract and relationship management including how you will:

- achieve quality outcomes and minimise charges, in particular recognising the overall capped price and Ofwat's value for money considerations
- provide management information in a timely manner consistent with the requirements of the contract;
- ensure effective joint contract management with clear accountabilities and which minimises points of contact;
- develop and maintain an effective relationship with Ofwat and other companies involved in the Delivery Partner Contract as consortium members or sub-contractors or also supporting PR19 as service providers to Ofwat;
- ensure client satisfaction

In our response to this question we summarise our approach to management of the contract between PwC and Ofwat, and the management of PwC's relationship with our consortium partners. We use this to illustrate our approach to the points raised in the question.

Achieve quality outcomes and minimise charges, in particular recognising the overall capped price and Ofwat's value for money considerations; and ensuring client satisfaction;

We recognise that you have given a lot of thought to the governance and contract management arrangements for the Delivery Partner (DP) and we welcome that. We fully support the key provisions set out in Schedule 6.1 of the proposed contract, namely:

- The nomination of a single point of contact for contract matters from each of the DP and Ofwat;
- The establishment of a joint Contract Management Board, meeting monthly and chaired by you, with Ofwat and DP representatives, including both PwC and our consortium partners. We think that the roles you suggest for the Board are eminently sensible, namely operational management of the contract, conflicts management where required, senior level guidance, strategy and leadership, issue resolution, contract performance management;
- The production by the DP of a supporting monthly DP Management Information (MI) report. We are happy with the broad content that you have specified in the schedule, recognising that the key items are going to likely to be around time and cost inputs as well as outputs and performance issues. This will also need to include the elements of the balanced scorecard that we agree for managing the incentivisation mechanism;
- The rigour and rhythm of a quarterly Contract Review Meeting, supported by a quarterly DP review pack, to look both backwards at performance over the last quarter and forwards at the programme for the next quarter. We think that this could also meet at the end of key stages of the programme if they do not match quarter ends;
- Agreeing to Ofwat guiding principles on pricing, in particular:
 - We shall ensure that our proposed, and agreed approach to resourcing and hence cost forecasting represents best value for money for Ofwat;
 - We will use the lowest cost resource combination. For example, where a service can be provided for an overall lower cost using a different grade or resource, we shall recommend this to Ofwat for consideration;
 - Where Ofwat can source any element of the solution at a preferable rate from an alternative source/sub-contractor rather than the Delivery Partner itself, then we will consider any such recommendation and, provided it is suitable, integrate it into our proposed approach²;
 - We shall consider Ofwat's available budget and timing and seek mechanisms to fit within any constraints.
- Agreeing to work in line with specified partnership principles and Ofwat values.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- forward plan and collaborate together; fix issues as they arise, before they become bigger problems, and retain an honest two-way dialogue about what is going well and not so well;
- Committing to rapid turnaround on statements of work and new/ changed resource requirements, aligned to the speed with which the Programme is going to have to work, together with a process for agreeing these with you from a people and VFM perspective; and
- Periodic independent reviews of our performance and relationship, undertaken by a senior PwC Partner with your senior nominee (e.g. CEO and/or a senior individual from your procurement function). This will also give you a route for escalation of any serious issues if required.

We also expect that everyone on the DP and Ofwat teams will be building and maintaining good and open relationships through their interactions on a day-to-day basis. This will help us to spot and fix issues live and deal with re-prioritisation and resourcing issues within workstreams in real time. The formal contract management structures will therefore become more for formal workstream and programme reporting, resolving programme-wide issues and for taking the temperature of the relationship across the team. Contract spend (historic and forecast), resourcing requirements and engagement quality will then be formally monitored through the review of balanced scorecards at each contract management board and contract review meeting.

It is through the development and application of these formal and informal structures, and being adaptive to change as the programme develops, that we plan to deliver quality outcomes and minimize charges. And this will in turn maximize client satisfaction.

Effective joint contract management with clear accountabilities and which minimises points of contact; and providing management information in a timely manner consistent with the requirements of the contract.

Delivery Partner contract management support – will co-ordinate the production of MI and invoices, provide contract management meeting support, co-ordinate the production and administration of Scopes of Work and variations, co-ordinate responses to resource requests, and other ad hoc tasks. We expect this to be a near full-time role, provided by the DP. We will cycle a couple of more junior staff through this role over the course of the engagement;



Although there will be many other day-to-day touchpoints between the DP and Ofwat management and teams from a technical perspective at both workstream and programme level, it will only be this small group of individuals (or their nominees) who will be your interfaces for contract management purposes. We will develop good relationships specifically across the DP and Ofwat leadership and contract management team, so that formal set-piece contract interactions are held in the context of good personal relationships.

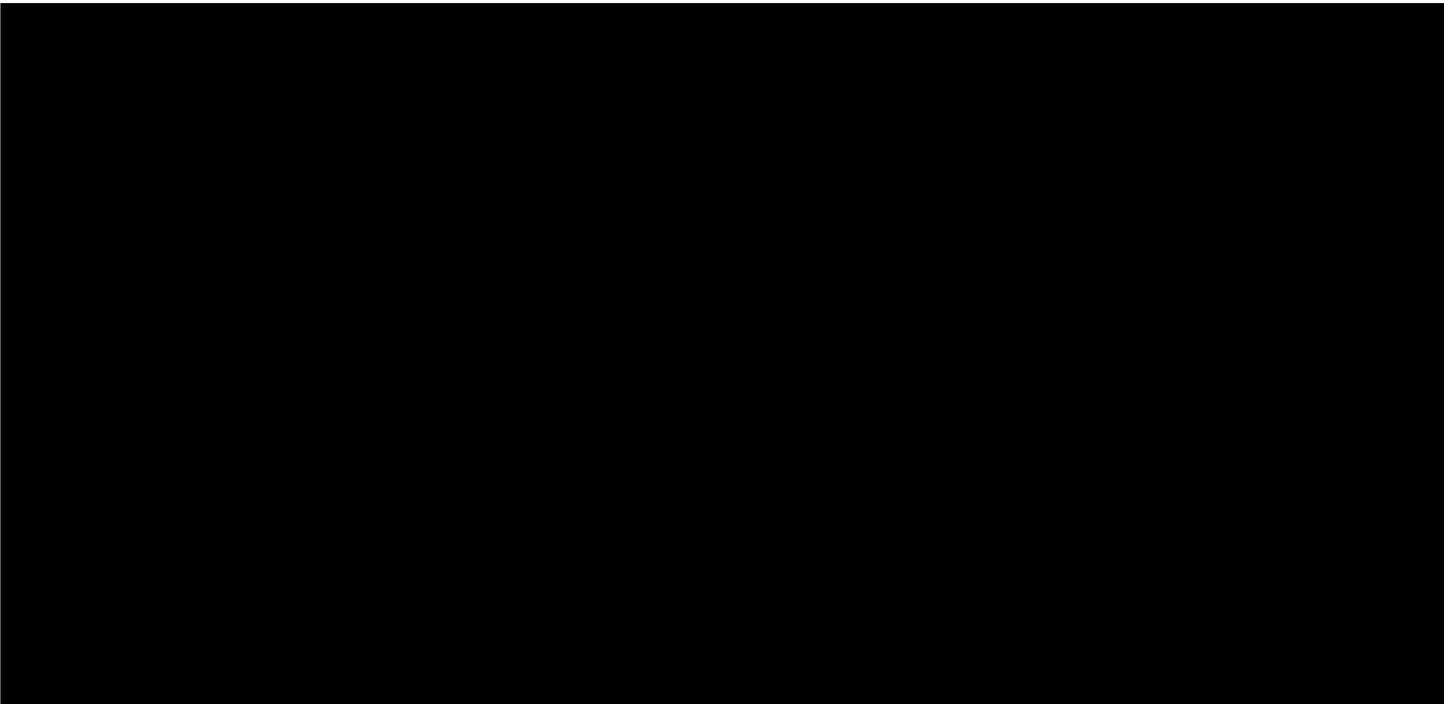
We expect that there will be a few occasions where we delegate or allocate responsibility for some contractual issues to the senior representatives of our two main consortium partners, Mott MacDonald (MM) and Europe Economics (EE). Examples from PR14 were issues to do with scoping and resourcing of specific scopes of work that related only to a single consortium partner, or to do with development of branded published reports.

Based on our experience of PR14, the production of timely and accurate MI will be a particular challenge. Timesheeting, invoicing, providing supporting evidence of expenses, recording of statements of work and resource requests in a fluid and rapidly-changing environment, and the production of balanced scorecards (which will require significant Ofwat input) will all require particular attention. We propose to have dedicated MI and administrative support for the programme and to develop and test our processes and procedures for all these matters during the mobilisation phase so that they are not too time-consuming on programme technical resources from either side during the peak times of the programme. We will nominate liaisons with our support person from Ofwat and our consortium partners.

Overall we aim to manage the contract in the spirit of joint DP/Ofwat accountability for the delivery of PR19. And that includes collaborative arrangements, being mindful of the partnership principles and values, and the associated outcomes, contract spend and ultimately your client satisfaction.

Develop and maintain an effective relationship with Ofwat and other companies involved in the Delivery Partner Contract as consortium members or sub-contractors or also supporting PR19 as service providers to Ofwat

At the beginning of the DP role, the consortium and Ofwat's leadership team will work together to establish common working arrangements. These will build on the Partnership Principles set out in the contract and Ofwat's SAILOR values, which are strongly aligned and complementary to those of PwC, EE and MM (as set out in our response to Question 6). These will be brought together into a "team charter". We provide a draft team charter below:





Question 4

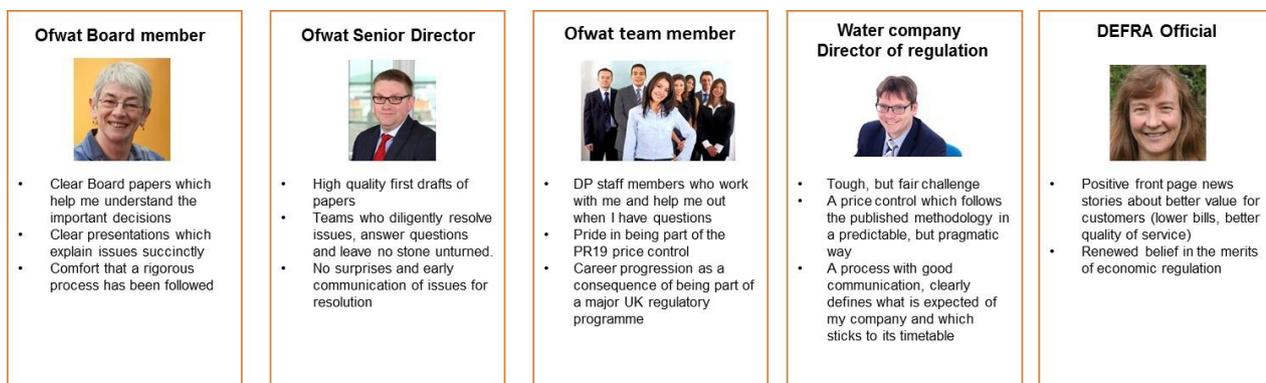
Successful delivery of PR19

Please detail how you will ensure/contribute to ensuring the overall successful delivery of PR19 having regard to, but not exclusively, the Delivery Partner responsibilities under the Contract.

As your Delivery Partner (DP), our primary focus will be to contribute to successful outcomes for customers: lower bills, greater investment, improved performance (e.g. fewer outages, better customer service) and better environmental stewardship. This builds on the PR14 successes. PR19 also adds the importance of innovation and resilience (both operational and financial). This will lead to a markedly different UK water sector by 2025 with more robust water companies, more clearly serving their customers.

Achieving these outcomes requires incentivising water companies to stretch themselves and then setting challenging, but fair, revenue control targets. The headwinds are favourable. Much lower financing costs should knock £15 to £25 off a typical annual household bill. Reduced pension deficit funding allowances, 2020 RCV adjustments and capturing PR14 totex outperformance is worth at least another £10³ off a typical annual household bill. PR19 therefore has the potential for substantial customer benefits.

Generating these successful outcomes for customers requires a rigorous, well-run PR19 review process, which is tough, fair and transparent. Success also means different things to different people at a more personal level. In the diagram below we set out how we think success feels for different participants of the PR19 review.

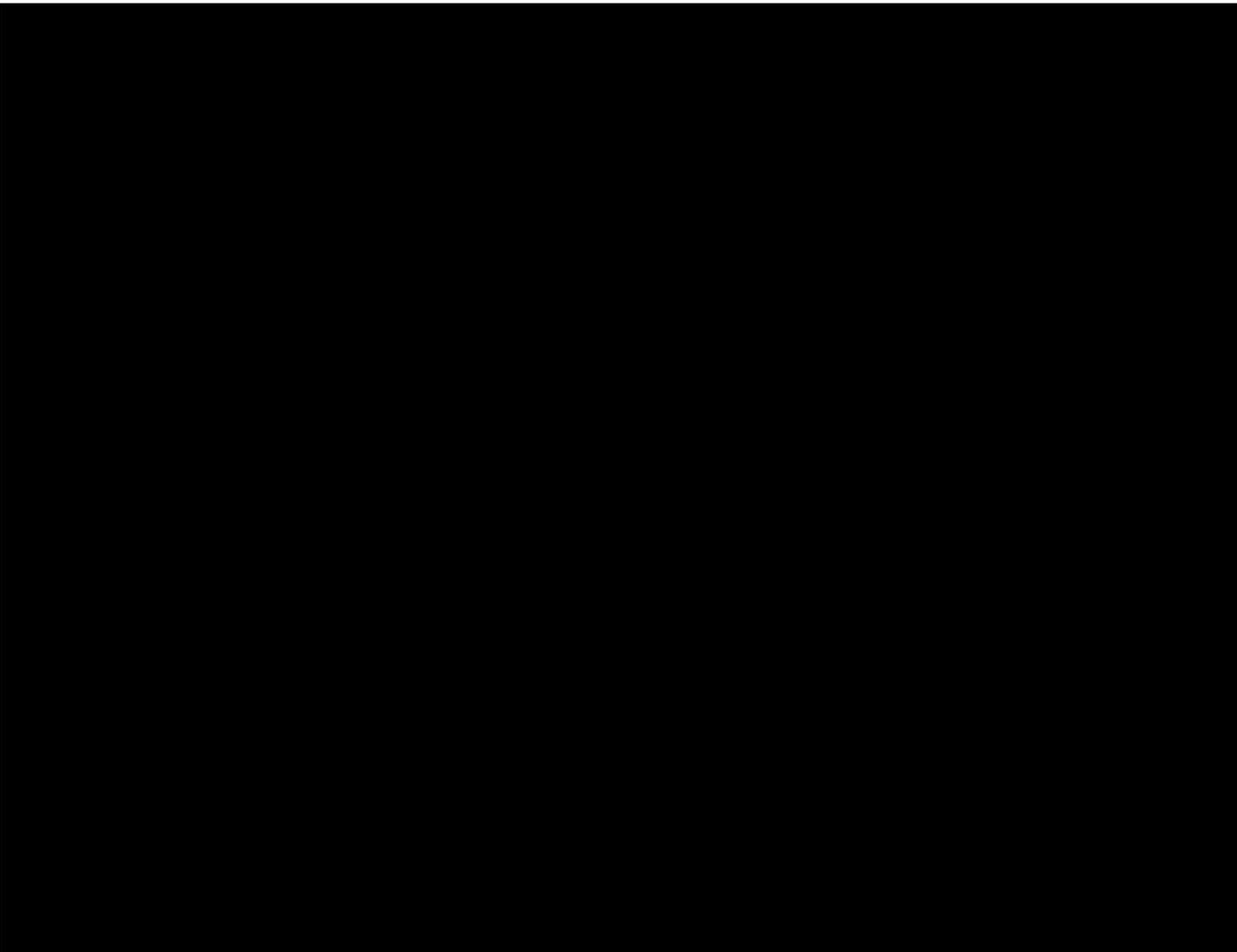


By recognising these different aspects of success right across the PR19 programme, we have tailored our approach accordingly.

Firstly, successful delivery can only be achieved by **getting the basics right**. We understand the importance of identifying the right people for the right roles at the right time (as part of this bid we have specially selected leadership roles based upon experience). Joined-up workstream leadership will enable our teams to work seamlessly. A regular programme rhythm of steering meetings and DP contracting meetings will enable issues to be escalated and resolved in a timely manner. Timely review and quality assurance means that the project deliverables for the Ofwat Board and ultimately made public will be of the highest quality.

A second over-arching theme will be our focus on **delivering Ofwat's objectives** and contributing to **consumer outcomes**, rather than focussing on the narrower DP responsibilities. Whilst the DP responsibilities will be defined under the contract, we recognise that it is not possible to codify everything and that Ofwat's requirements may evolve over the course of the programme. Our approach will be to work with you as one team, continuously checking in to understand your overall objectives and optimising our work to deliver those objectives. We want our success to be judged by your success.

Co-locating and building relationships is critical for long-term success. We commit to being physically located alongside Ofwat teams, to build teamwork and mutual understanding. Where possible we can use collaborative arrangements using remote working technology, but our preference and default will be co-location.



Question 5

Skills

Please outline how you will provide the key competencies required in the Statement of Requirements (see paragraph C) by reference to the likely volume of work and the anticipated mix of skills required.

Responses shall include:

- How you will ensure coverage of each discipline, with expertise in all relevant identified work areas and skills, demonstrating an understanding of the regulatory environment for regulated utilities in the UK and the constituent parts of price controls;
- How you will ensure an appropriate range of relevant experience across different levels of seniority, so Ofwat has confidence work will be placed at the right level in terms of experience and cost effectiveness;
- The methods you will deploy for assessing and matching individual staff to assignments; and
- Details of who will be considered the Key Personnel as set out in the Delivery Partner Contract and the CVs of all such personnel, as well as CVs of any other members of the Bidders' core team.

Bidder note: in addition to the Account Manager and Senior Sponsor, this may include Delivery Partner leads both overall and by Workstream, and Sub-Contractor leads by discipline.

How we have ensured the coverage of each discipline across all levels of seniority

In this sub-section we consider each of Ofwat's required skill areas in turn. We set out our understanding of your likely requirements, and explain our coverage of each skill area across all levels of seniority. We also describe the skills of some of the key individuals – at varying levels of seniority – who we expect will play key roles on our work.

We have also prepared a detailed analysis (attached as an annex to this question) of our experience working with water companies on the preparation of PR19 business plans. This is to ensure that any perceived or actual conflicts at the individual level would not impact on our ability to provide the key competencies required in the Statement of Requirements. In some situations this requires limiting proposed team members' role, for example we have assigned an individual who has experience in preparing a PR19 retail business plan for a water company into the wholesale workstream.

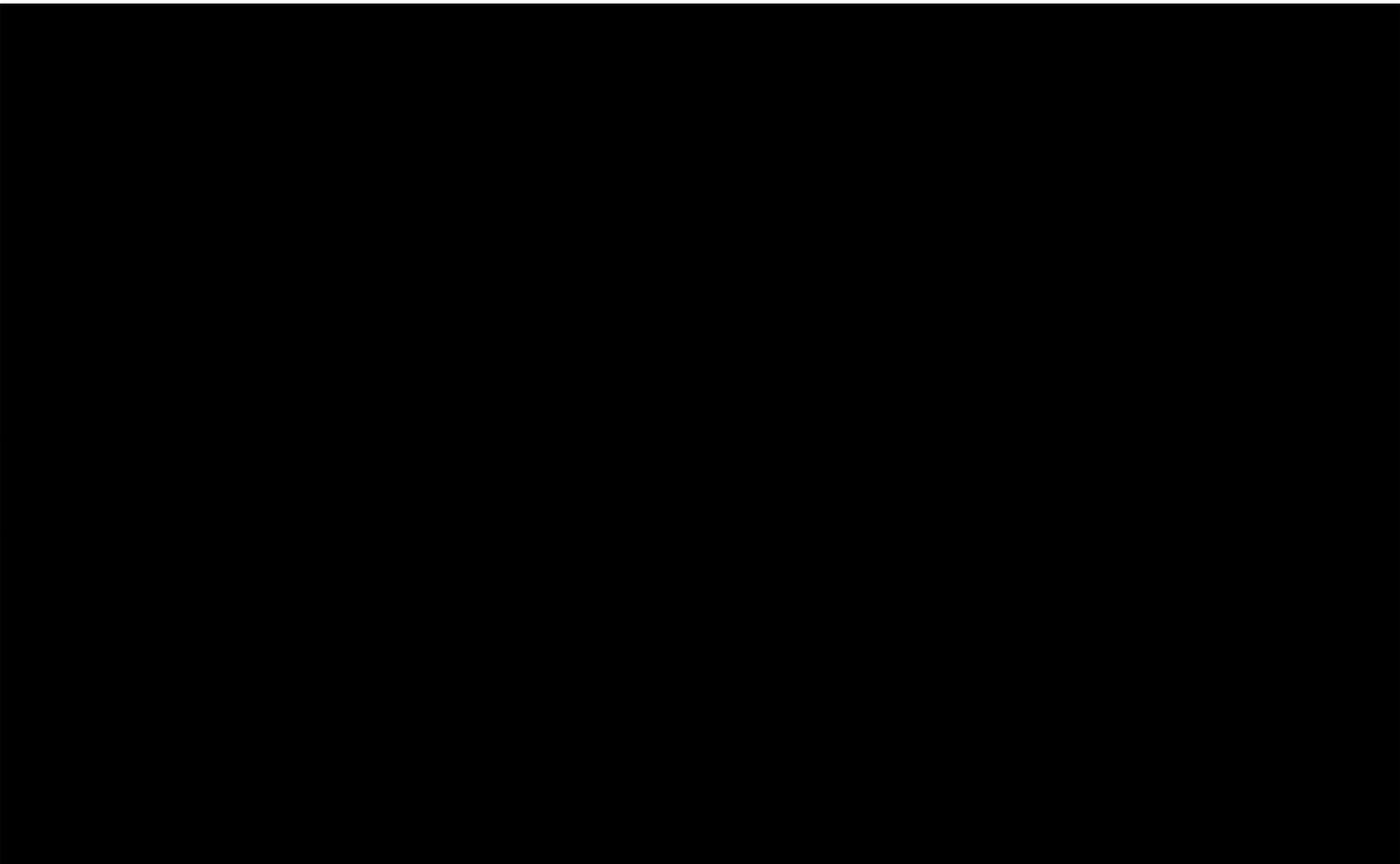
MM has extensive experience working with Thames Water on Water Resources Management Plans, but we have ensured that a sufficient number of skilled individuals who have not worked with Thames Water are included in our DP team.

Where perceived or actual conflicts, following discussions with you, render certain individuals unable to work in the DP team, then we will source alternative, equivalently skilled individuals. The following sections demonstrate the breadth of resources we can draw upon to provide the competencies required in the Statement of Requirements. In relation to those individuals who we have not named in our bid, but are included in the coverage data below, we expect minimal conflicts, because most have gained their experience outside of the UK water sector.

Corporate finance and tax

Our understanding of the likely volume and mix of skills

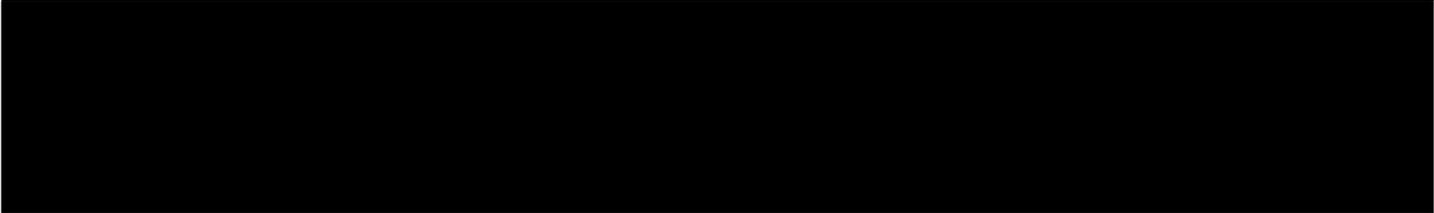
On the basis of our understanding of the statement of requirements – coupled with our experience in PR14 – we expect that you will require significant corporate finance and tax support. This covers the financing of Direct Procurement structures, debt financing cost analysis and financeability analysis as well as expertise in corporate taxation.



Considering our corporate finance capabilities, in the UK we have over 200 leading Corporate Finance professionals, providing the full range of M&A and financial advisory services, from acquisitions through to raising finance, across all industry sectors. We advise governments, corporates, private equity houses and management teams and have a proven track-record in mid-market transactions. Our international Corporate Finance practice has over 1,300 experienced professionals, and we have completed over 3,400 deals globally in the last 10 years. PwC is consistently ranked as a leading global advisor on infrastructure and project finance transactions and regularly wins industry awards, for example PwC beat all Big 4 accounting firms to 6 awards at the 9th International M&A Advisor Awards in July 2017.

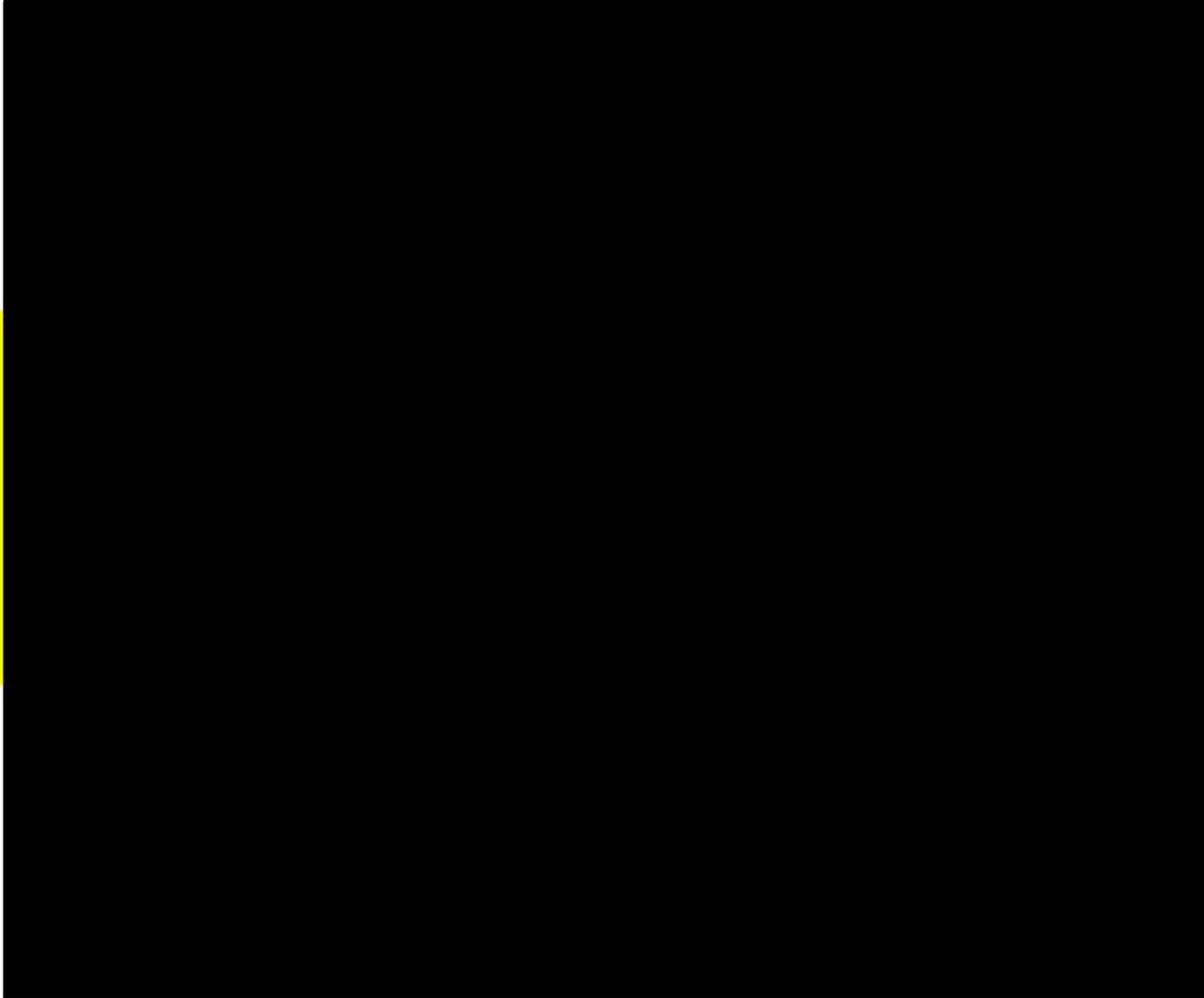
Turning to tax, PwC is proud to have the largest UK Tax practice and the leading reputation, according to the Global Tax Monitor, with over 3,500 talented professionals. Our business brings together tax, HR and related legal expertise giving us a broad skill set with which to advise our clients.

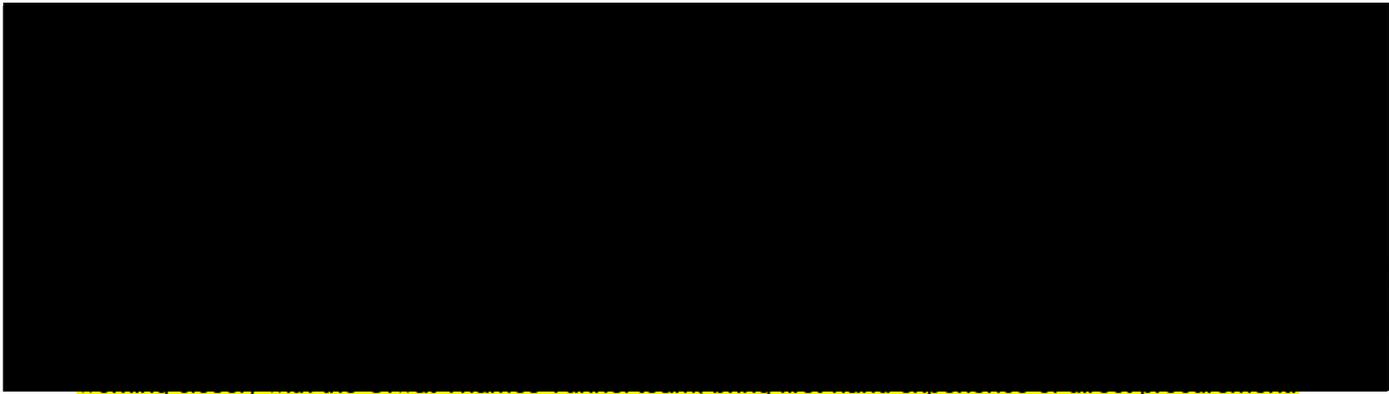
We would highlight the skills and experience of the following team members, who have particular experience of providing corporate finance and tax advice in water and regulated utilities, and who we expect to have prominent roles on the PR19 Delivery Partner (DP) programme:



Engineering, water resources and operations

Our understanding of the likely volume and mix of skills



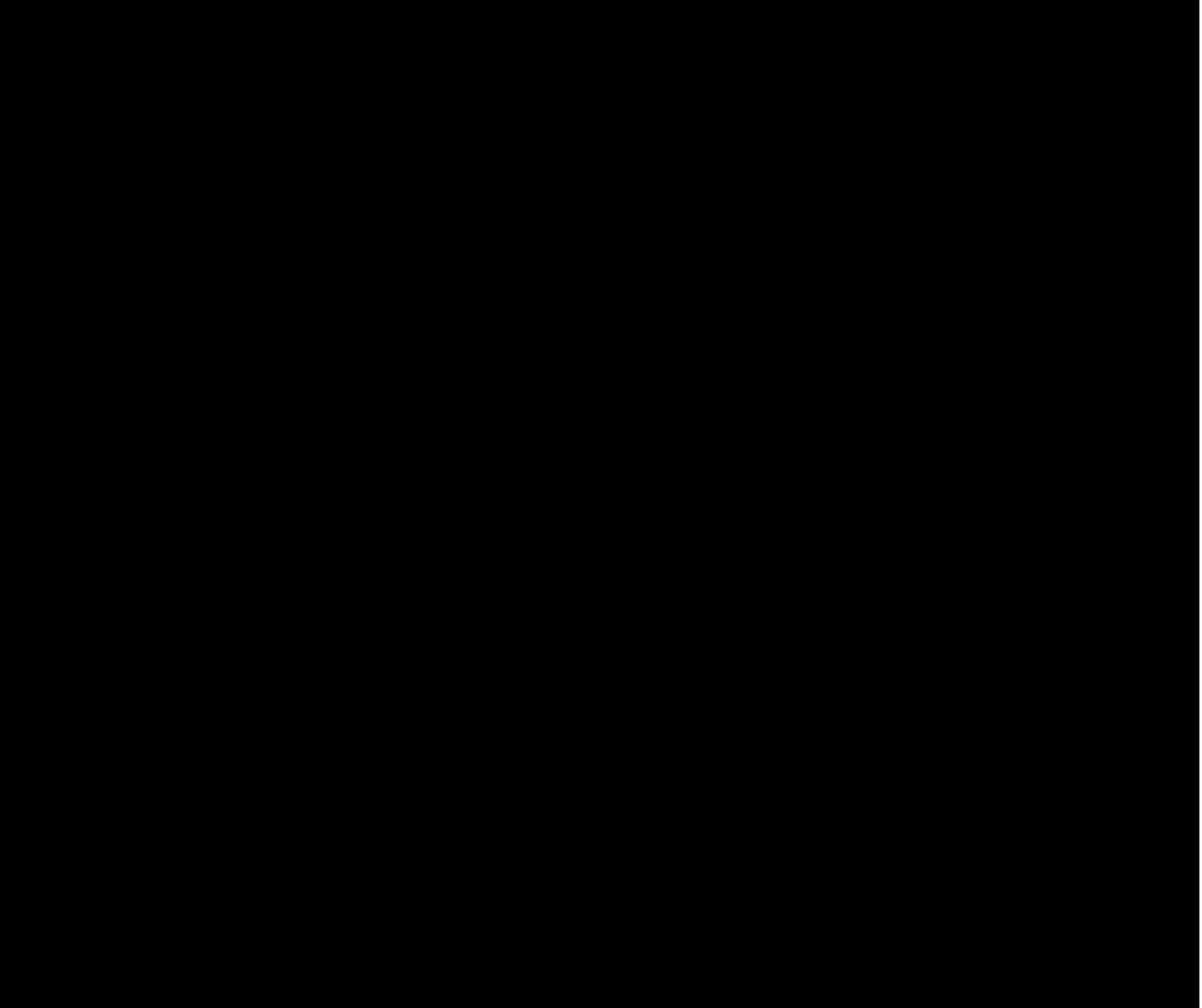


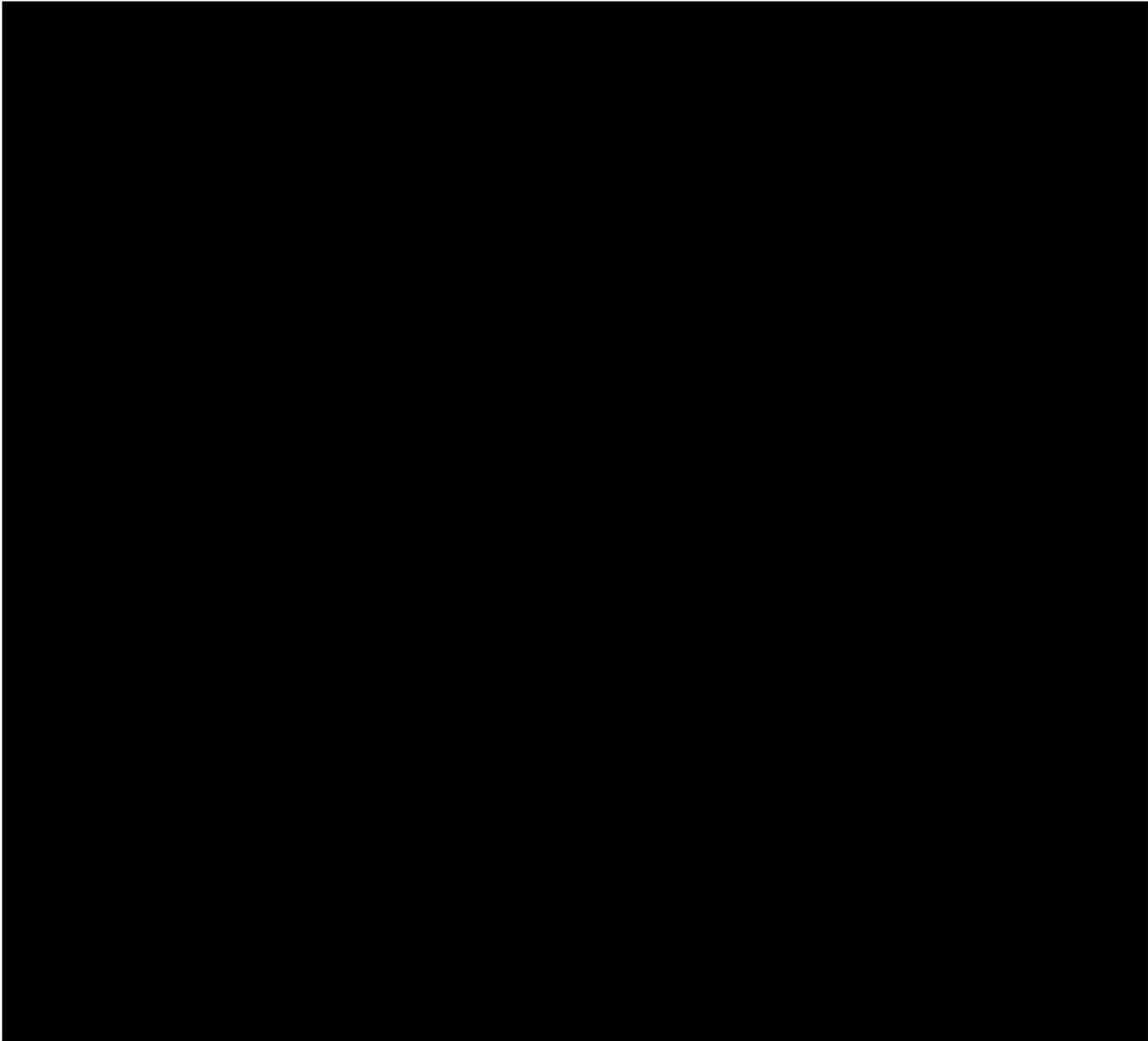
Overall, we are in no doubt that we can supply Ofwat sufficient skills in the area of engineering, water and resources and operations.



Economics

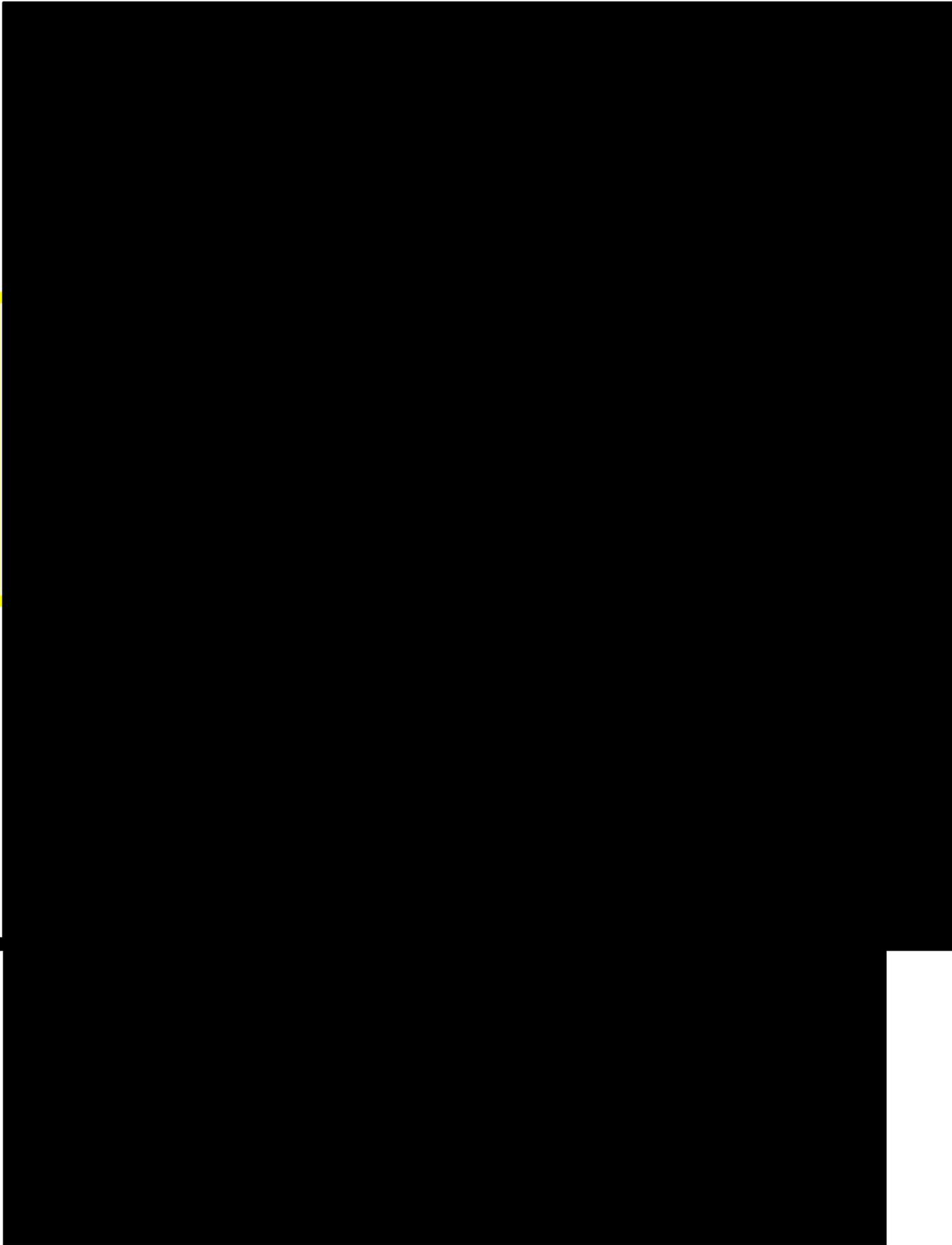
Our understanding of the likely volume and mix of skills





Financial modelling and information and data

Our understanding of the likely volume and mix of skills

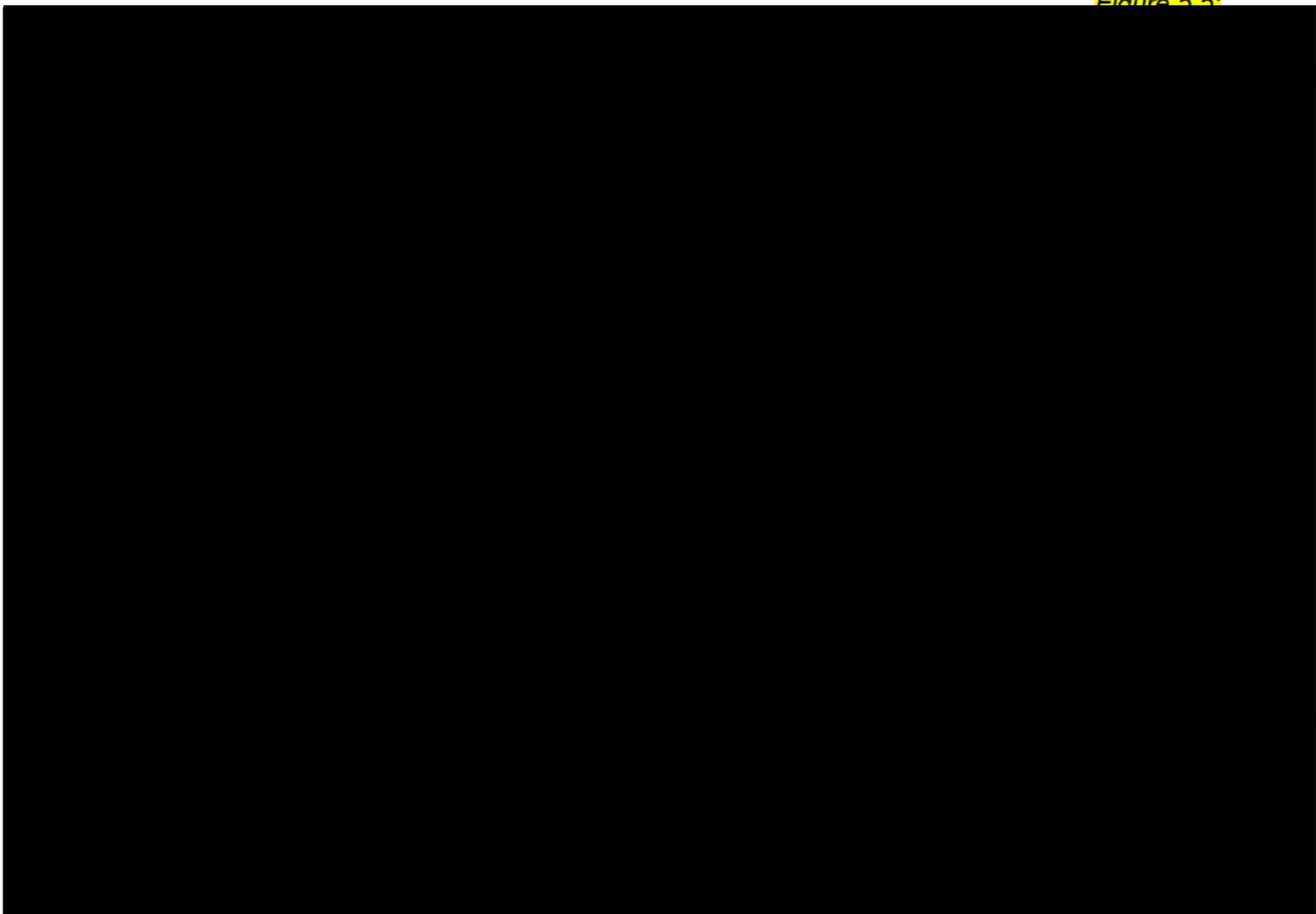




Coverage of each discipline

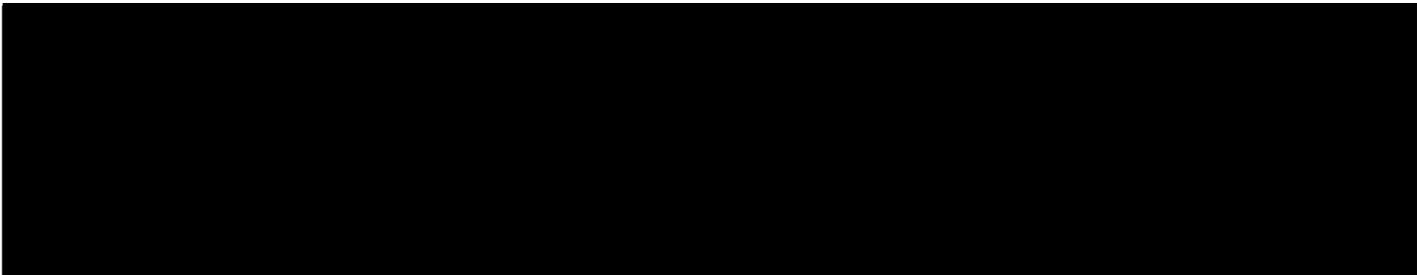
Figure 5.5 below set out the number of individuals within the consortium by grade, across the different skill areas you have identified for financial modelling and information and data.

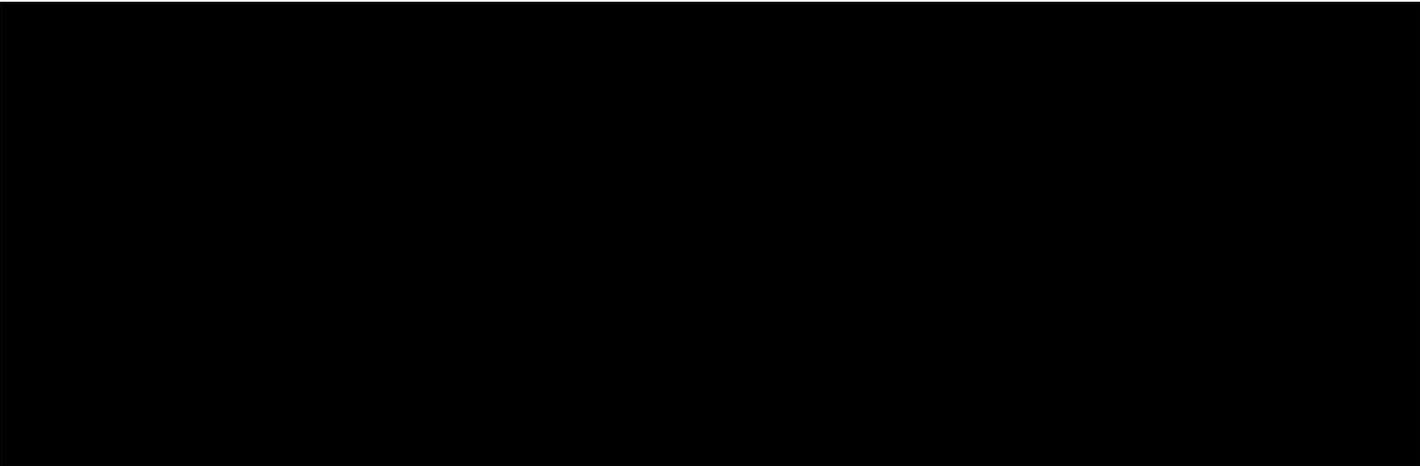
Figure 5.5:



leading economists and utilities experts.

During PR14 we supported Ofwat across a number of complex policy issues, including pensions, CIS adjustments, financeability testing by bringing the right skills.





We are therefore very confident that we can supply Ofwat sufficient skills in the area of regulatory policy advice.

Approach to matching individual staff with assignments

So that the right skills are deployed to the right work areas at the right times and in a cost-effective way, we plan to implement a combination of deployment methods and flexible resourcing models. This will ensure that the value for money of our DP activities and that we will have the ability to quickly scale up/down our staff numbers to meet your requirements and timescales. In short, the amalgam of approaches will ensure both 'allocative' and 'productive' efficiency.

We will implement the following deployment approaches to ensure the best possible assessing and matching of individuals to assignments:

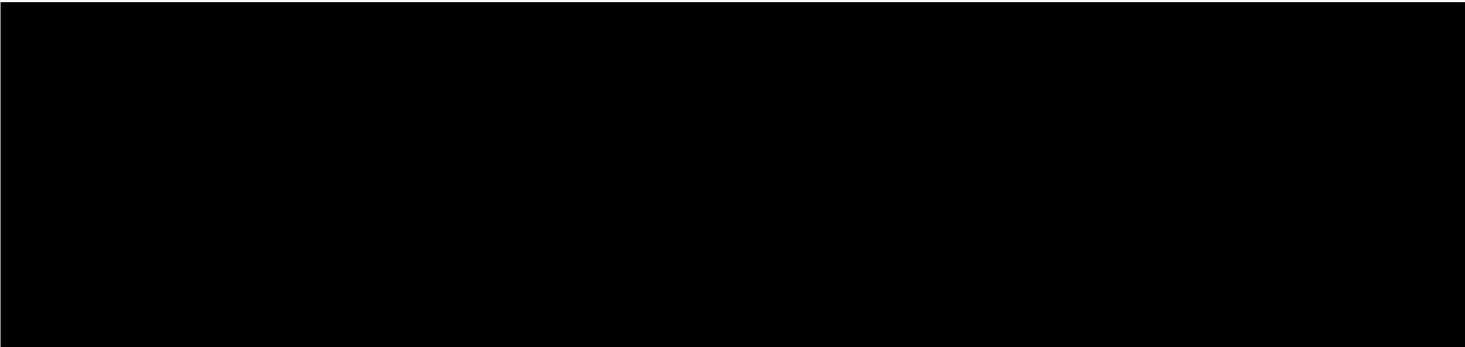
- We will draw individuals from across the consortium, always deploying the 'best person for the job' regardless of which consortium member is the ultimate employer;
- We will focus on Ofwat's needs and requirements, rather than those of the consortium or individual consortium members; and
- We will work in collaboration and consultation with Ofwat in making appropriate selections.

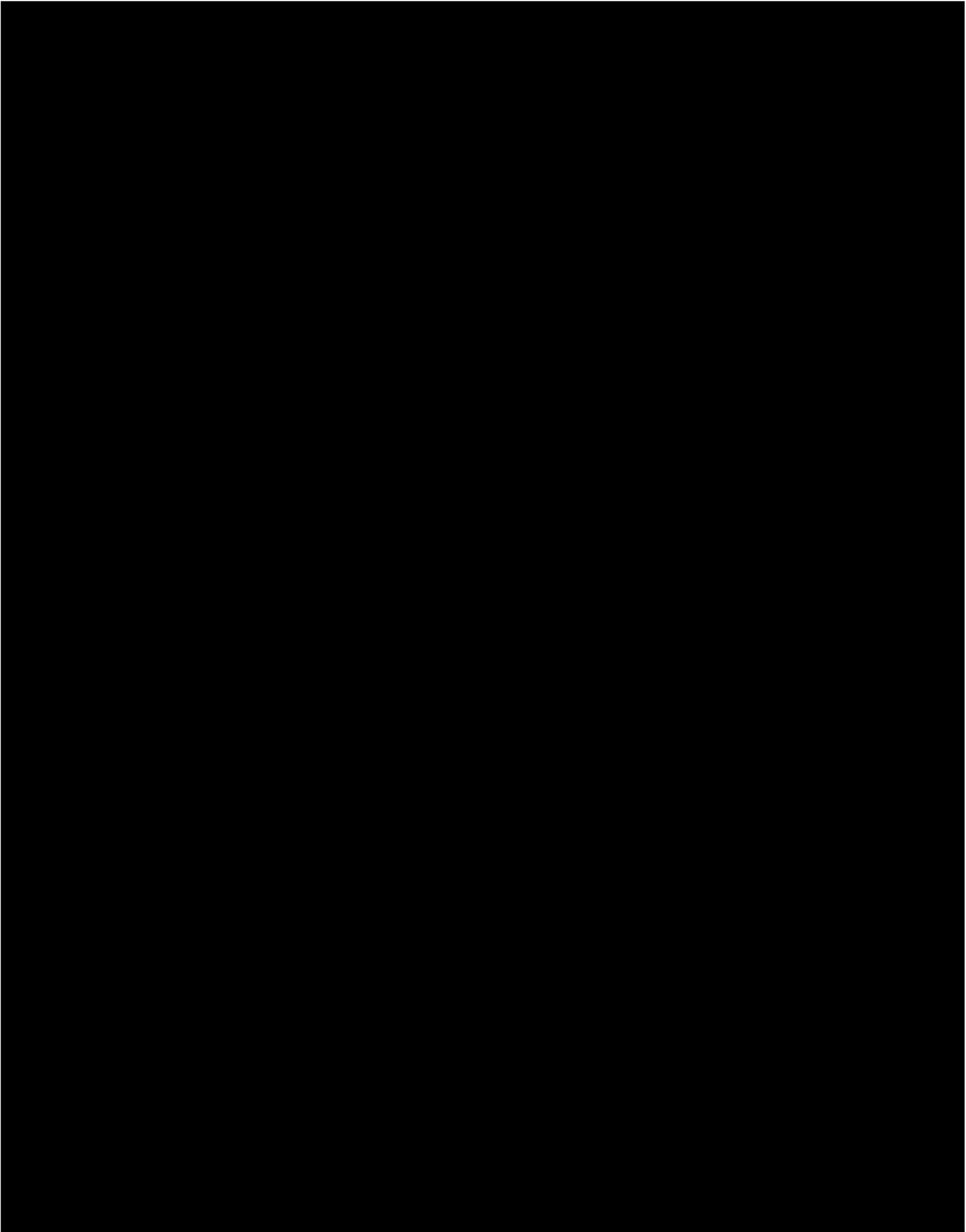
The above methods will be facilitated through weekly meetings, ensuring that we assess the requirements of assignments on a rolling basis.

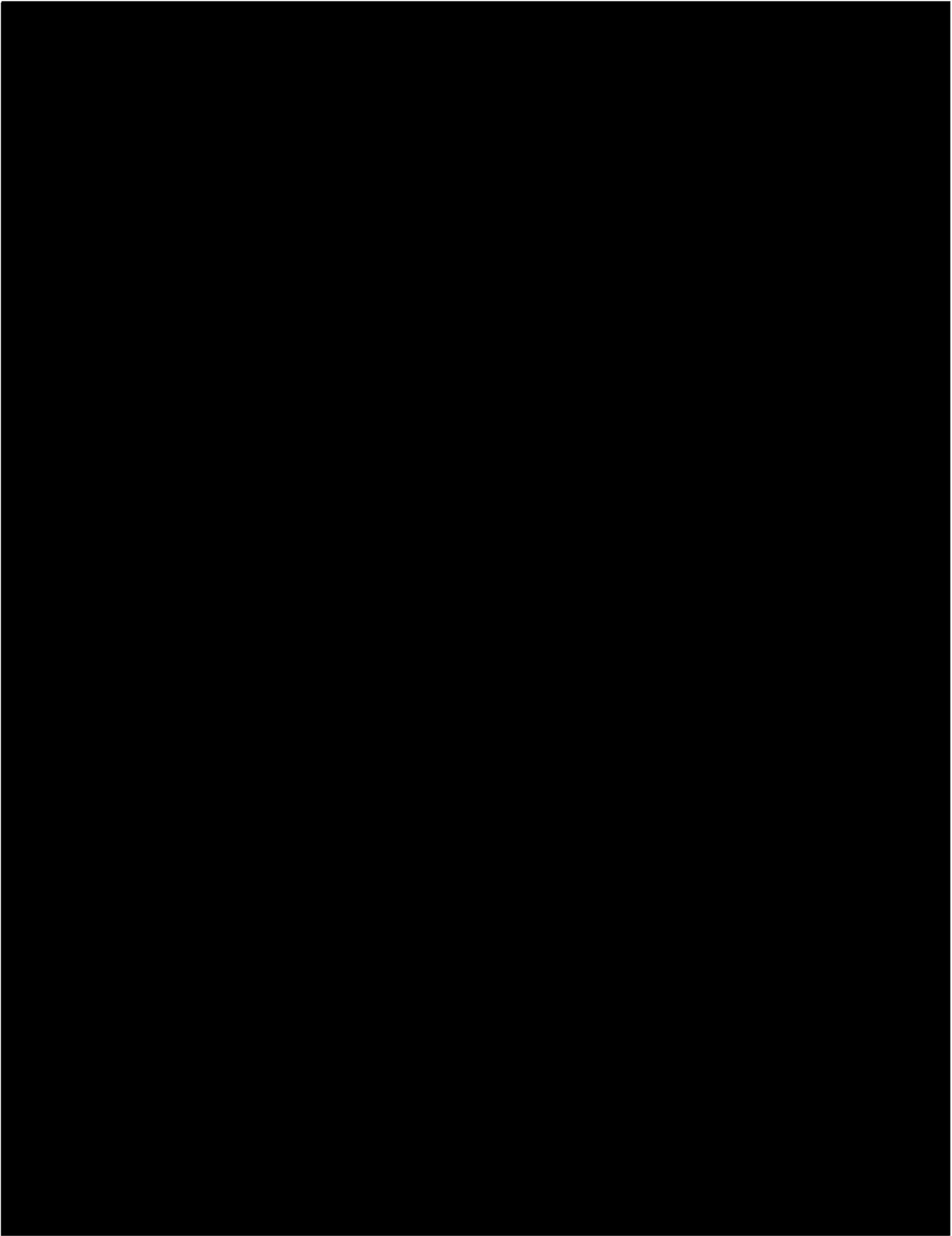
Our emphasis will be on matching the 'whole team' to Ofwat's requirements, not just filling resource needs on a case-by-case basis. We will do this through:

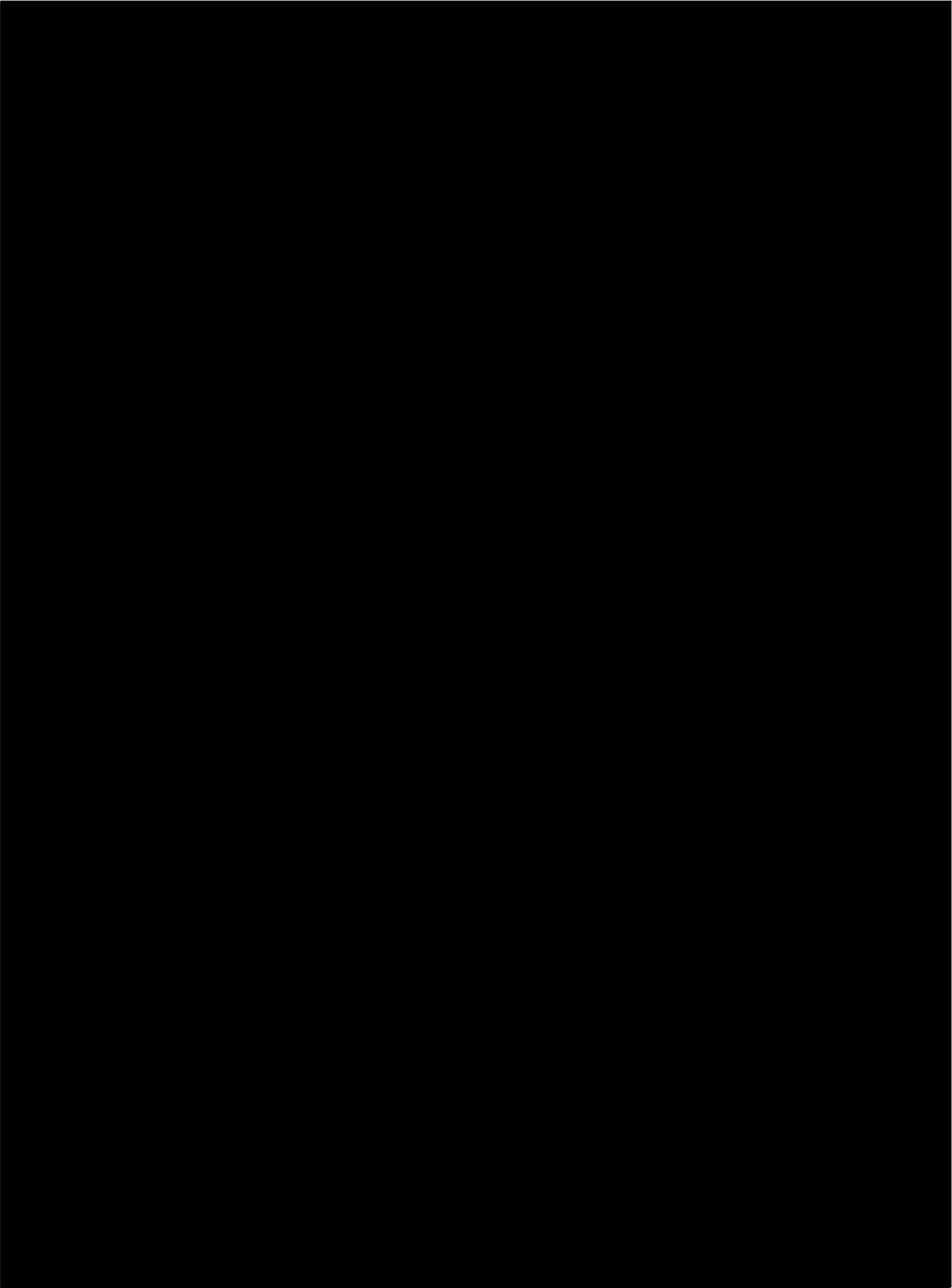
- A small DP leadership team with representatives from PwC, Europe Economics (EE) and Mott MacDonald (MM). This will enable communication across our consortium to understand capabilities;
- Designated DP workstream leader roles aligned to Ofwat workstream leader roles. Early in the project we will ensure our workstream leader roles are a good fit for Ofwat workstream leader roles. We are willing to switch or change workstream leader roles during mobilisation, if required;
- Deputy workstream leader roles where required, meeting the skill requirements of the workstream; and
- A large pool of staff spread across Ofwat skill requirements. This will enable us to deploy junior staff across workstreams, while retaining broader programme understanding.

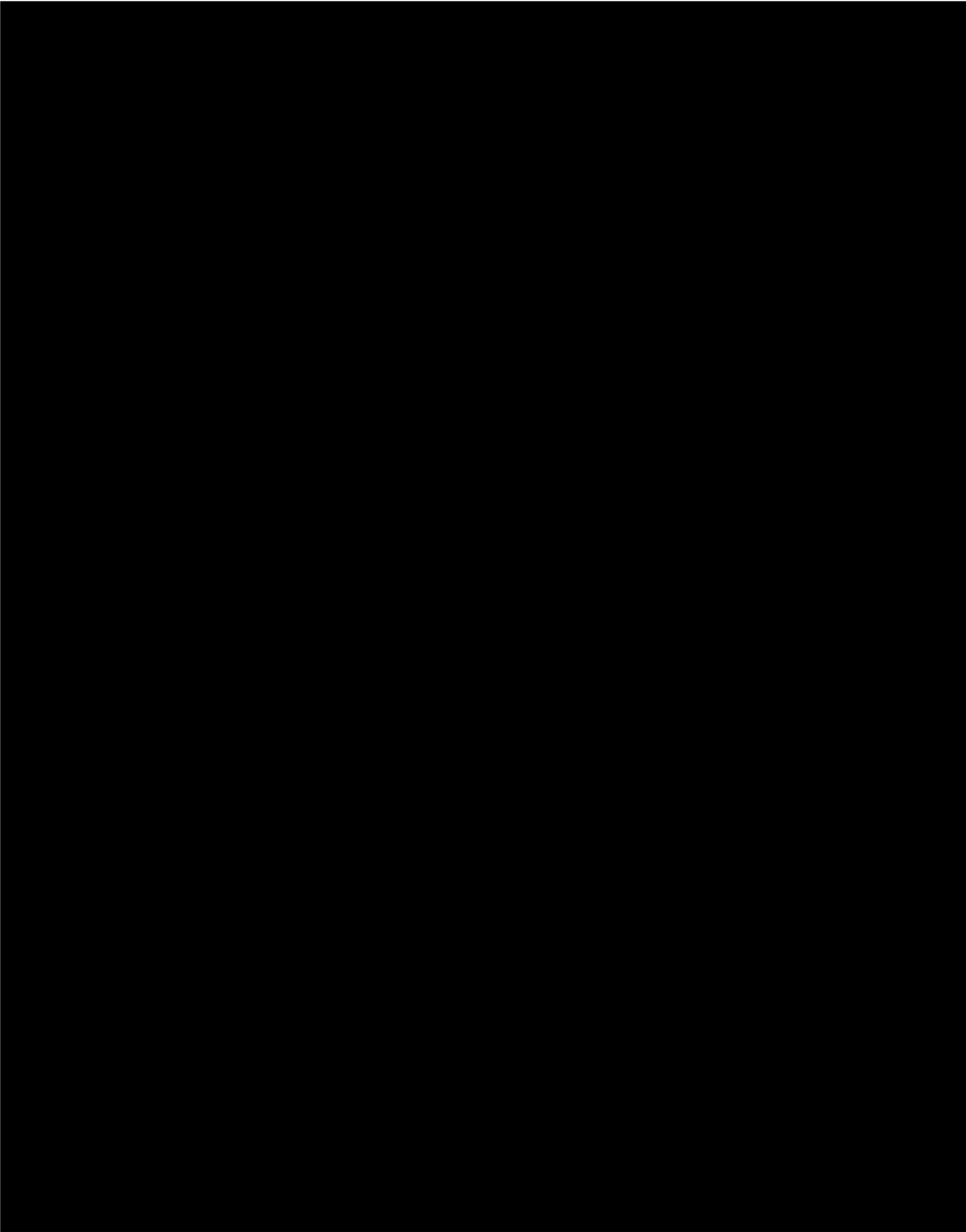
Furthermore, we will implement the following resourcing methods to quickly scale up/down our staff numbers, ensuring we meet customer-led requirements and timescales. We will take advantage of the following approaches:

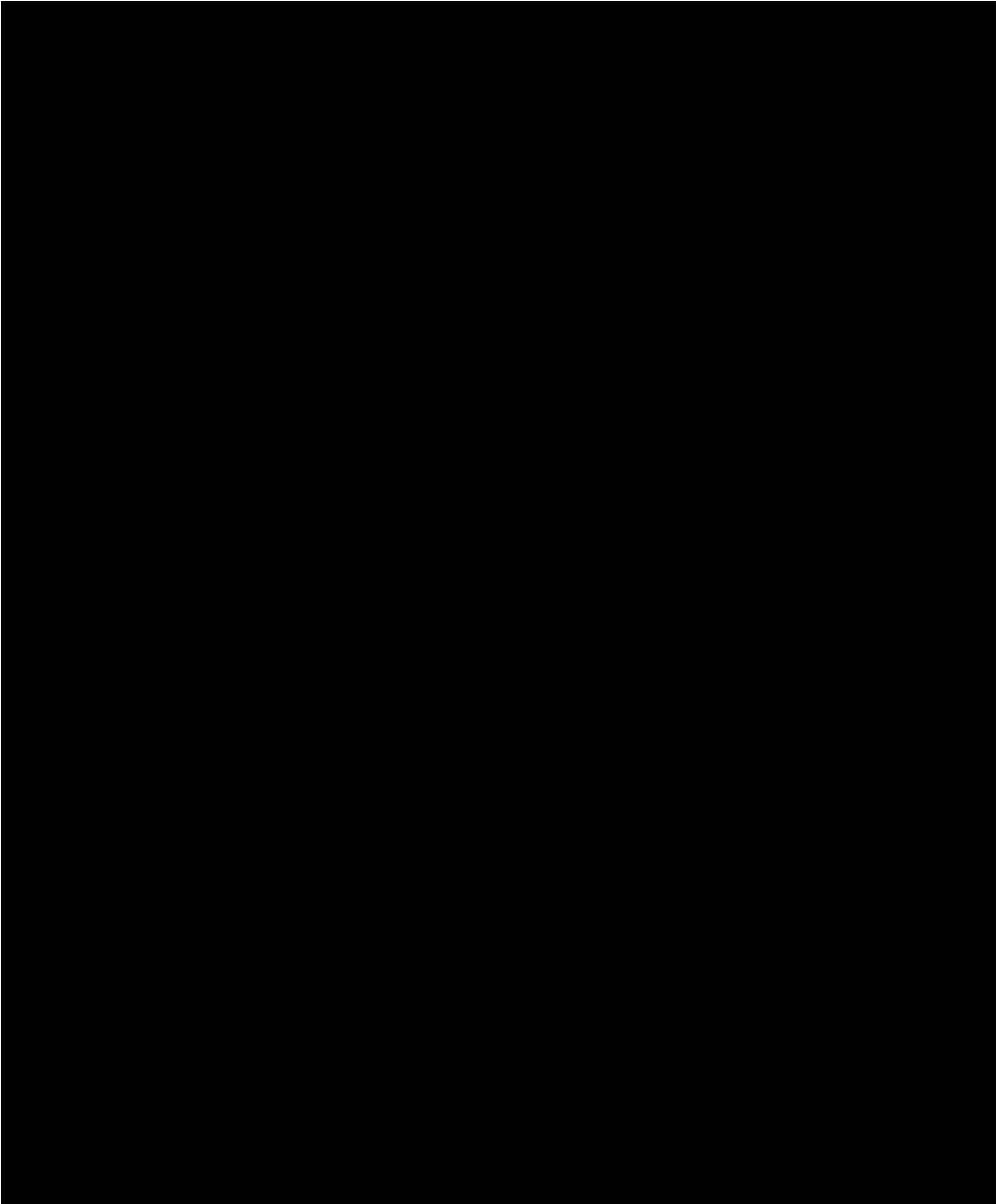


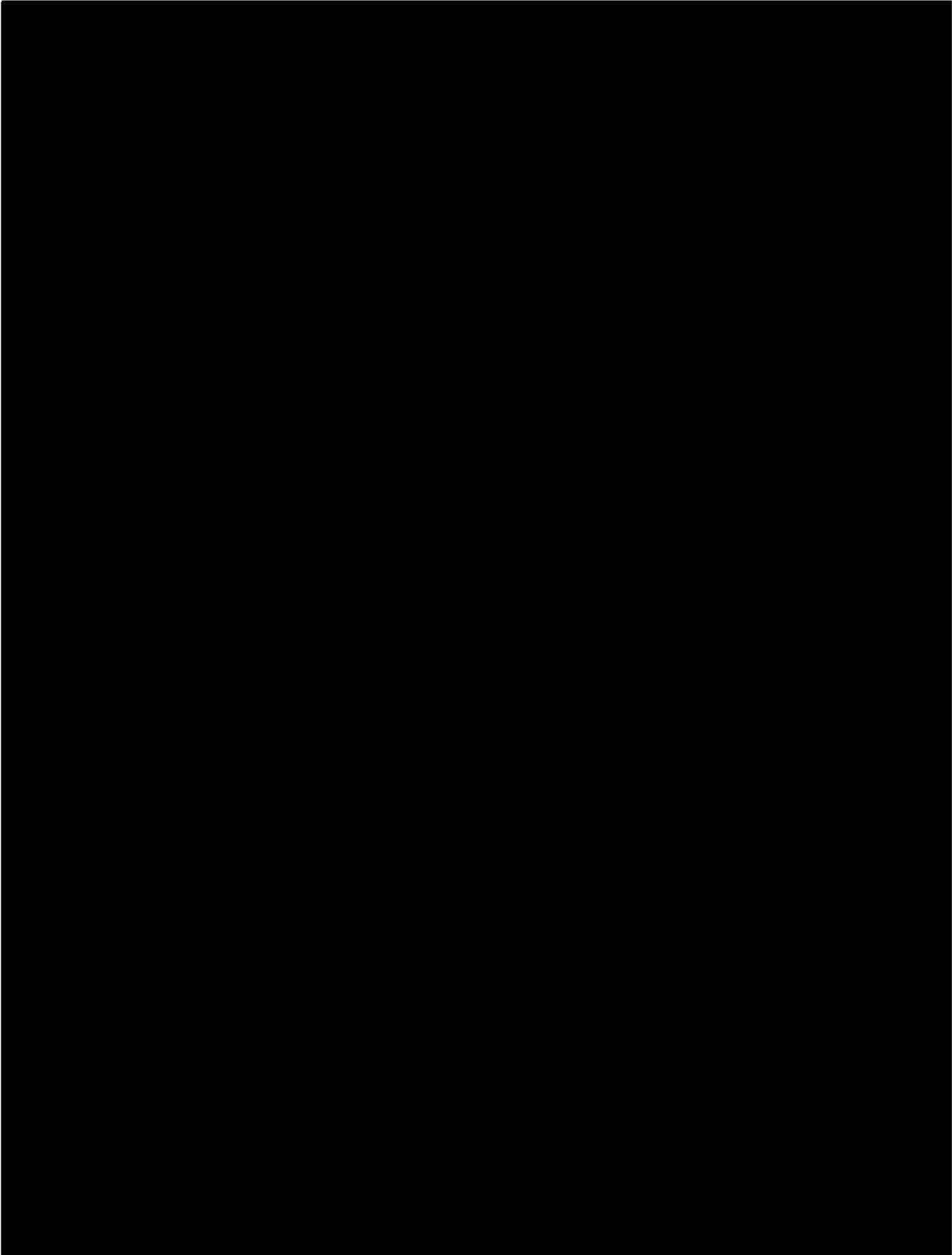


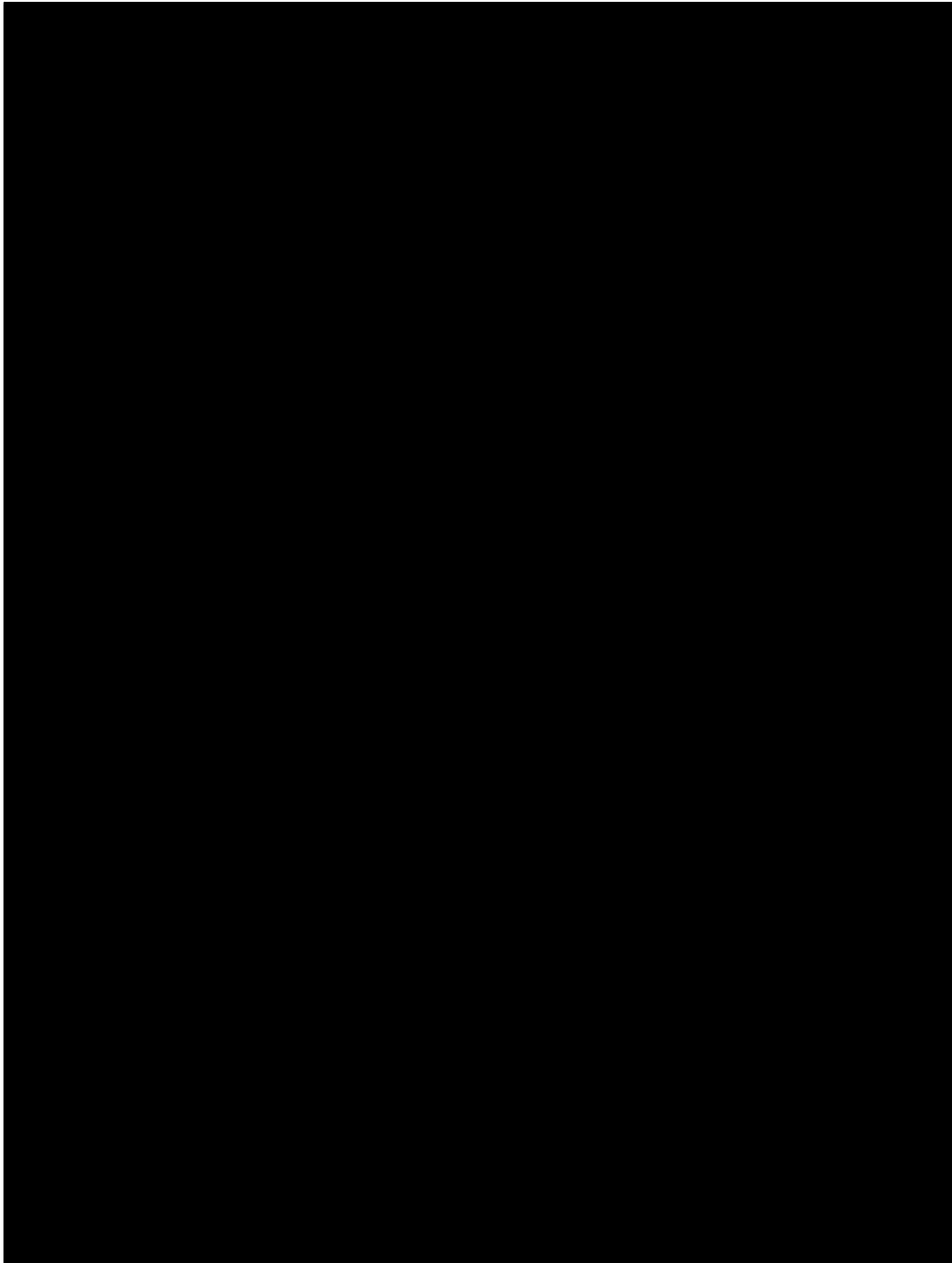


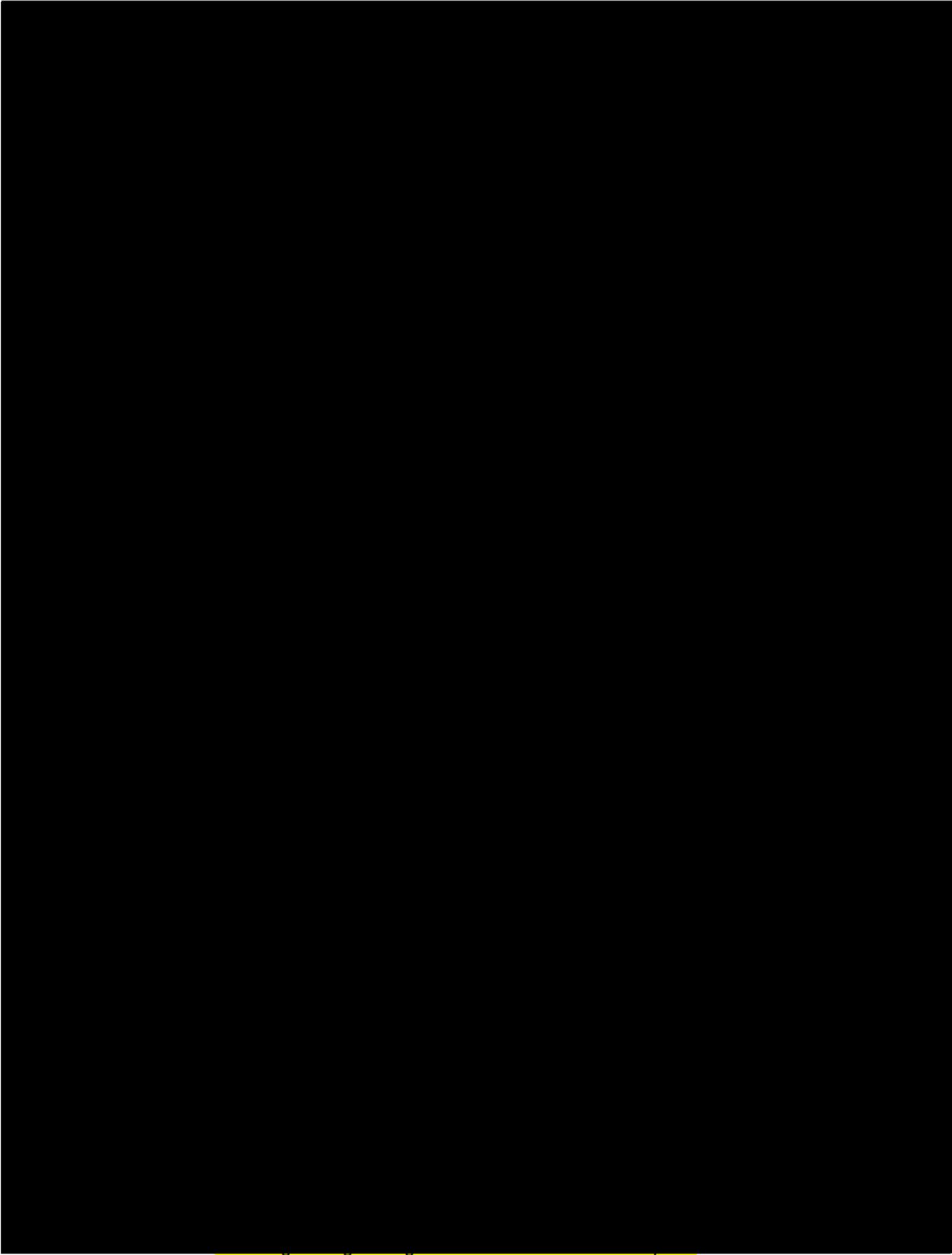


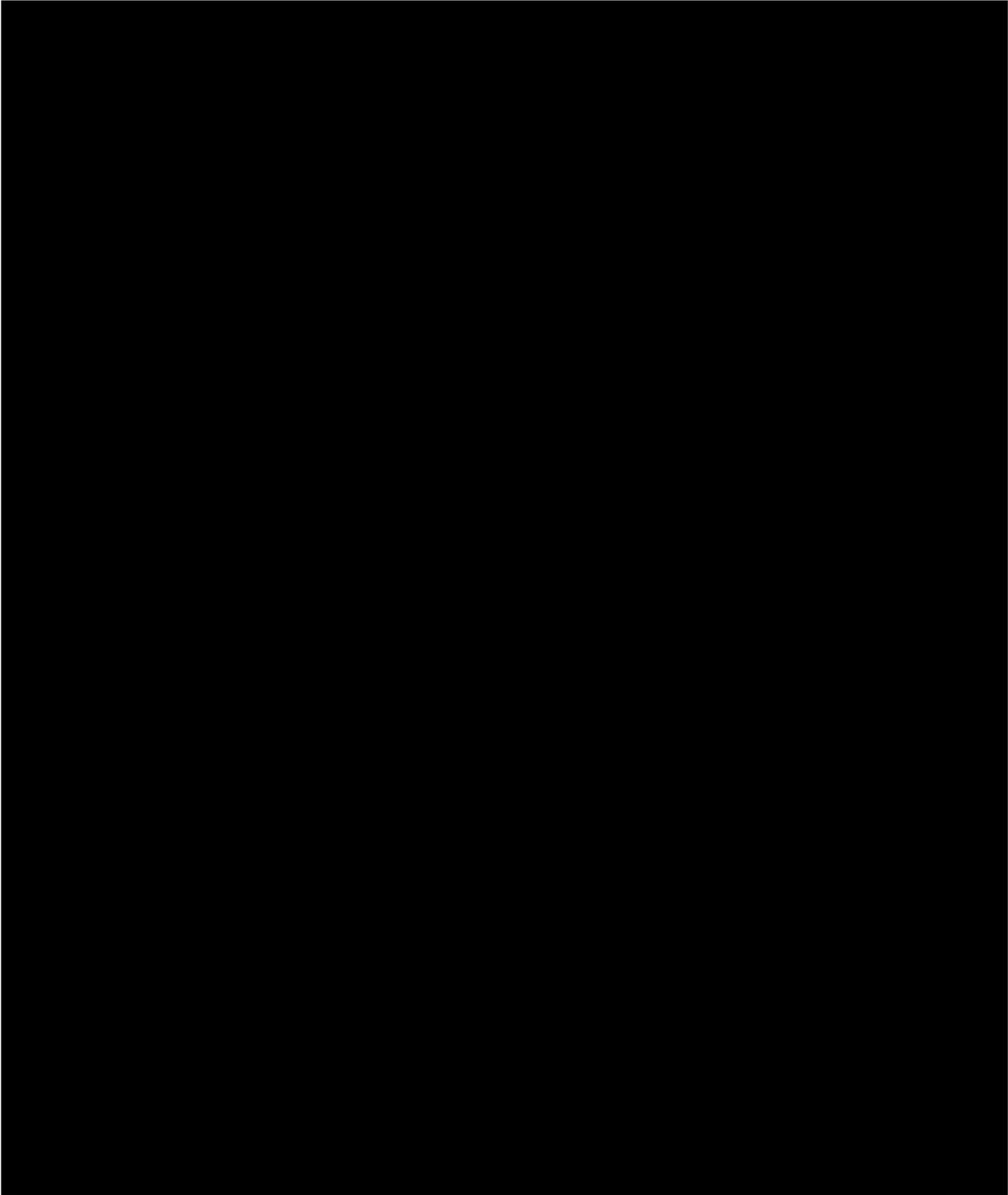


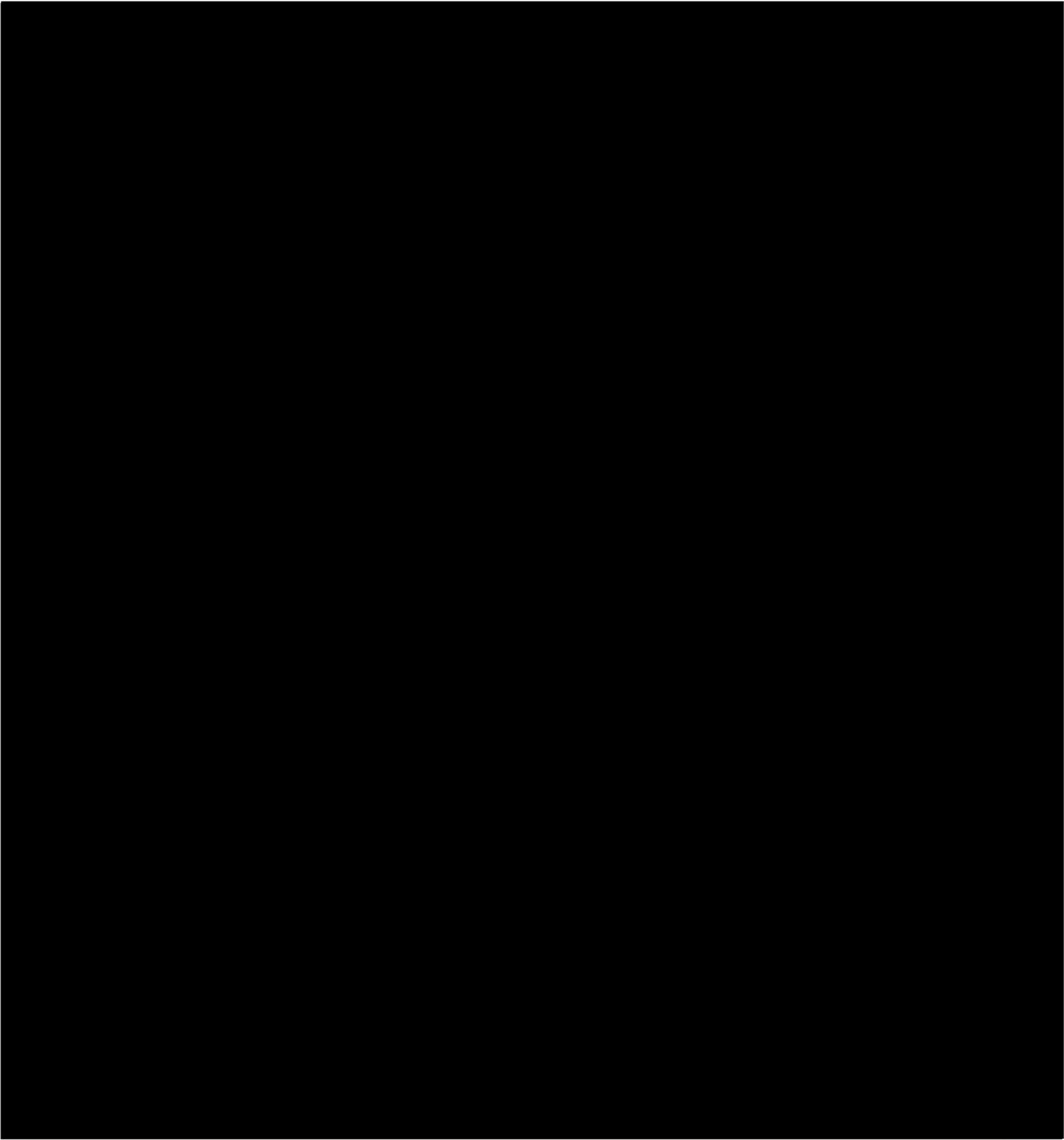


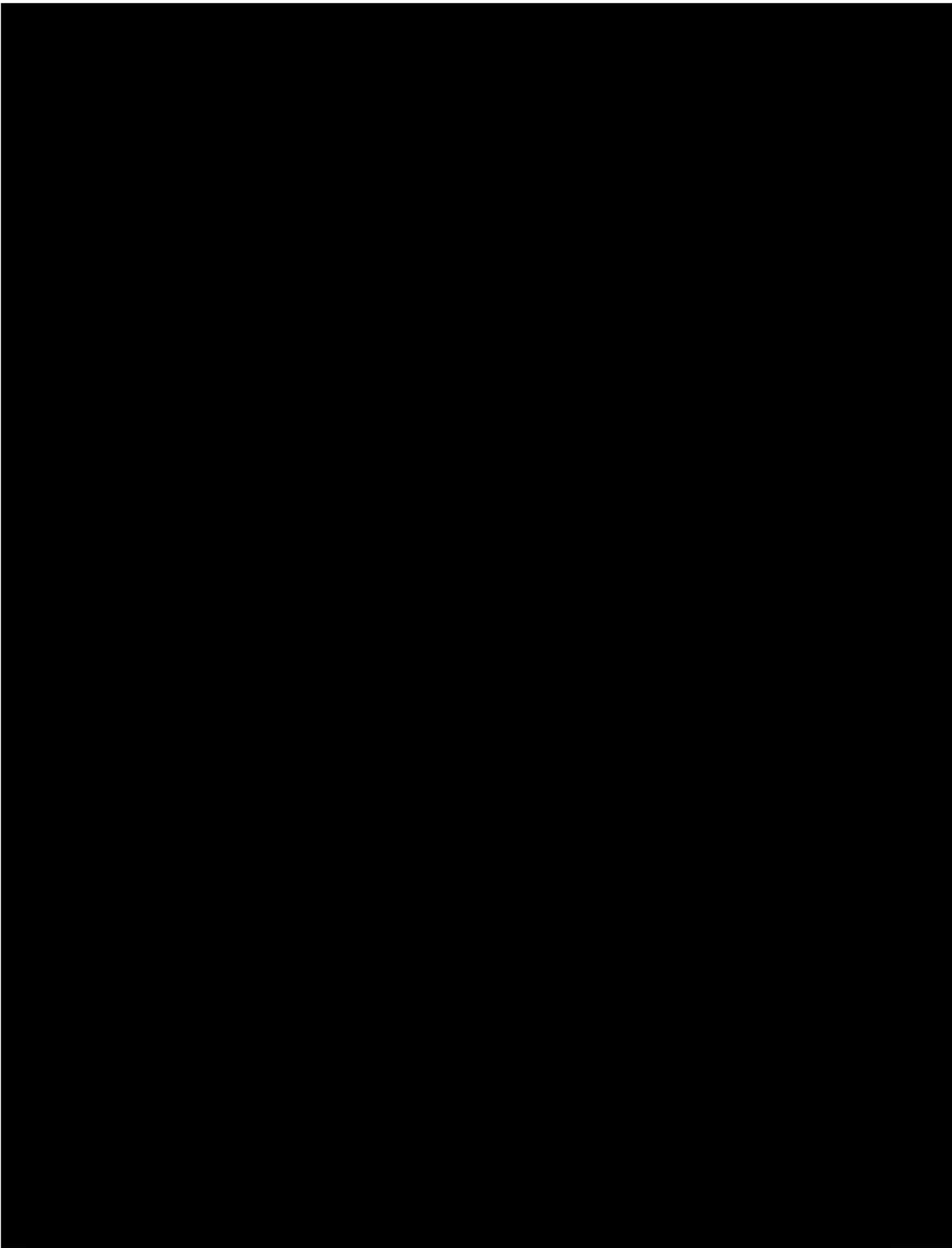


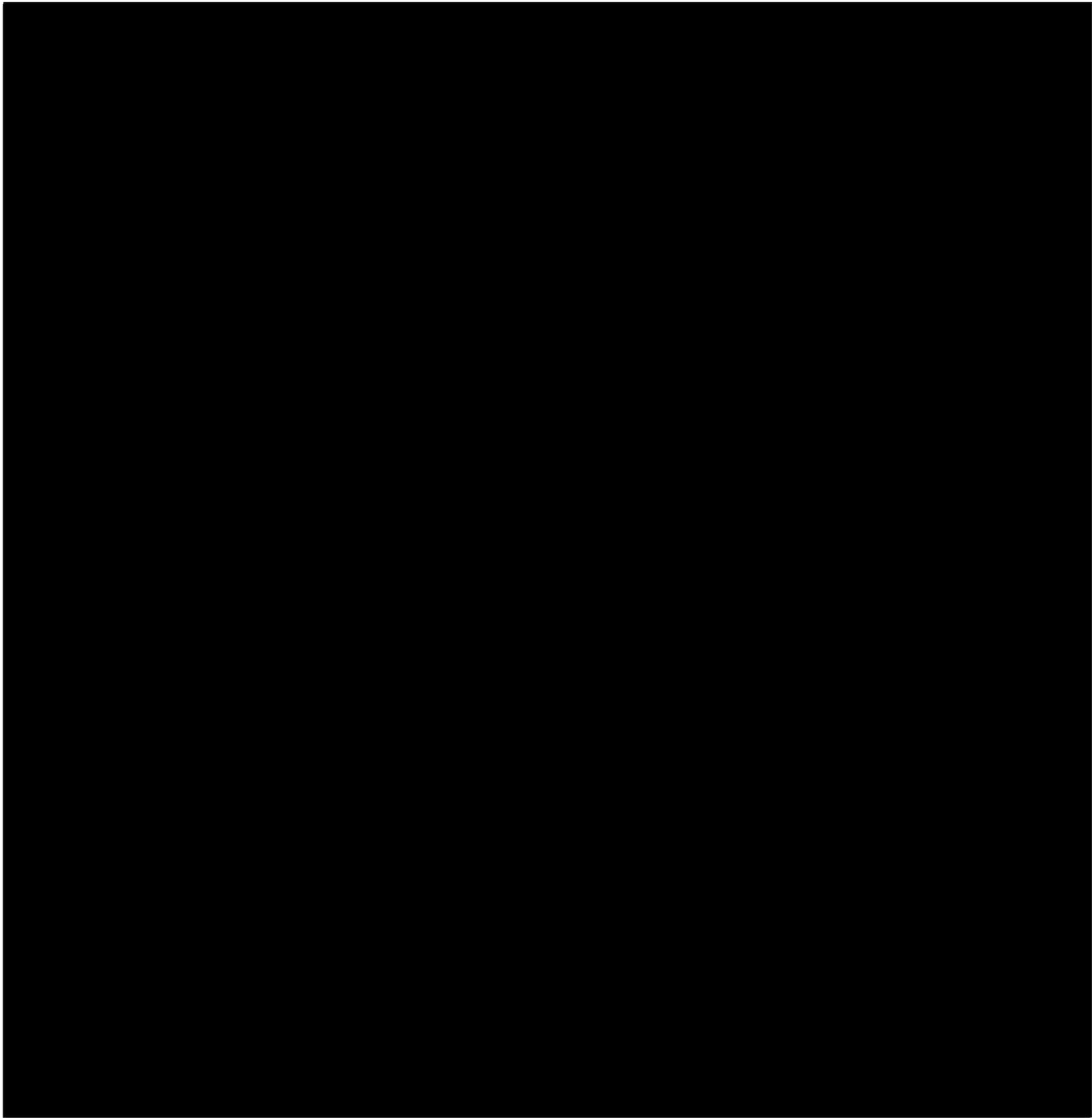


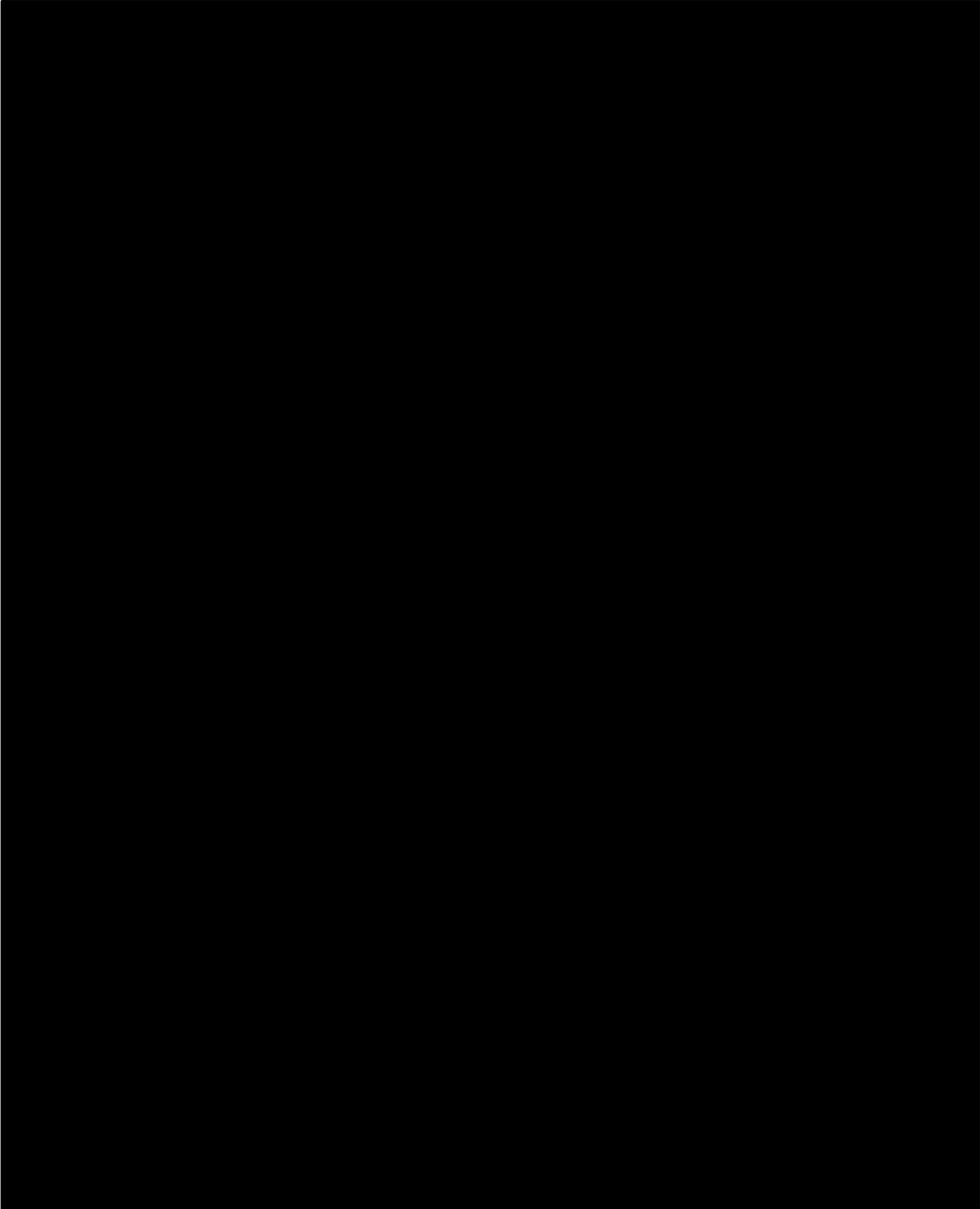


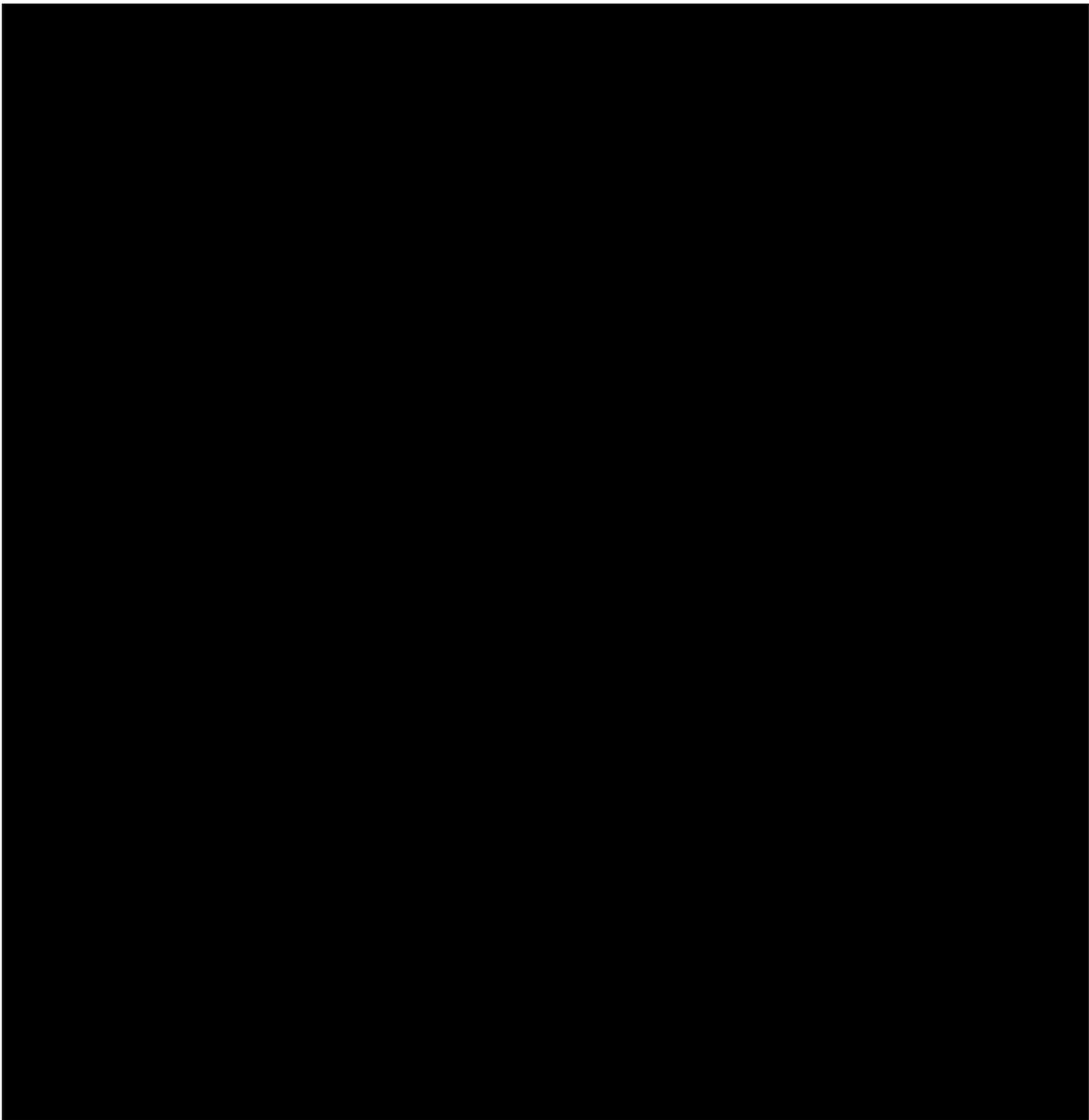


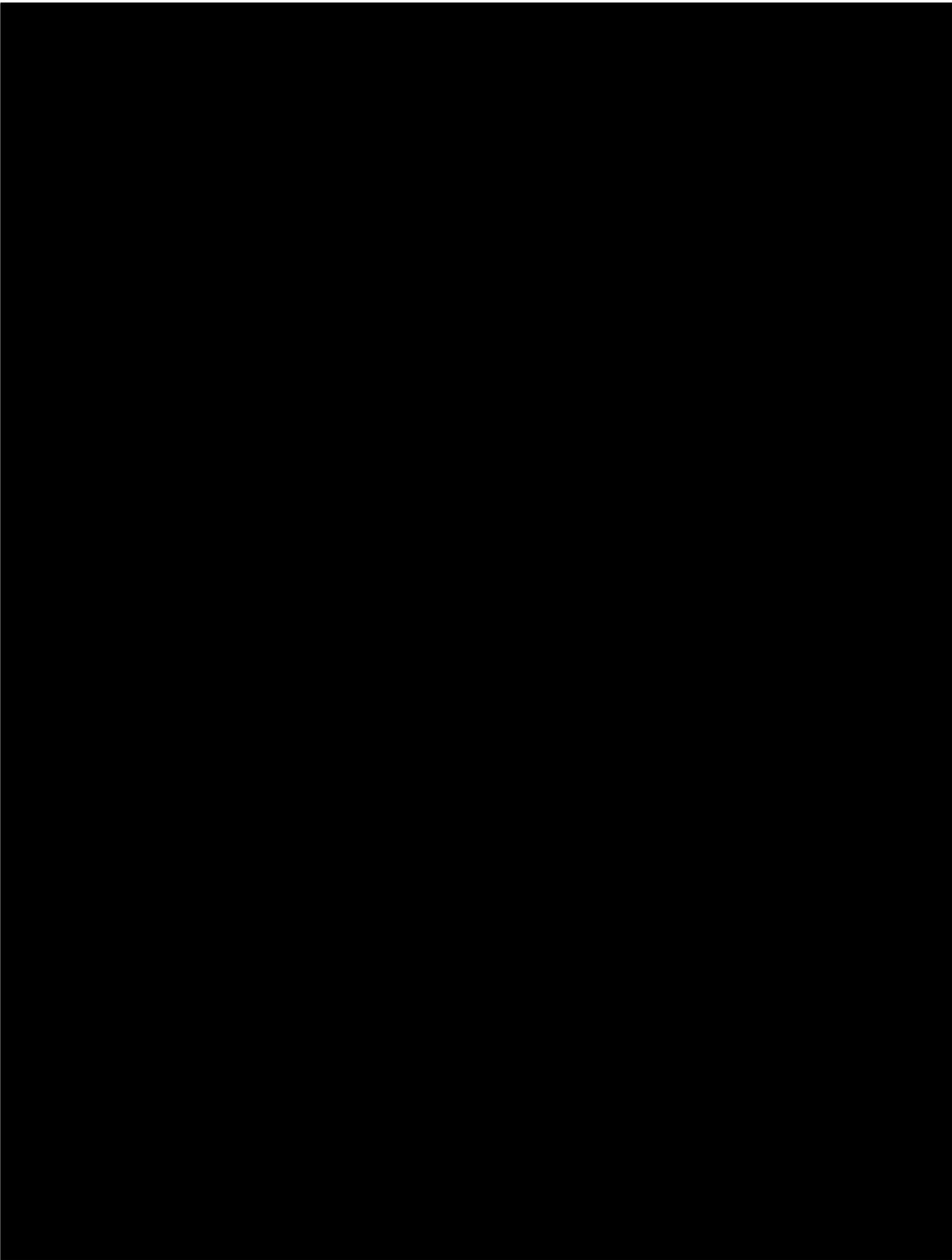


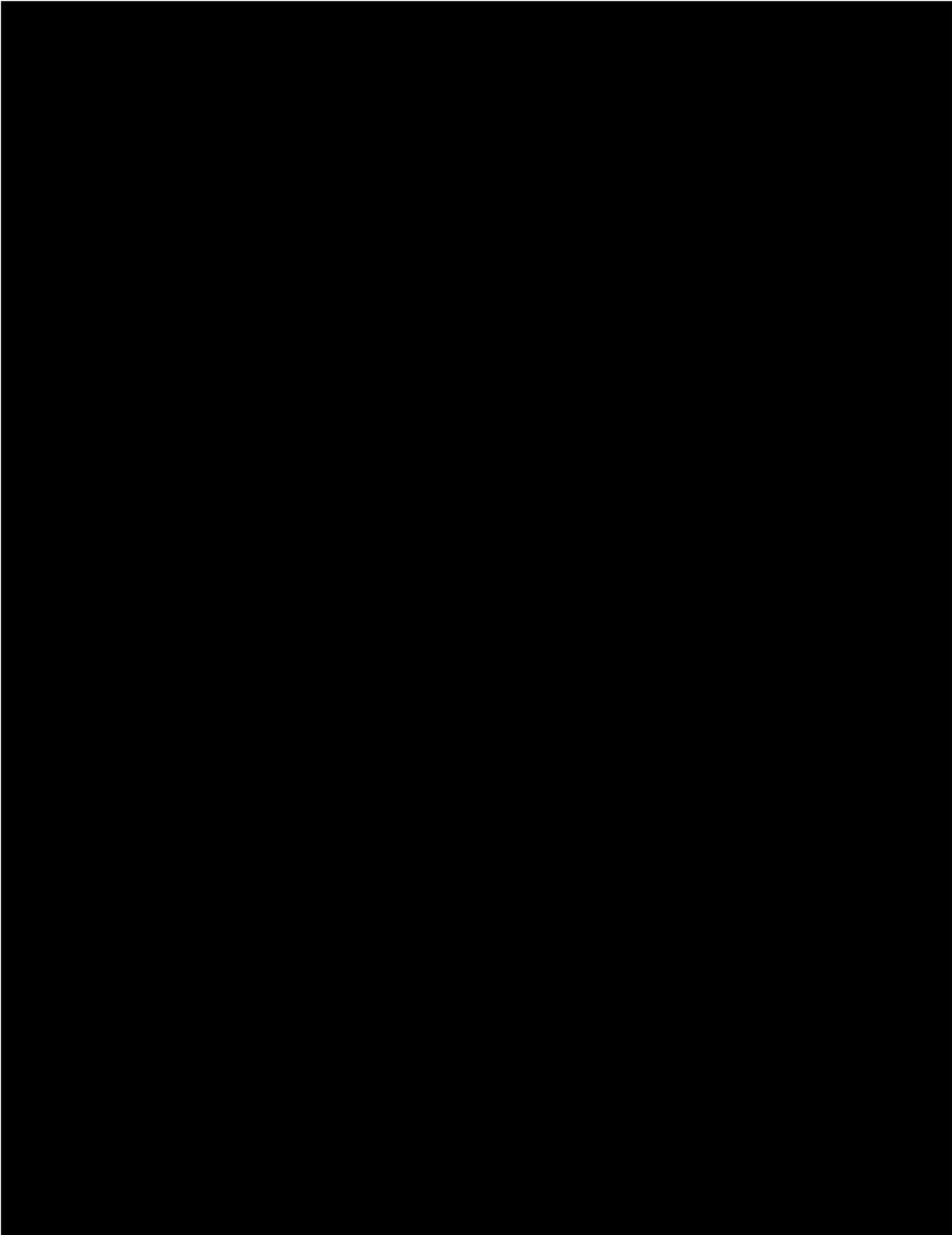


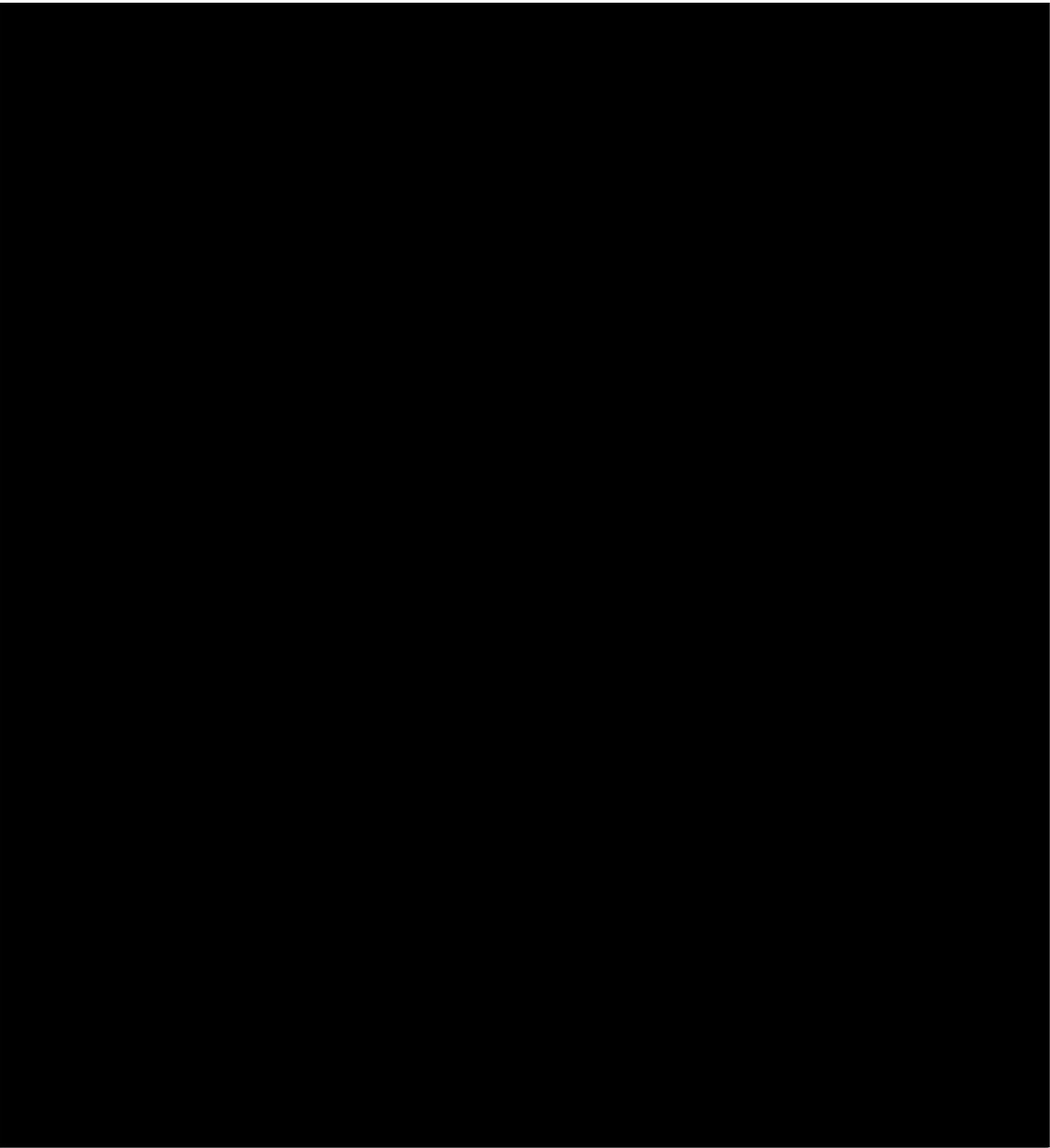


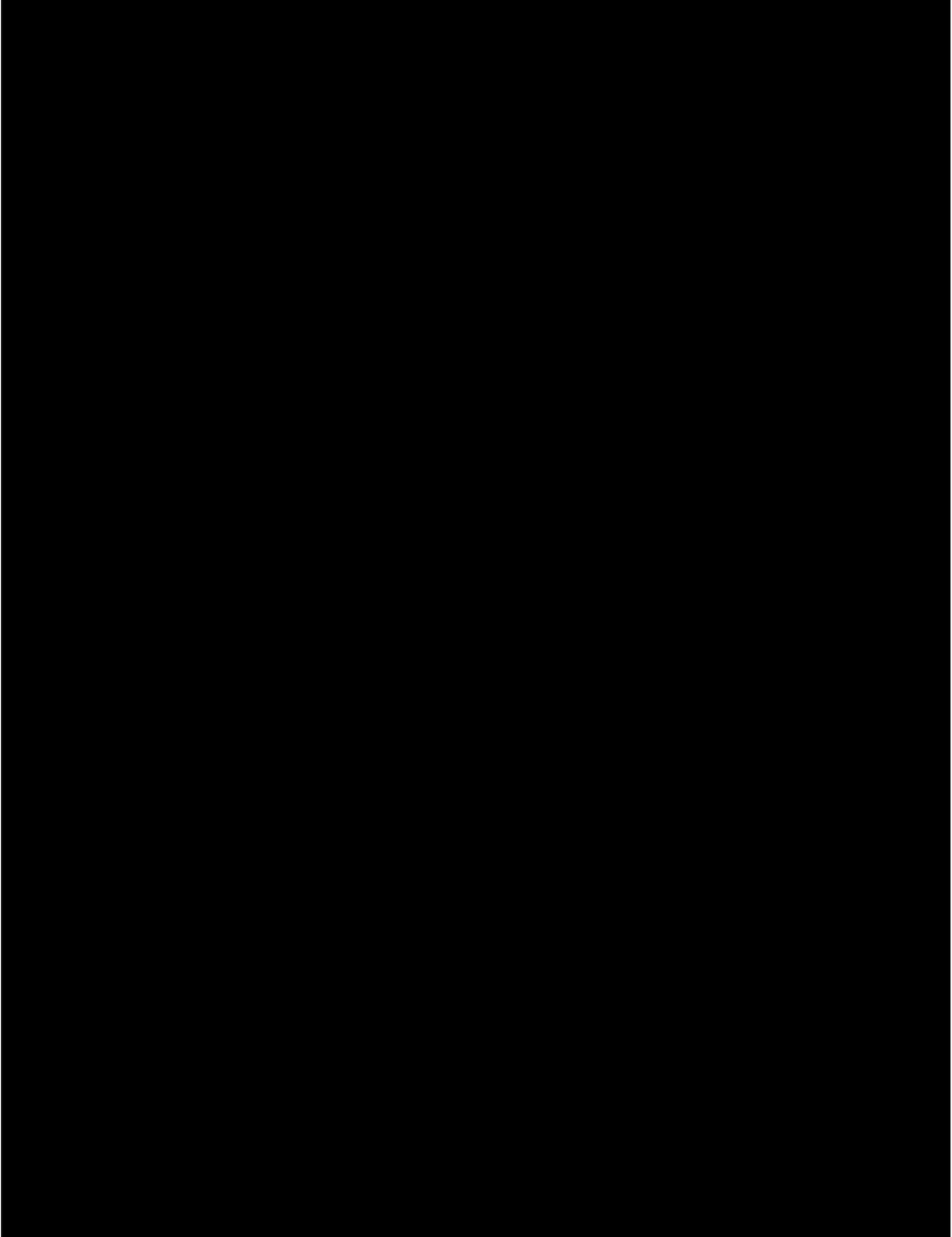


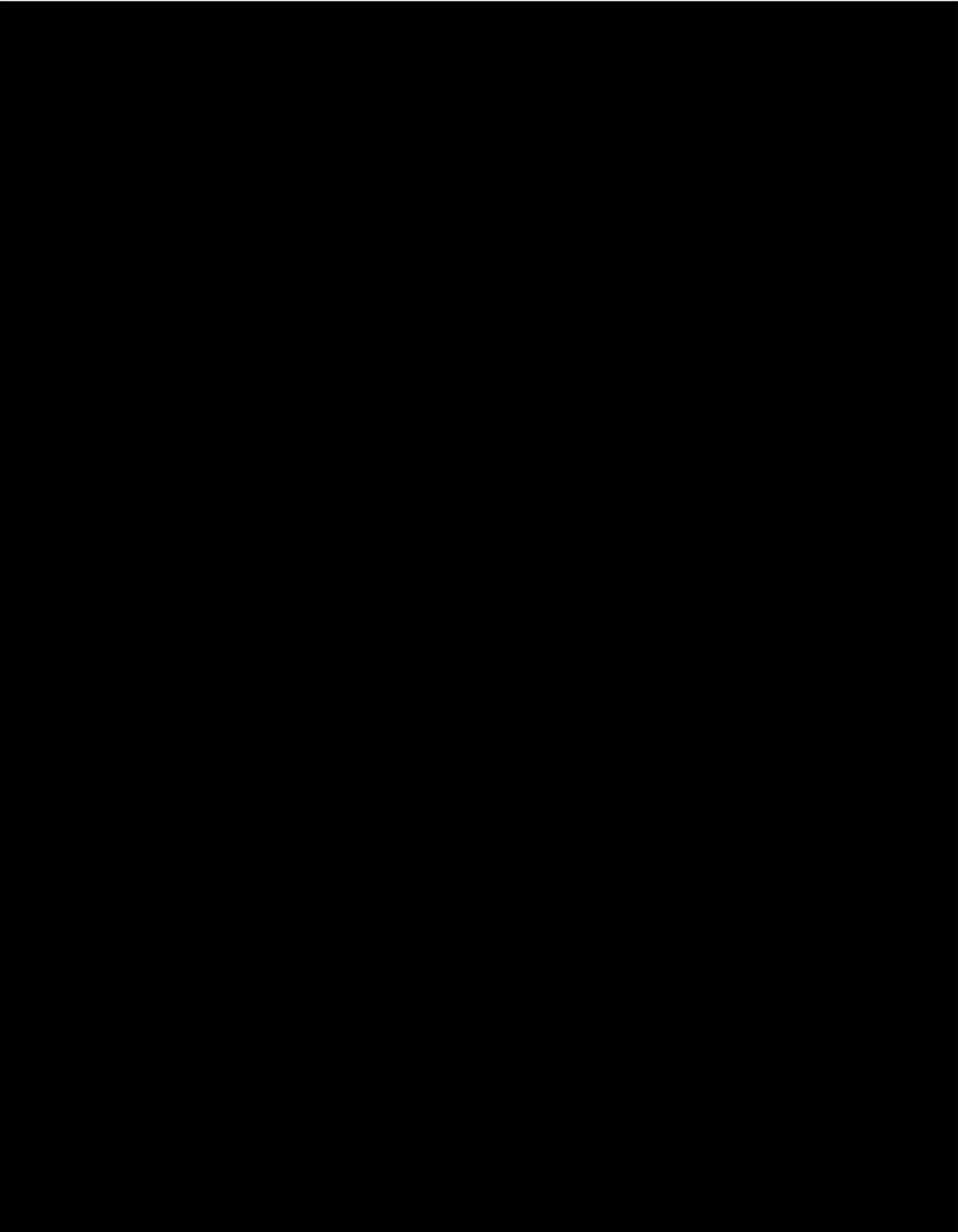


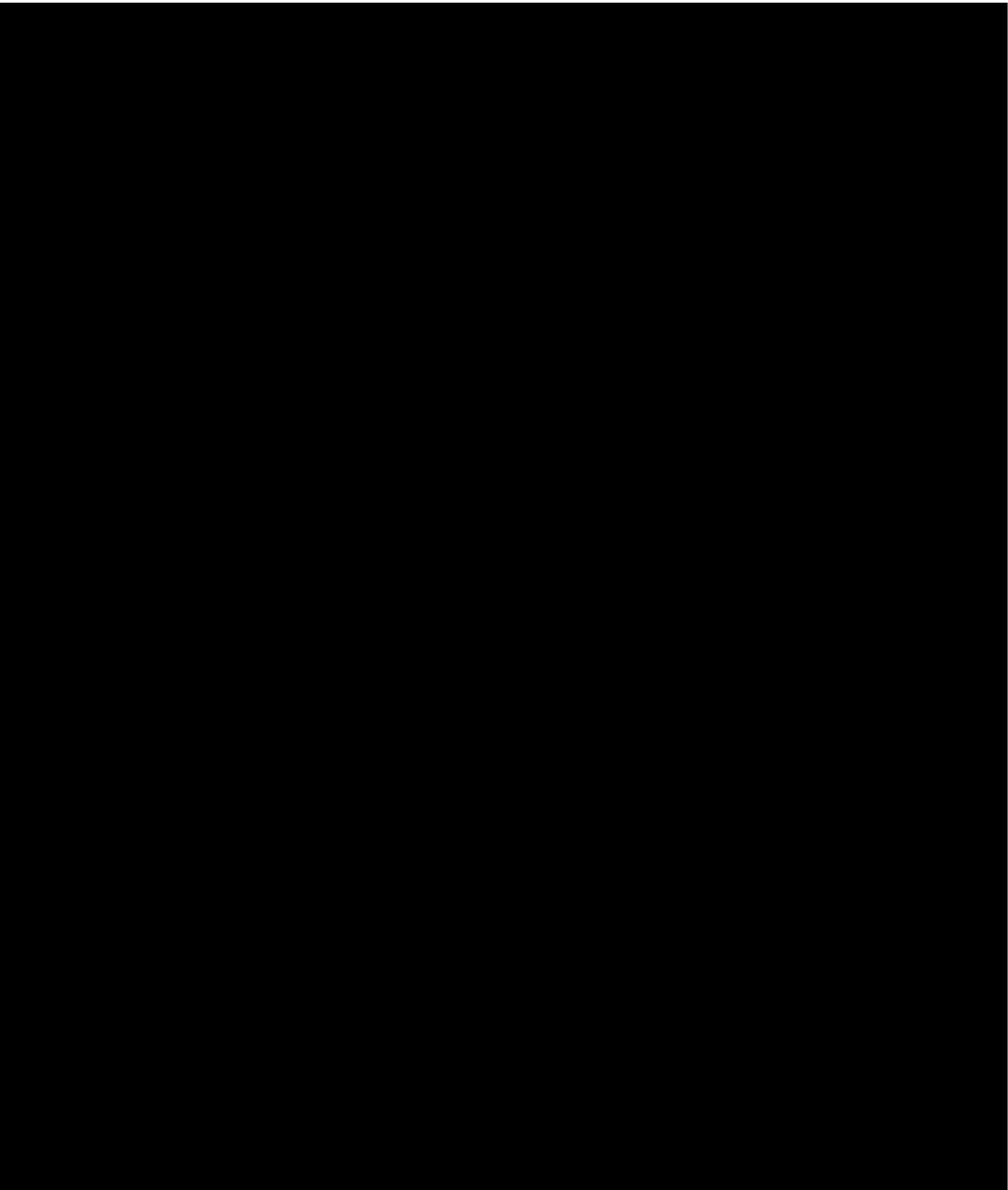


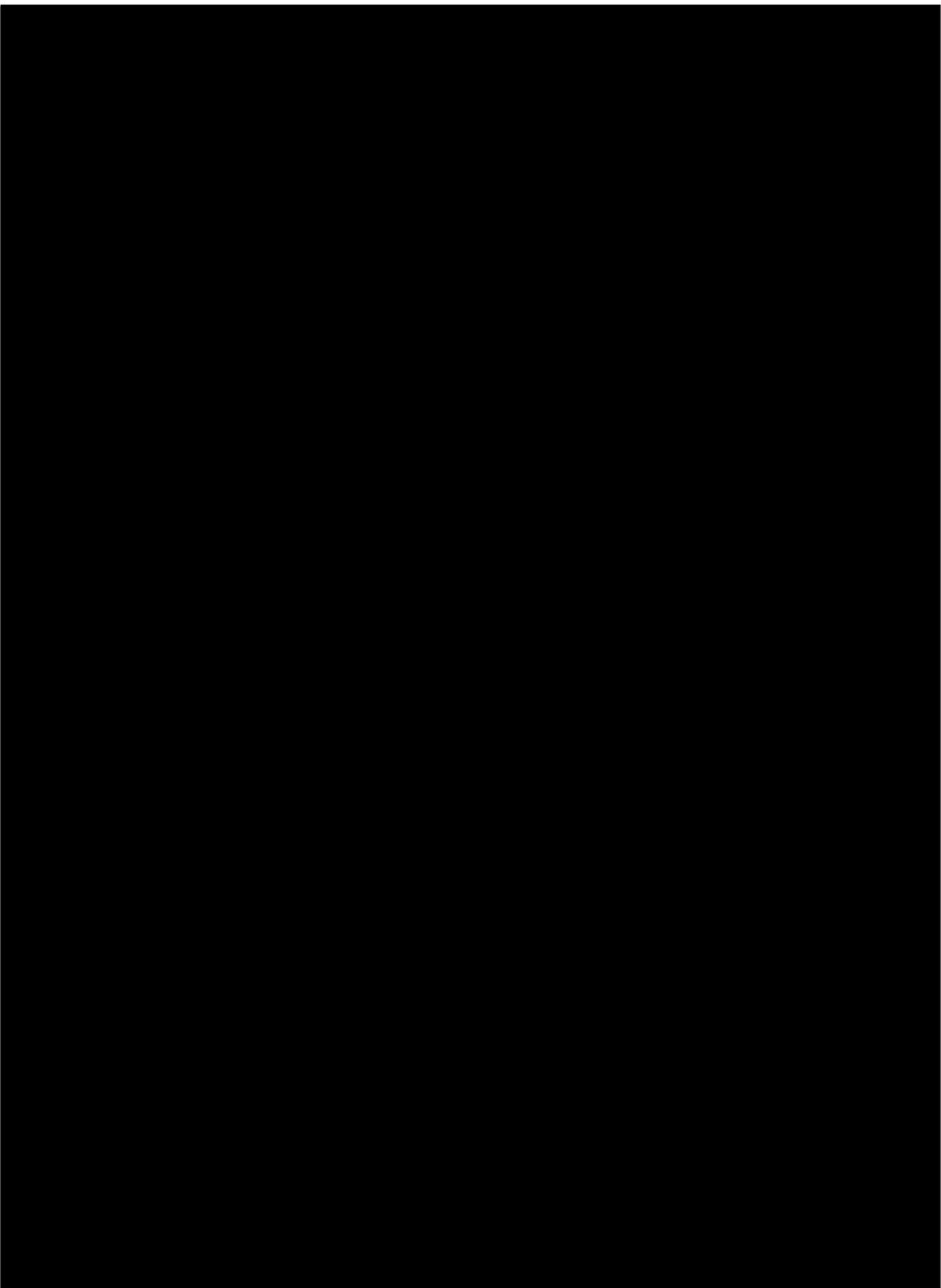


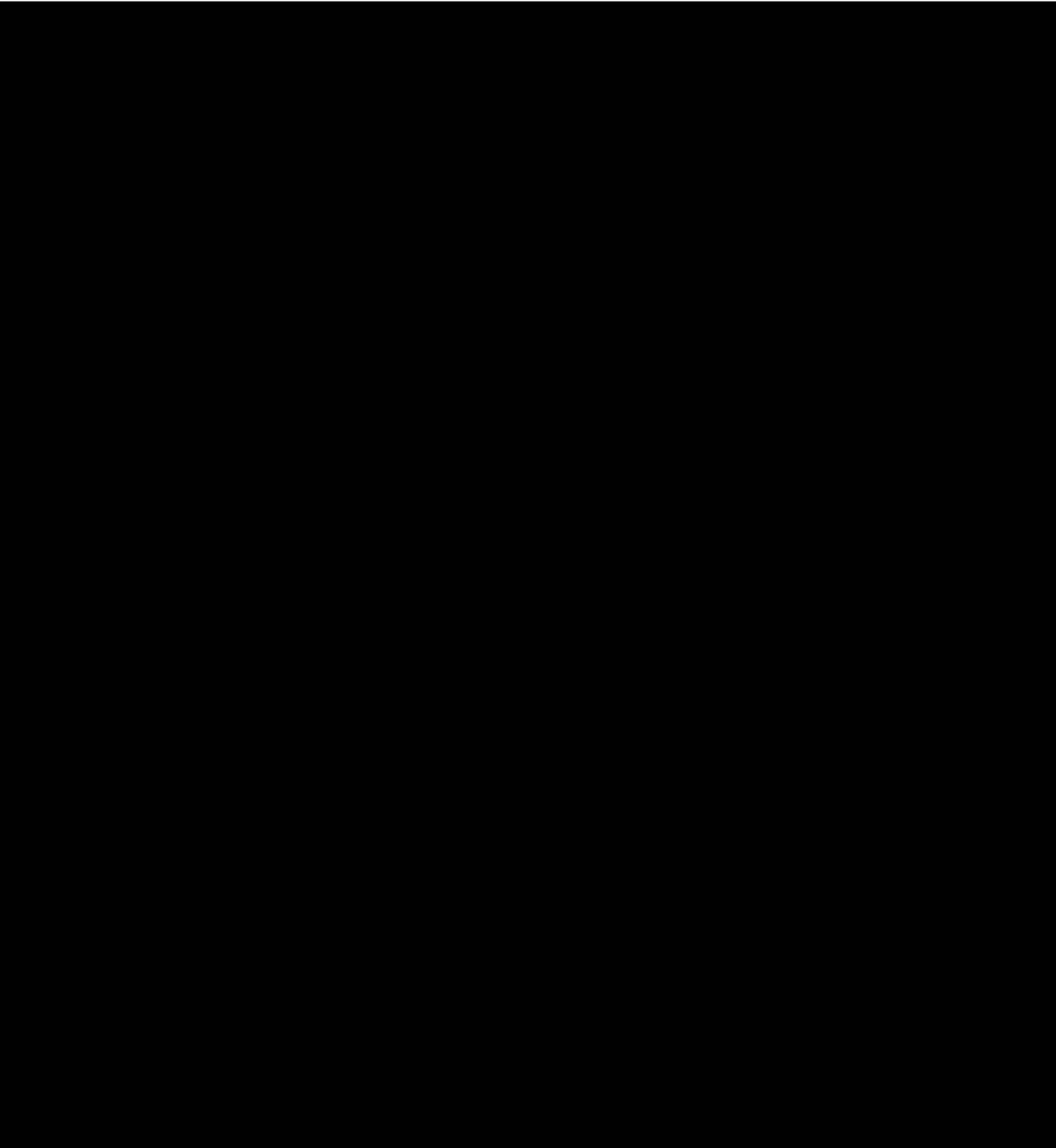


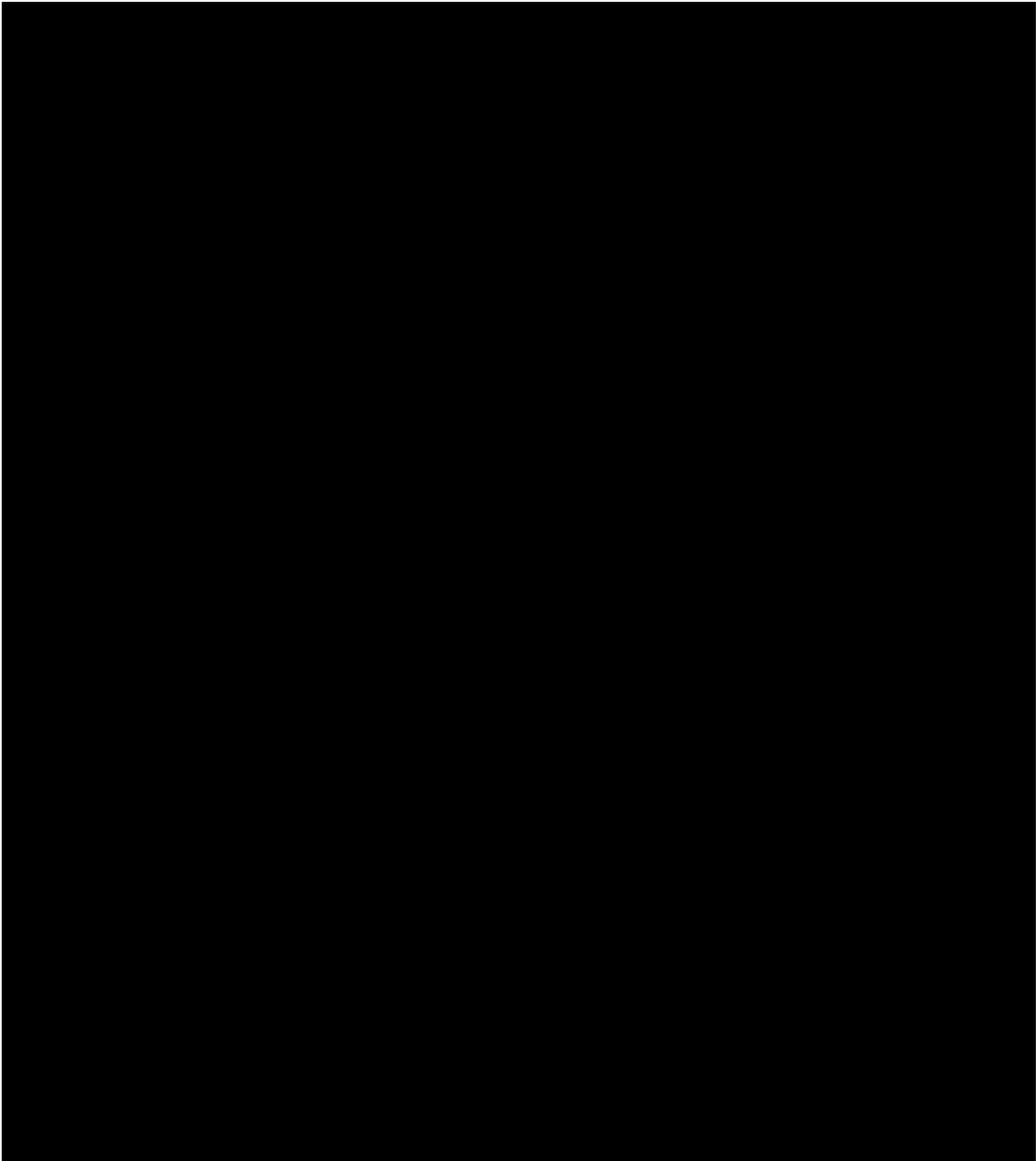


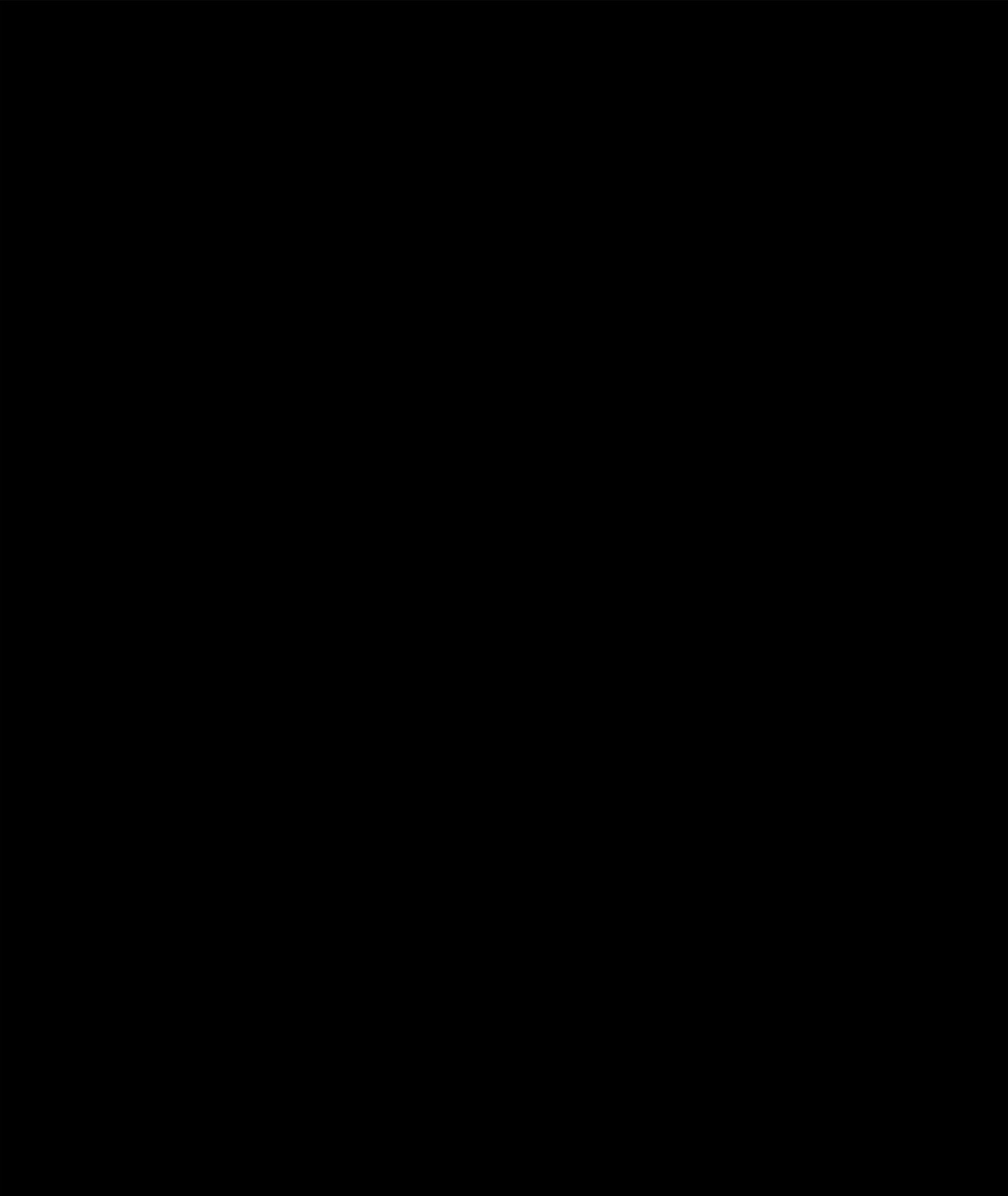


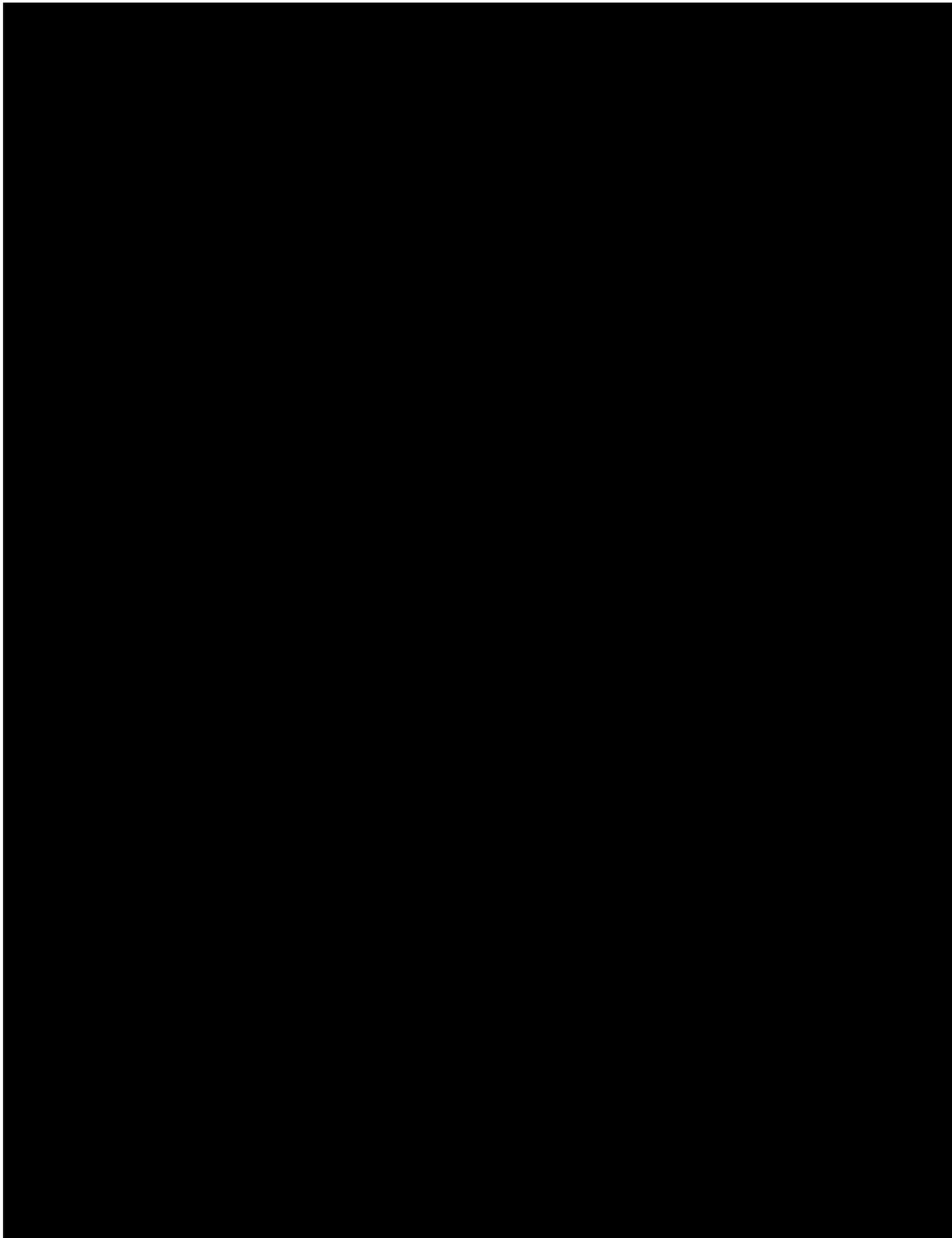


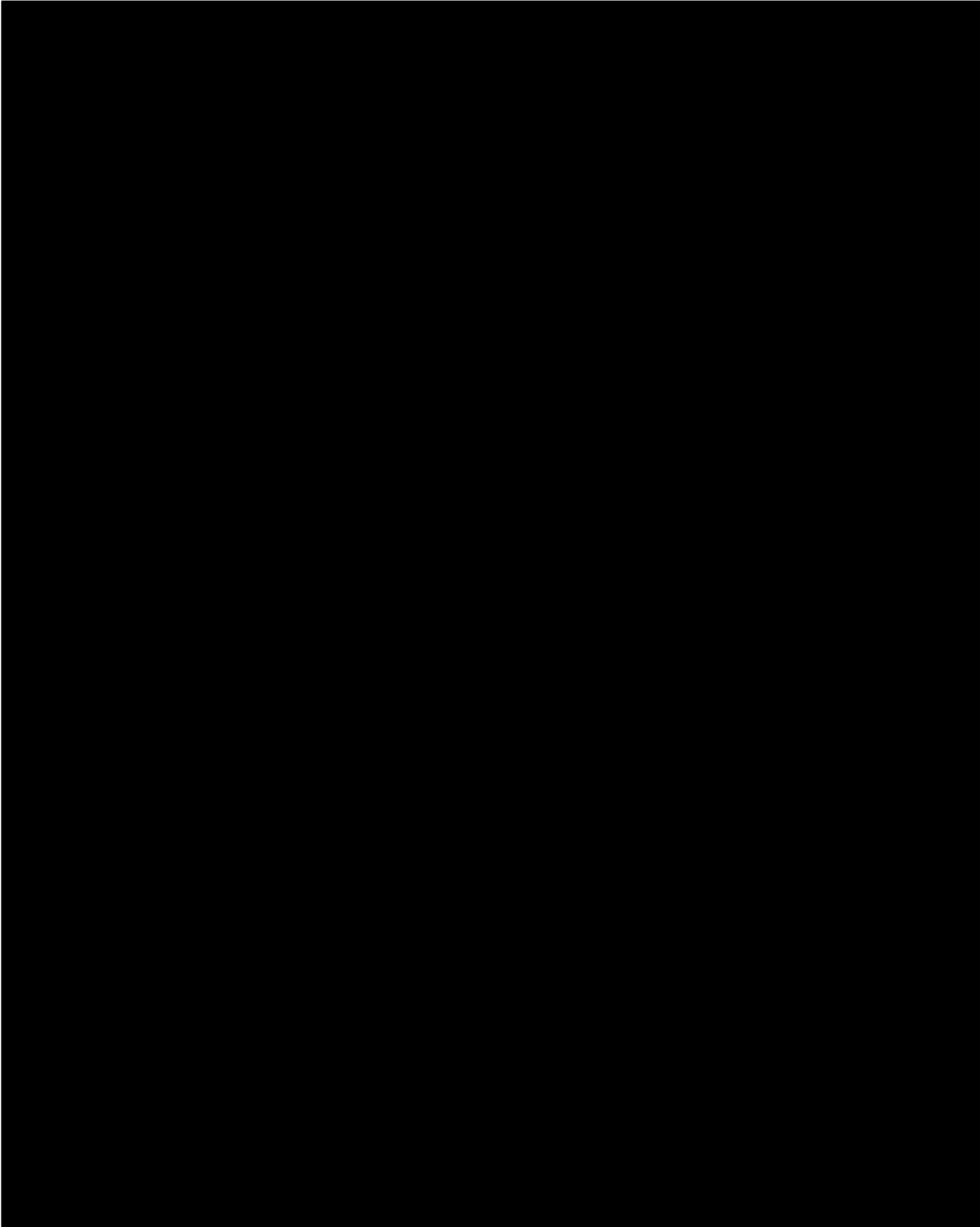


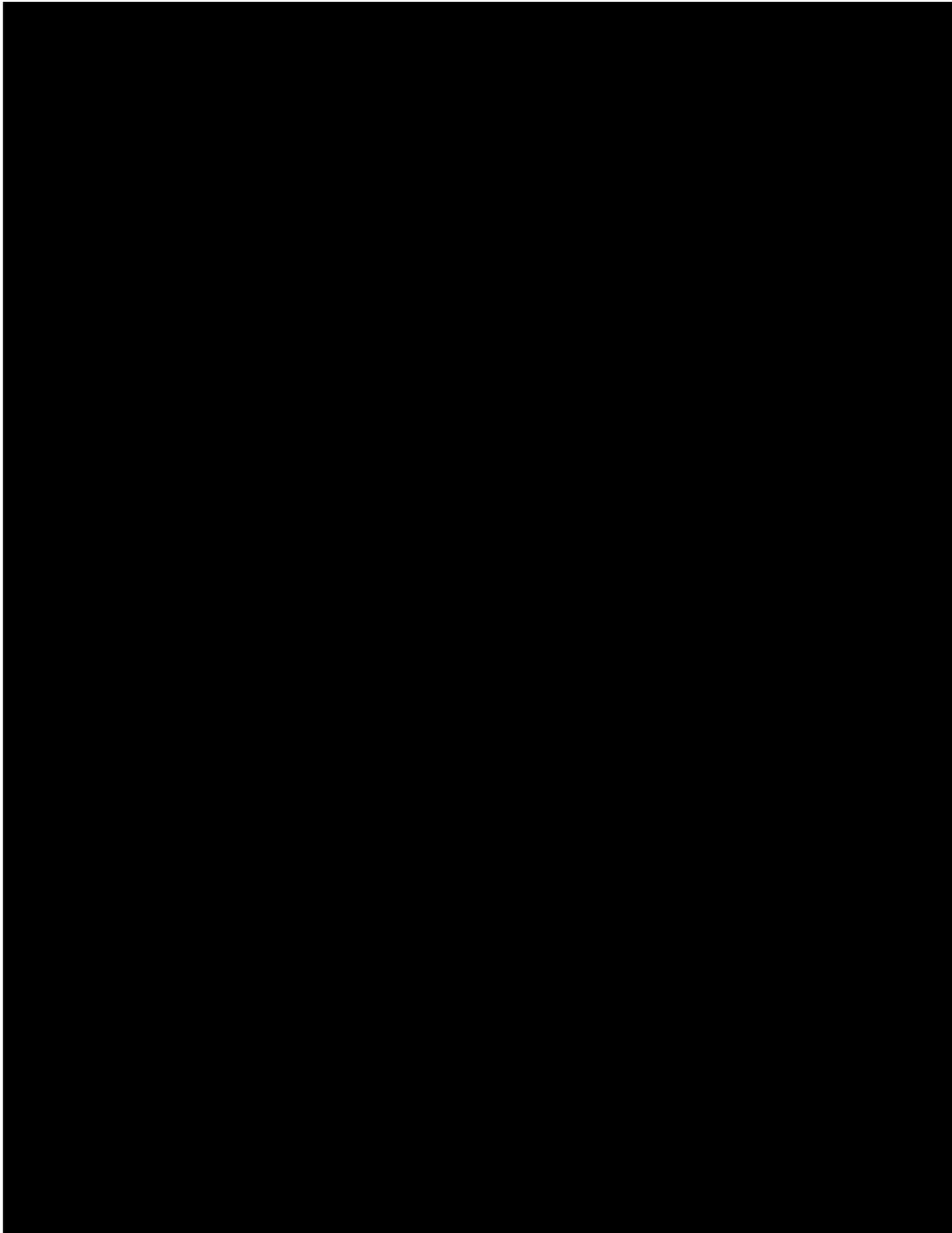


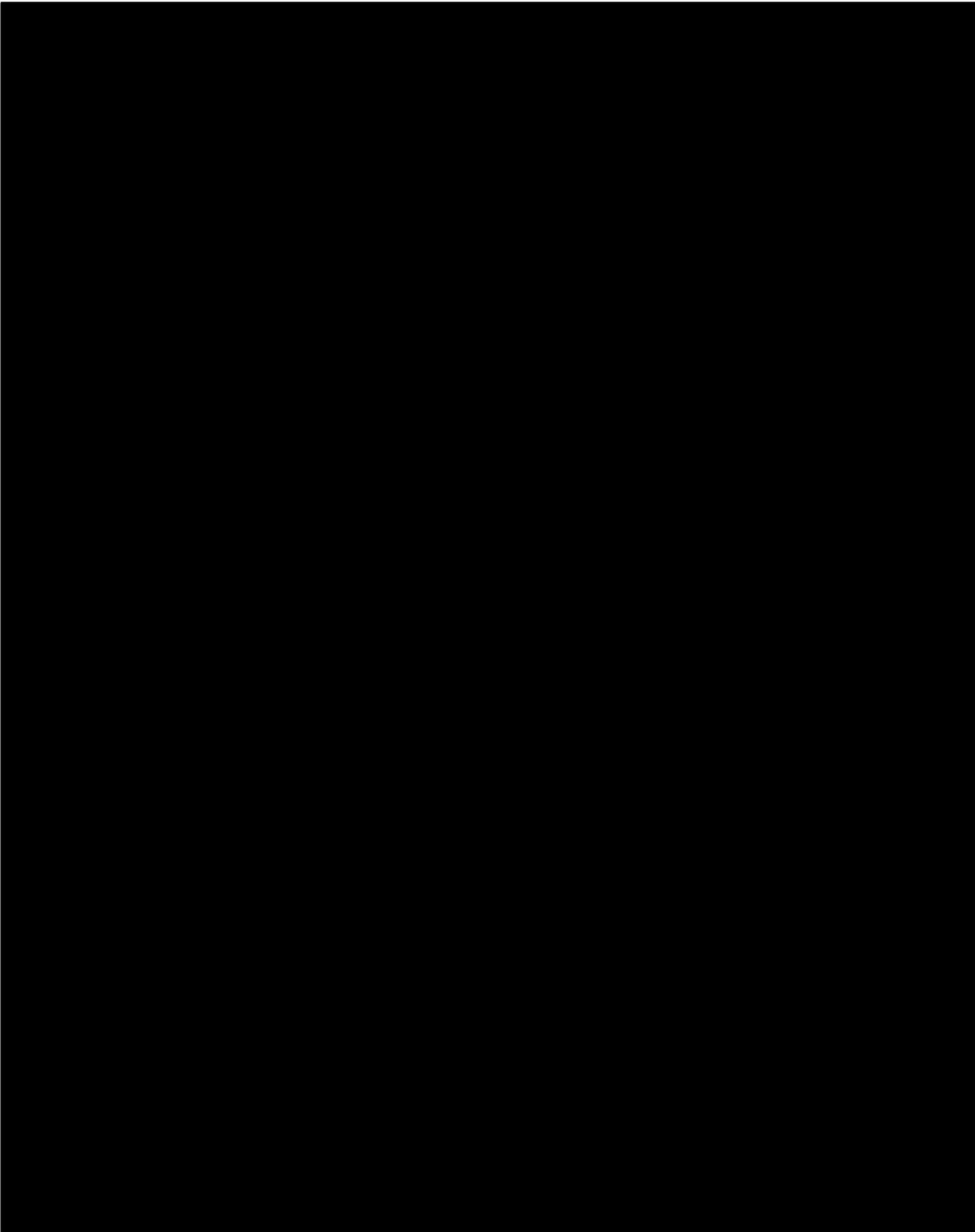


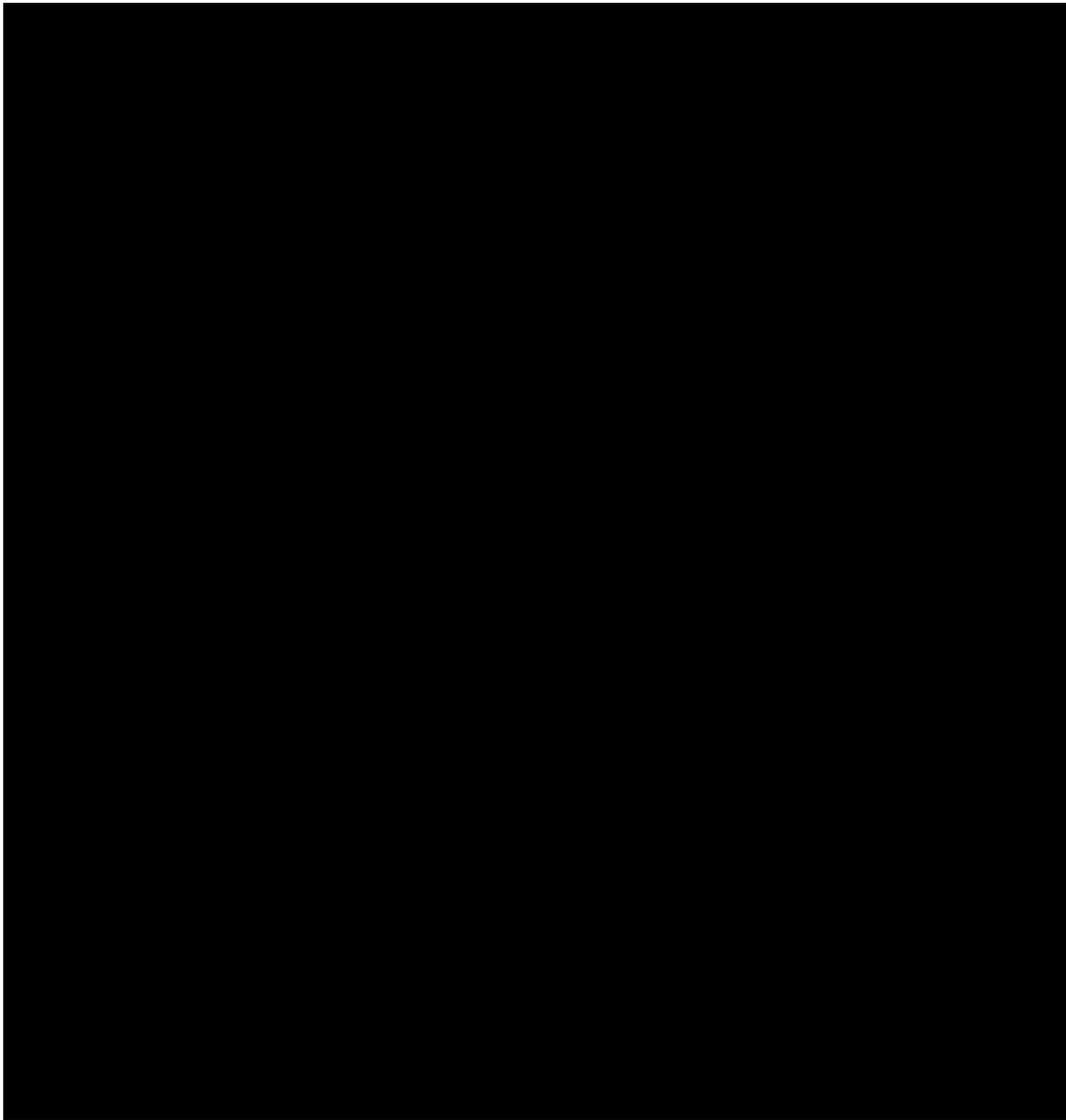


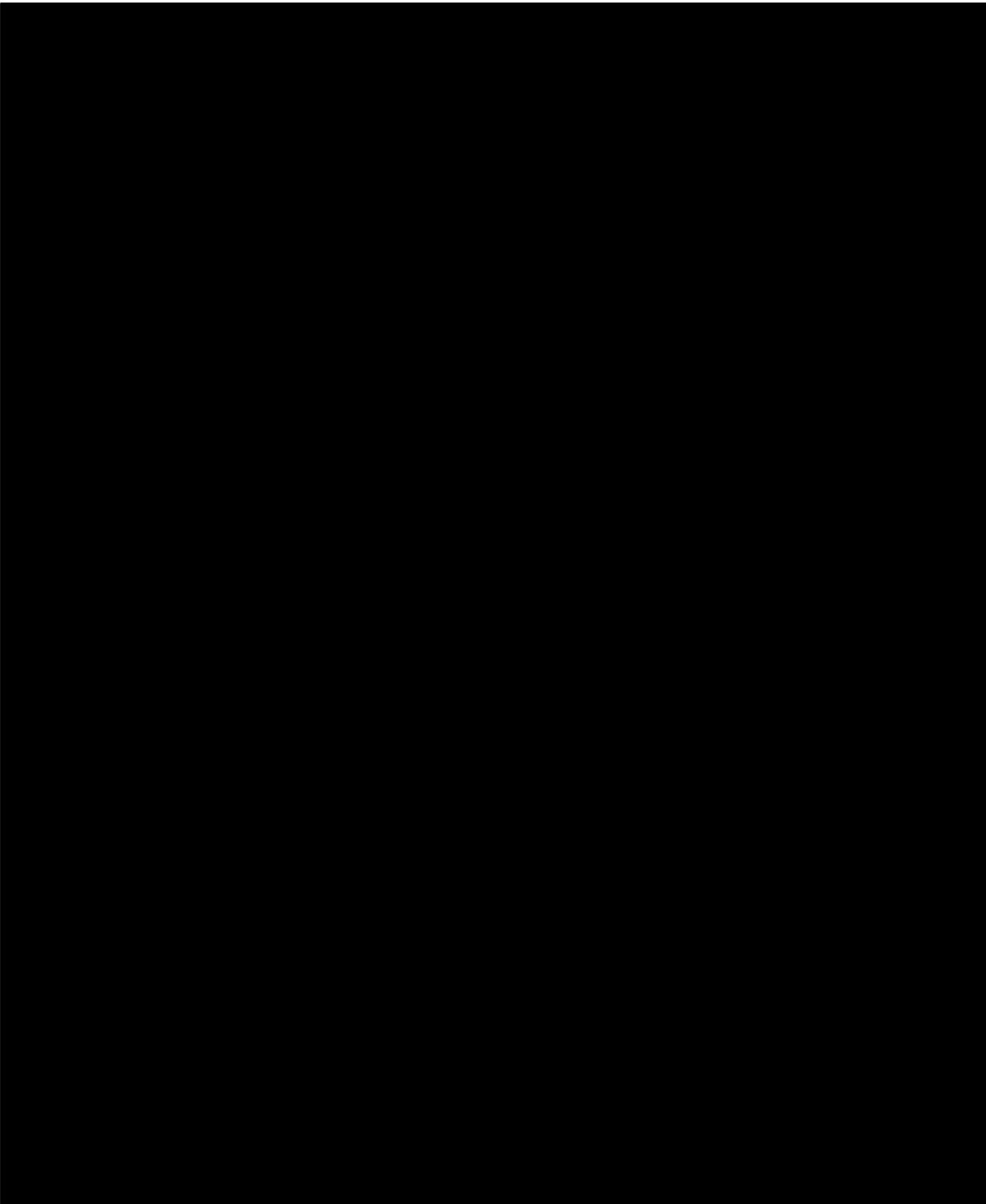


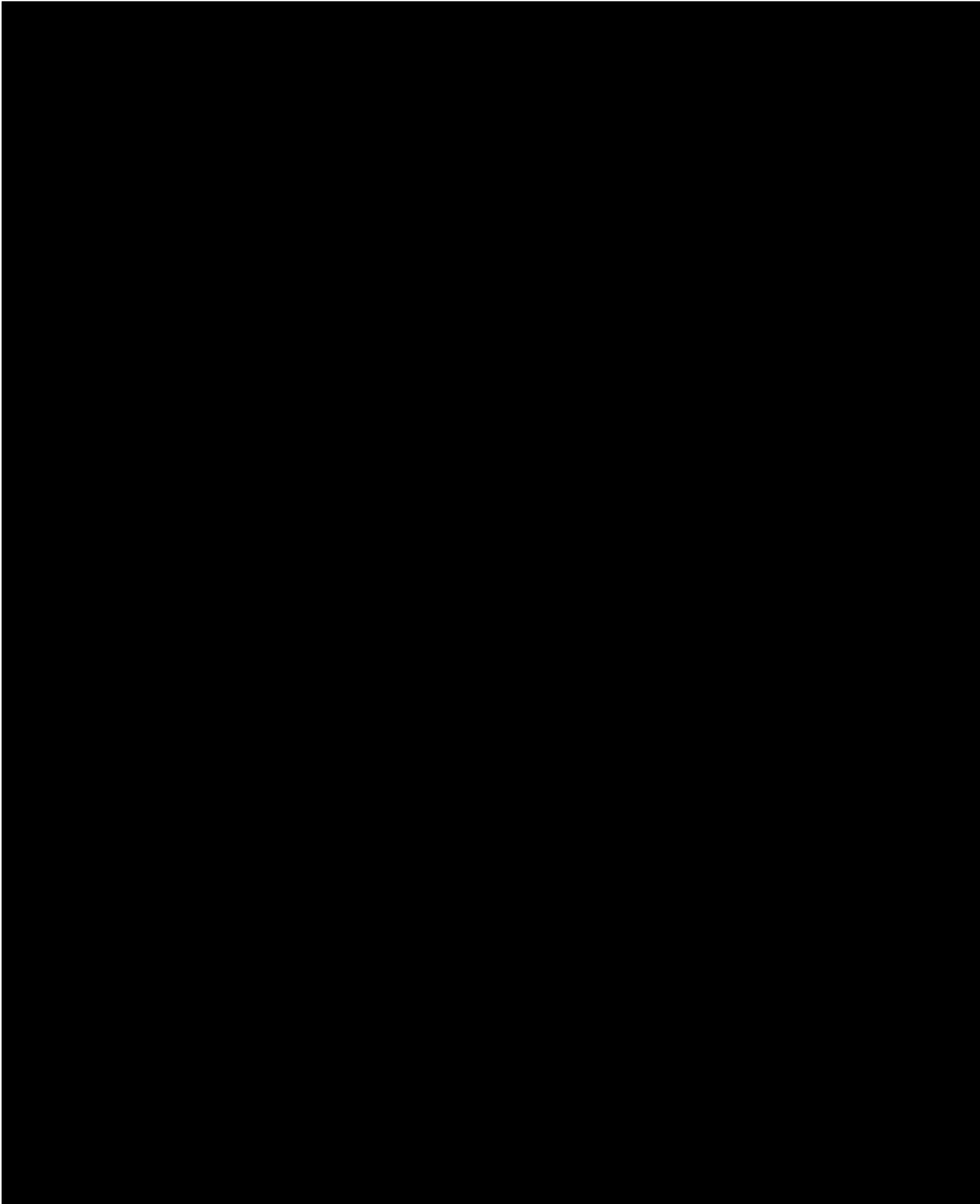


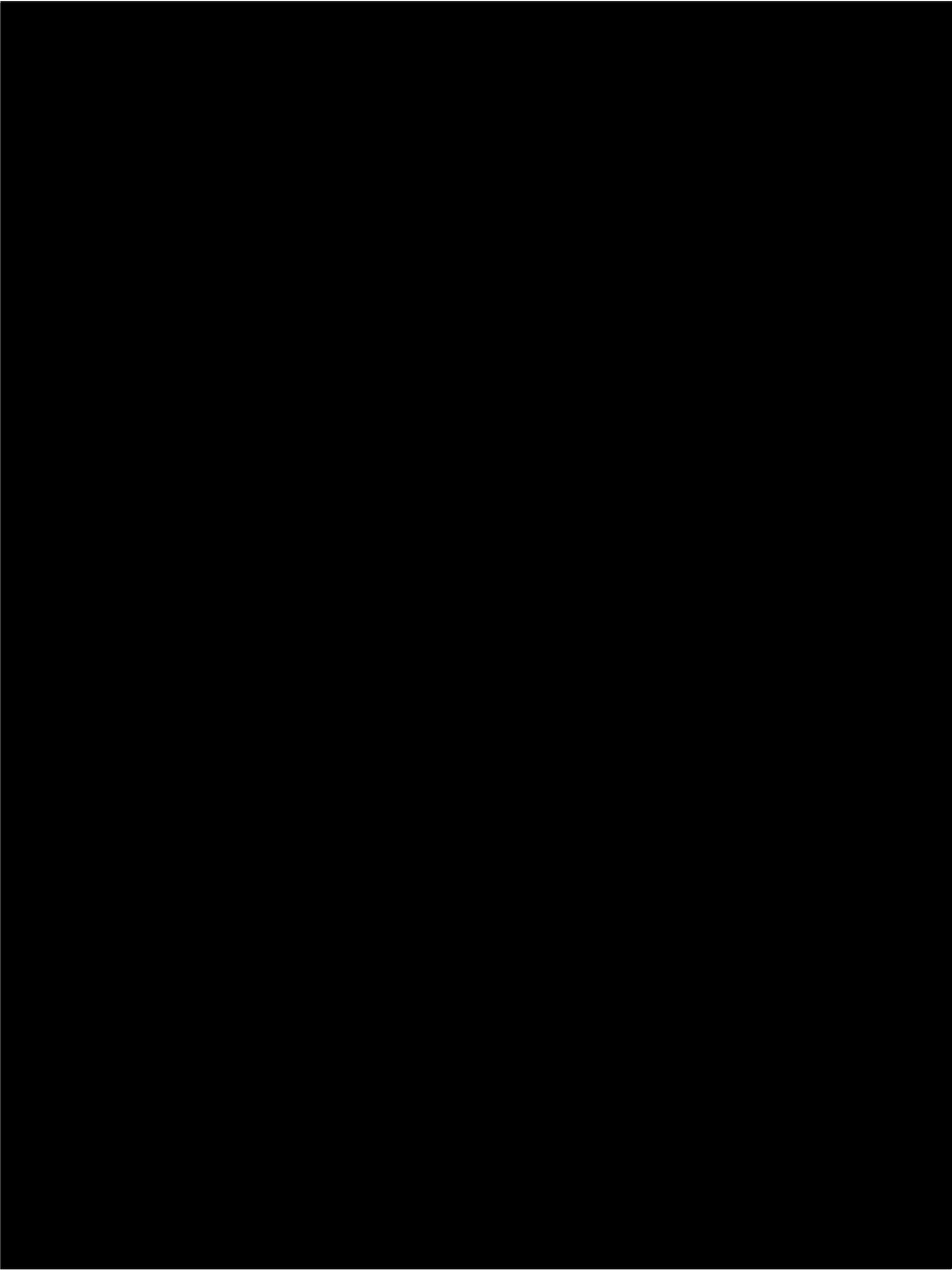


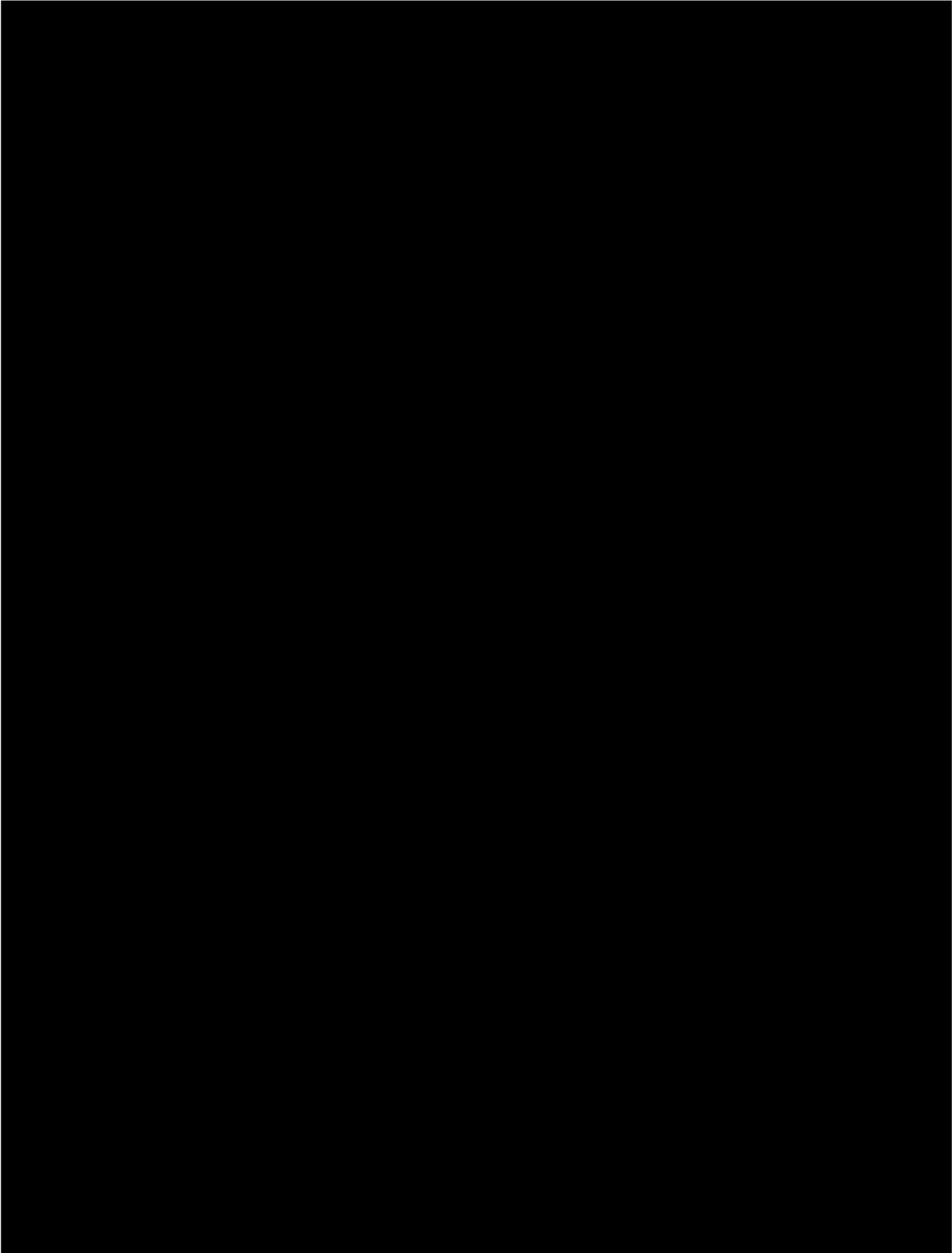


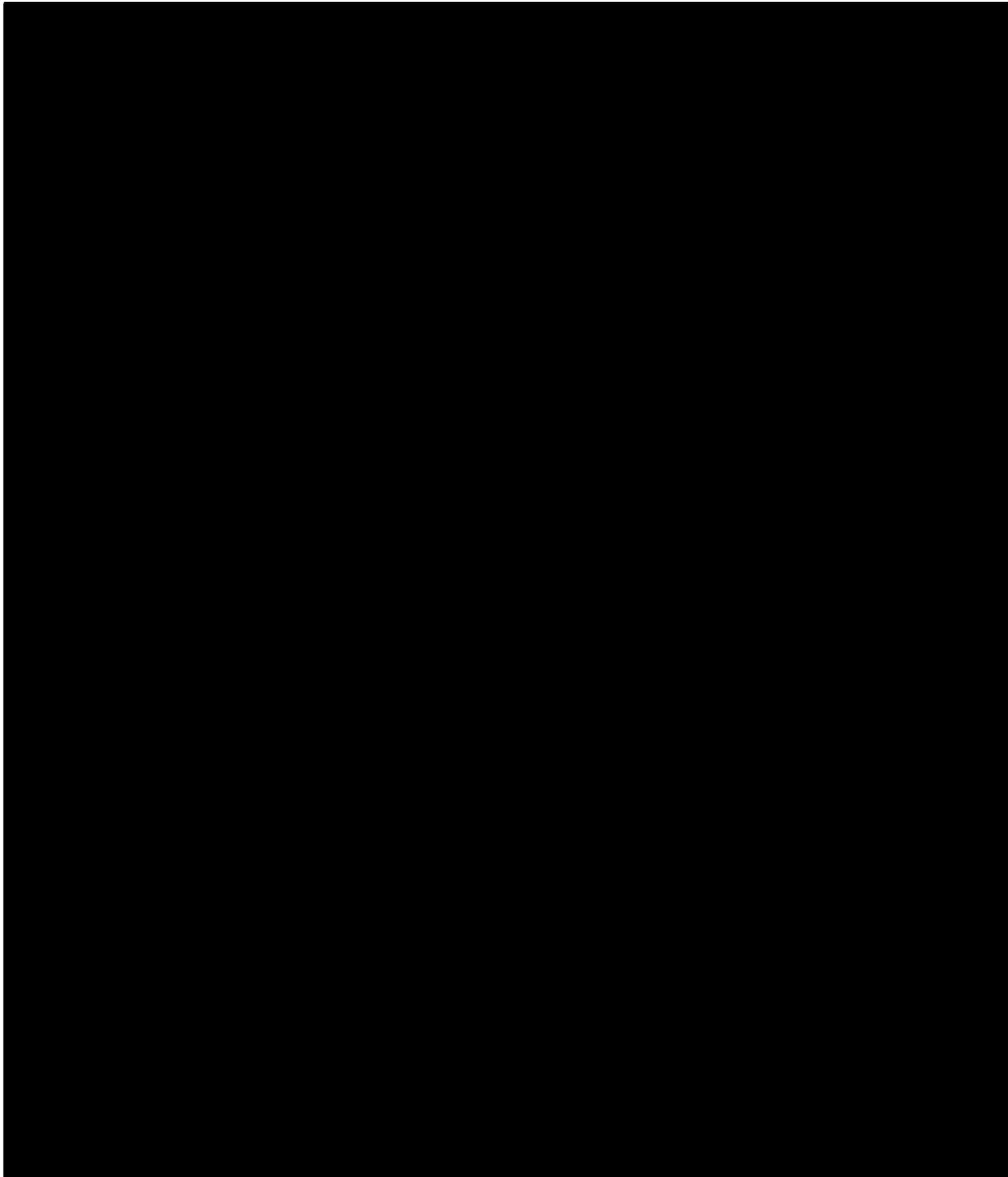


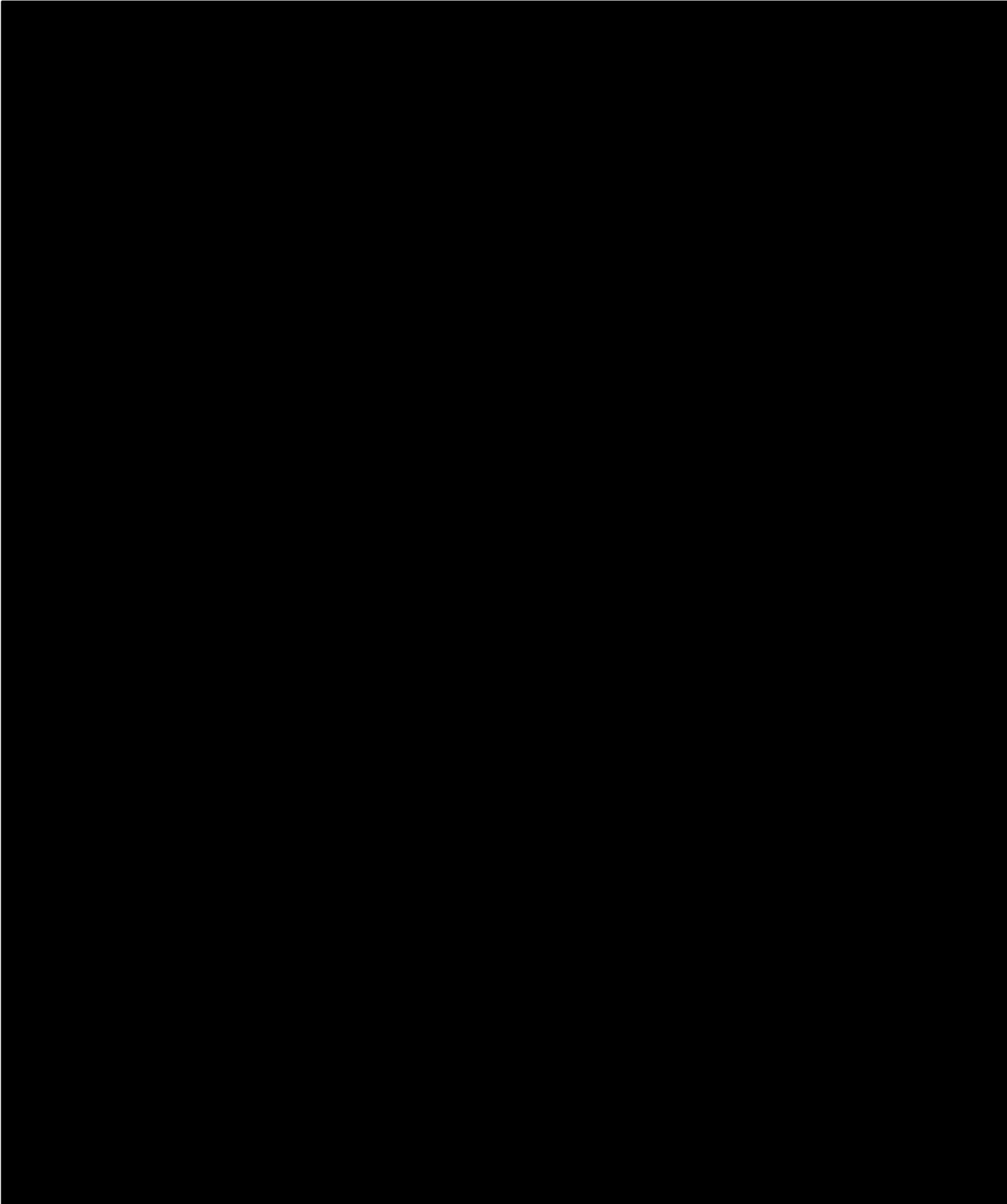




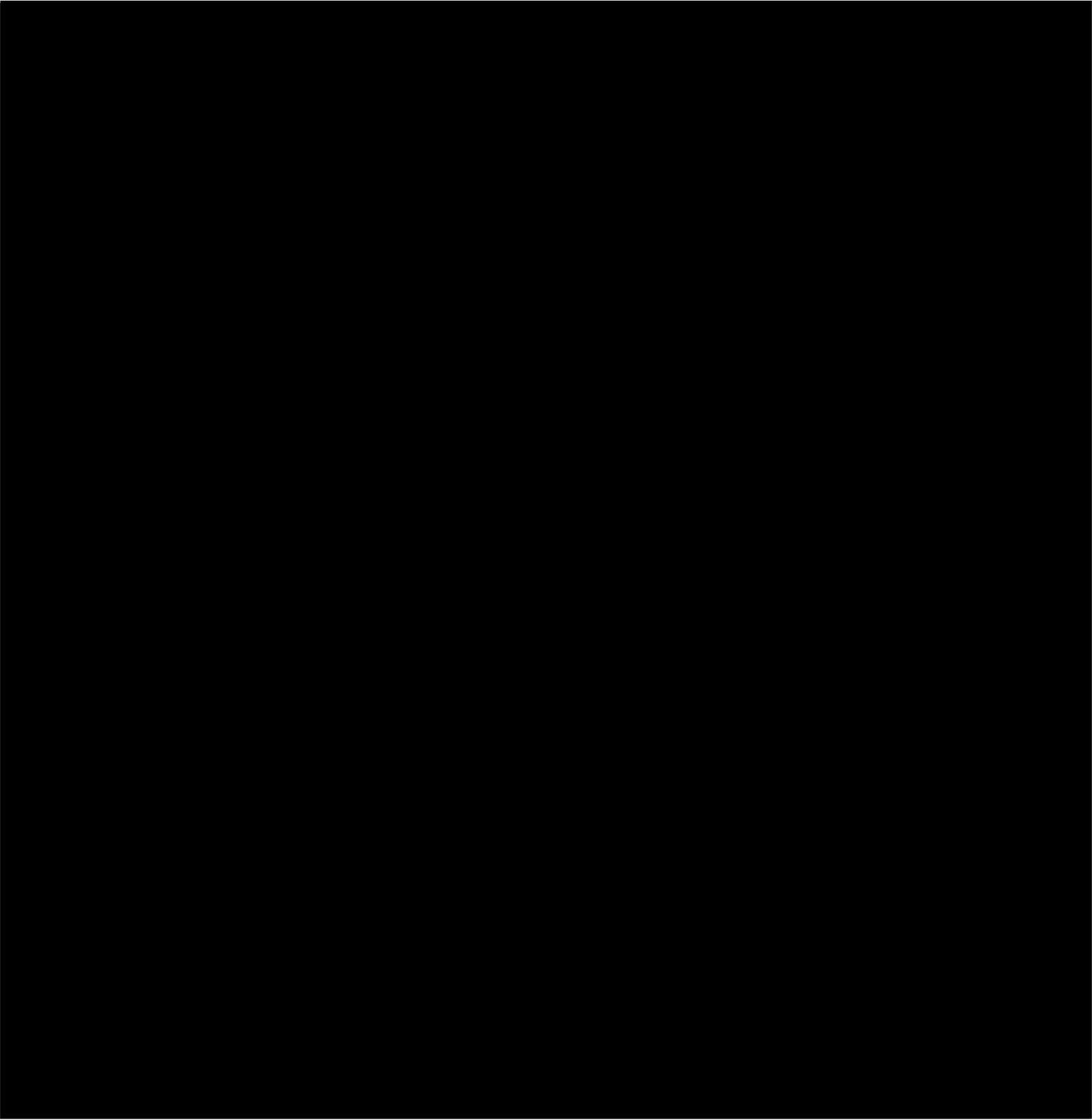


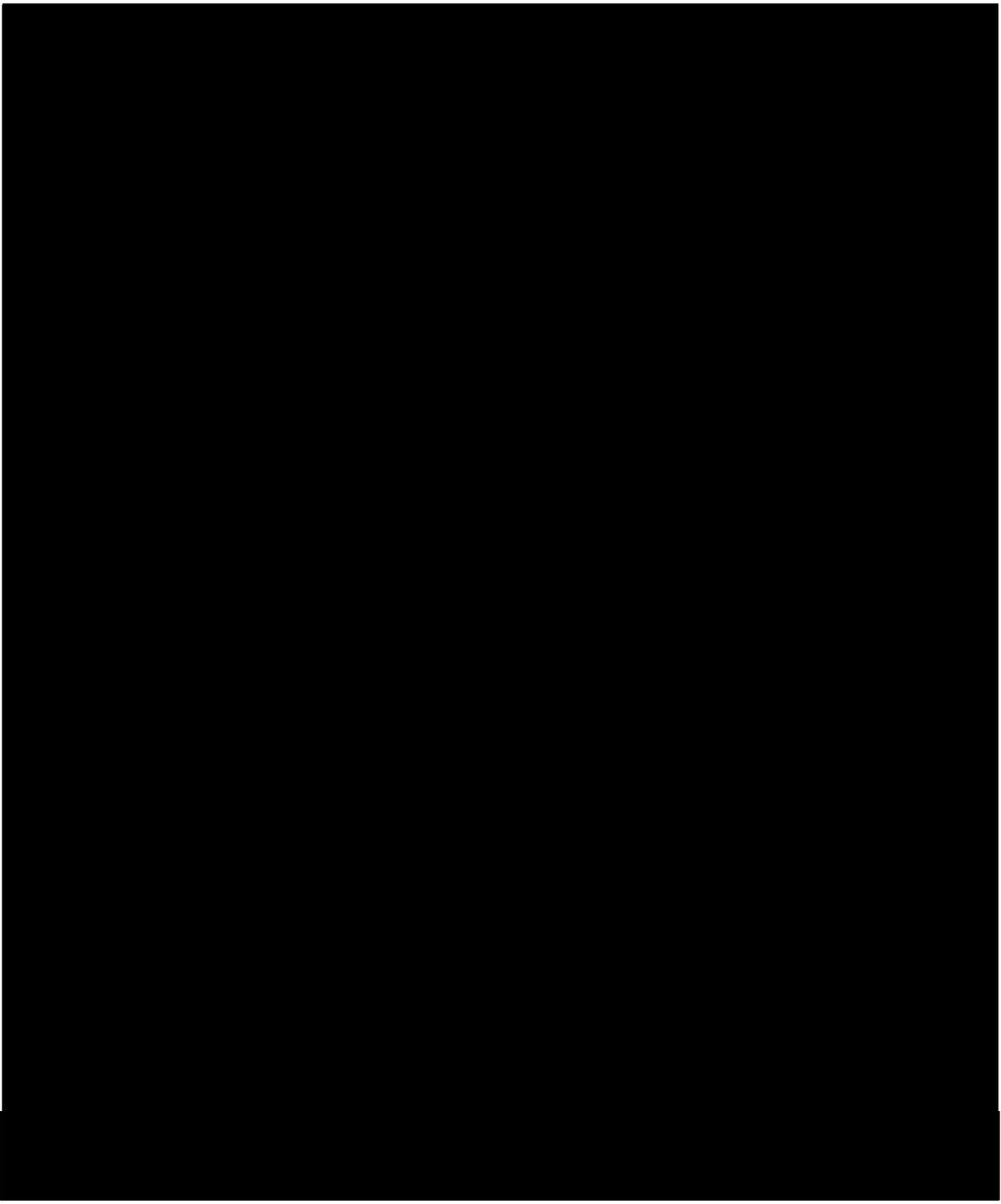


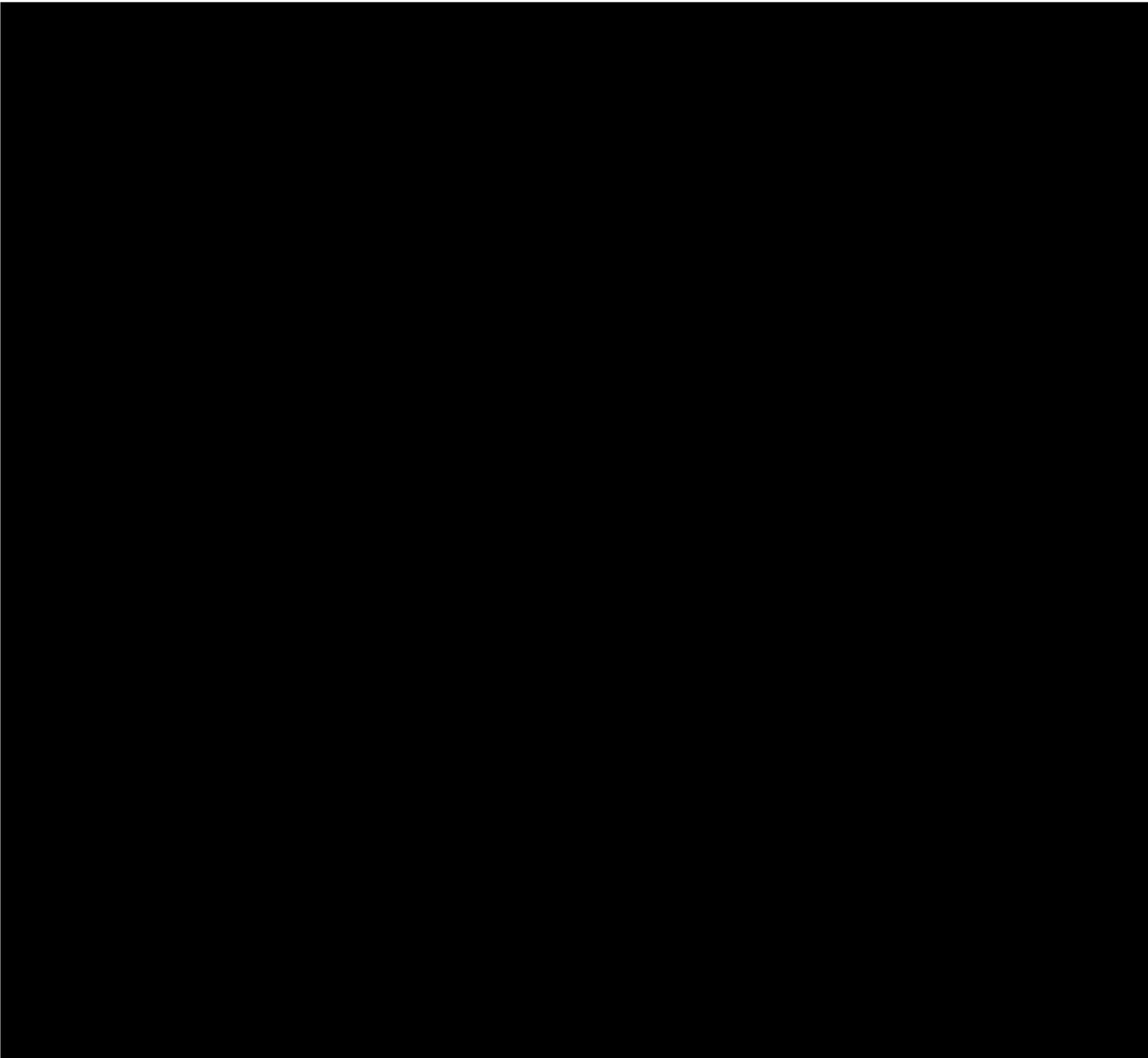


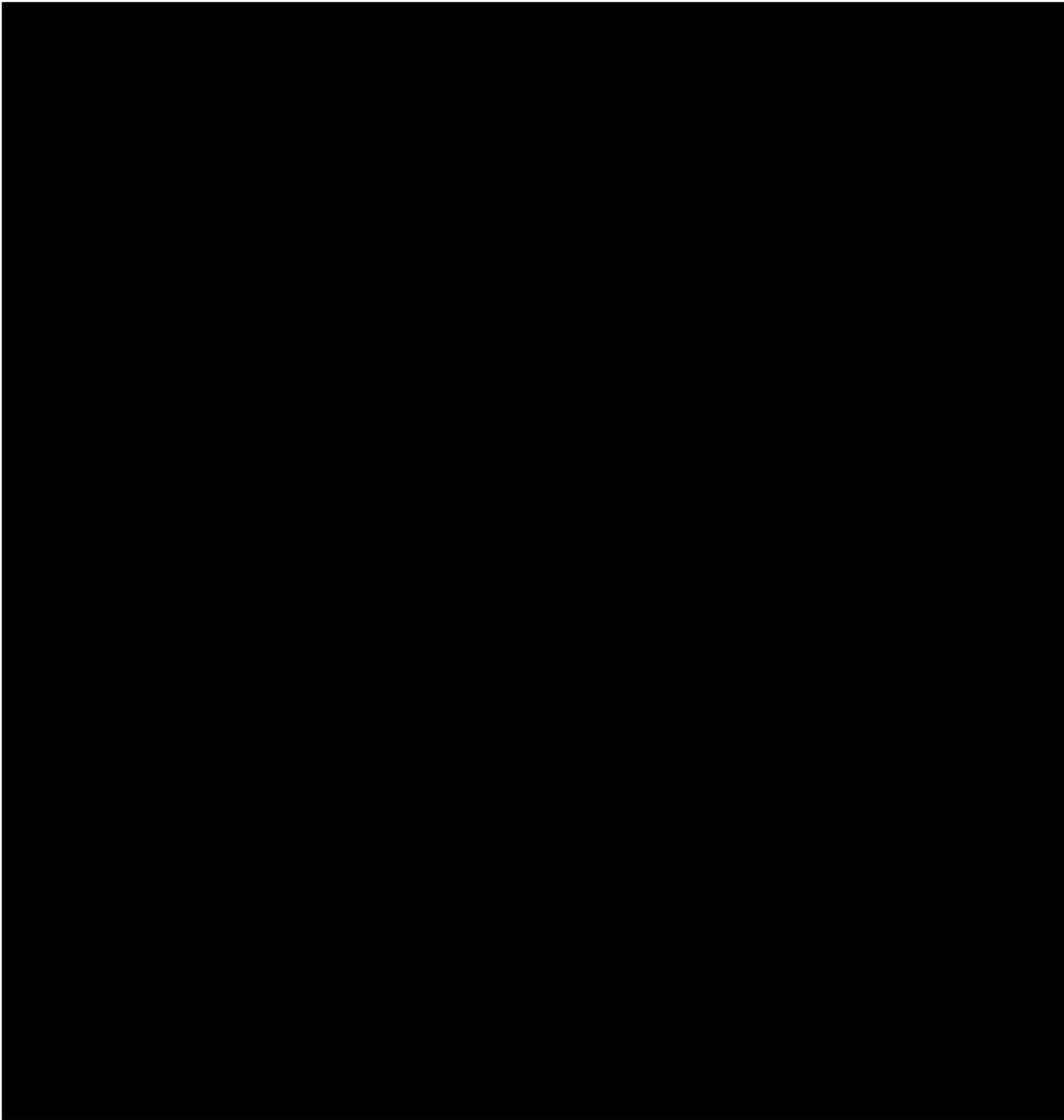


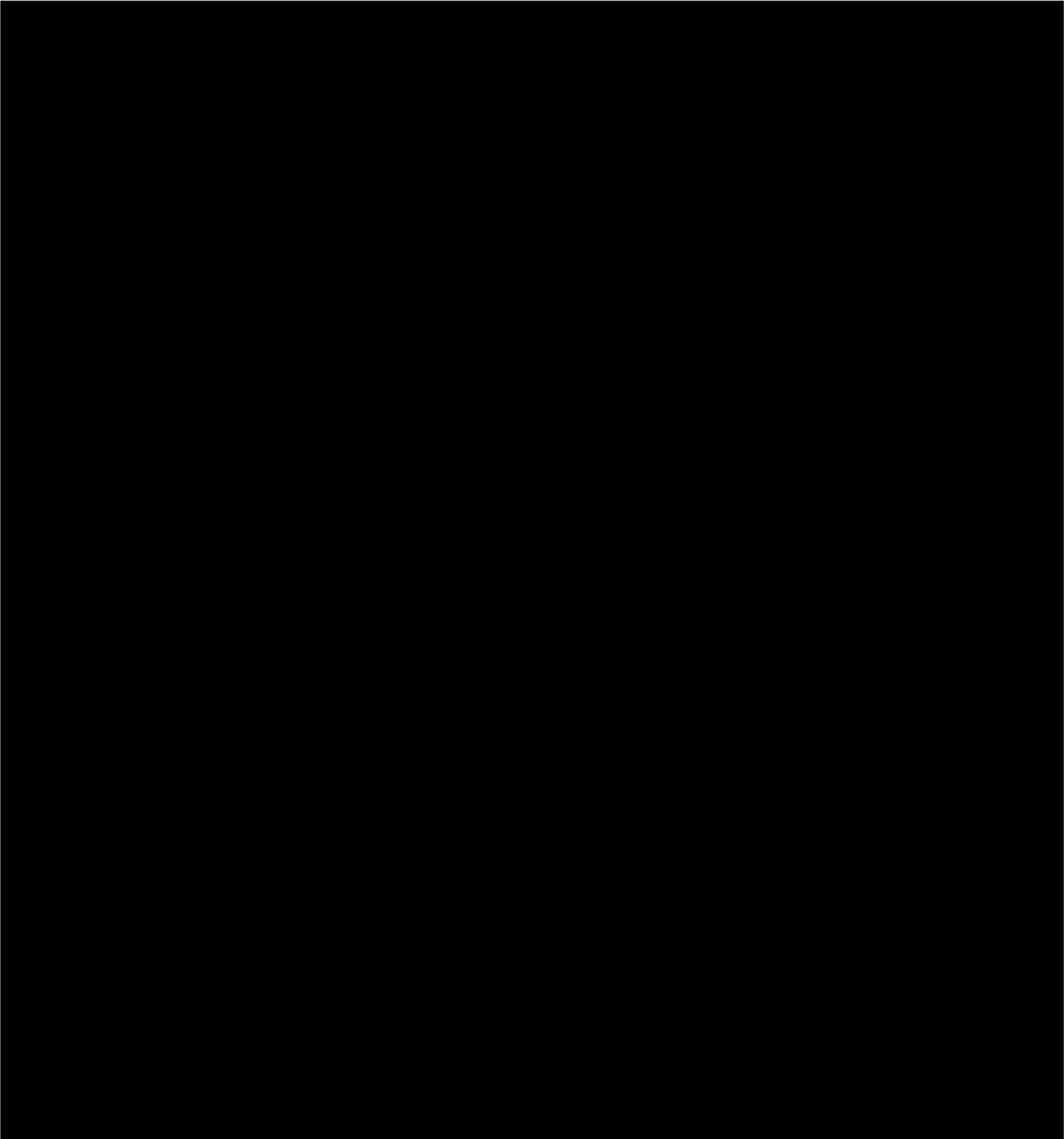


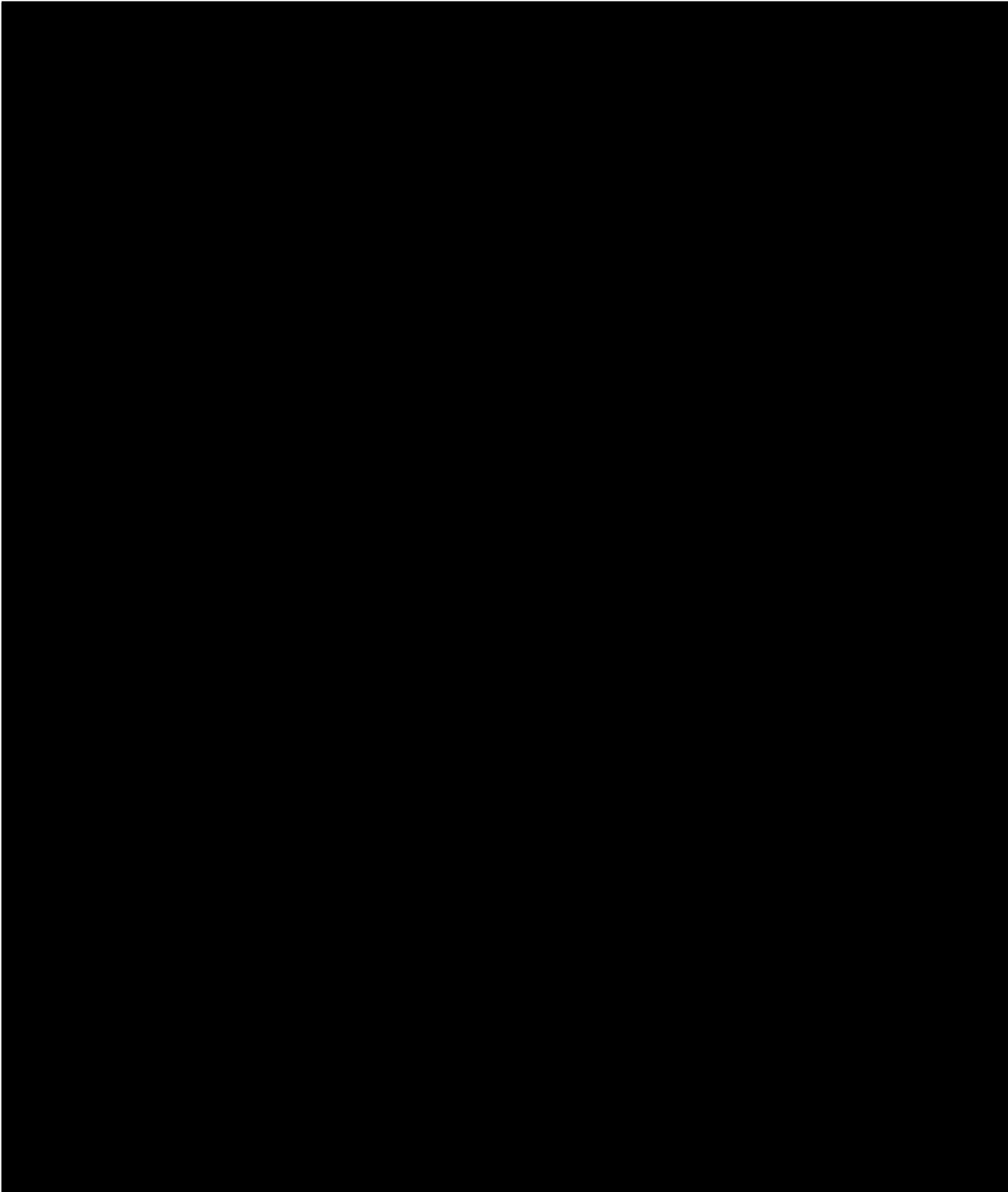


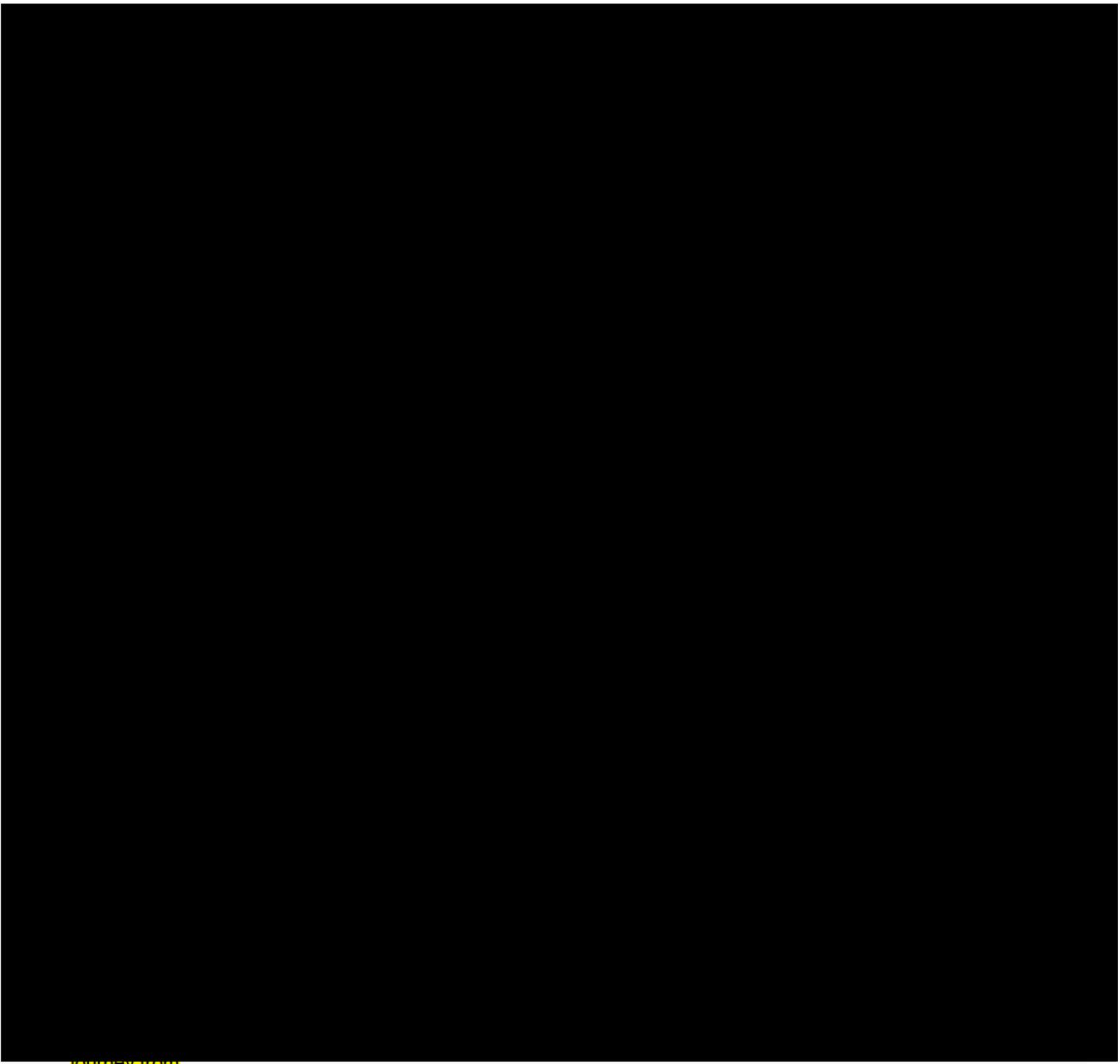


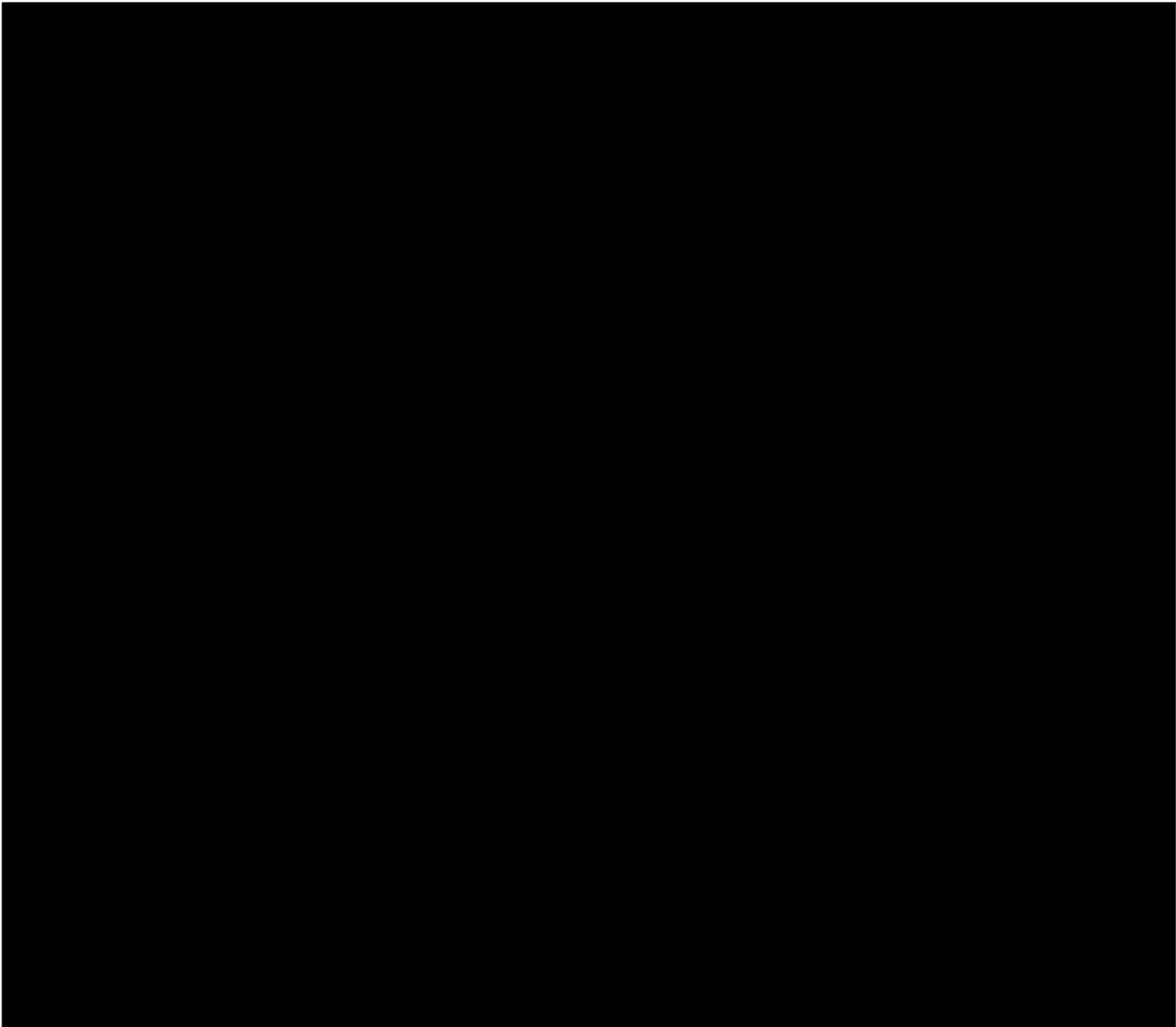


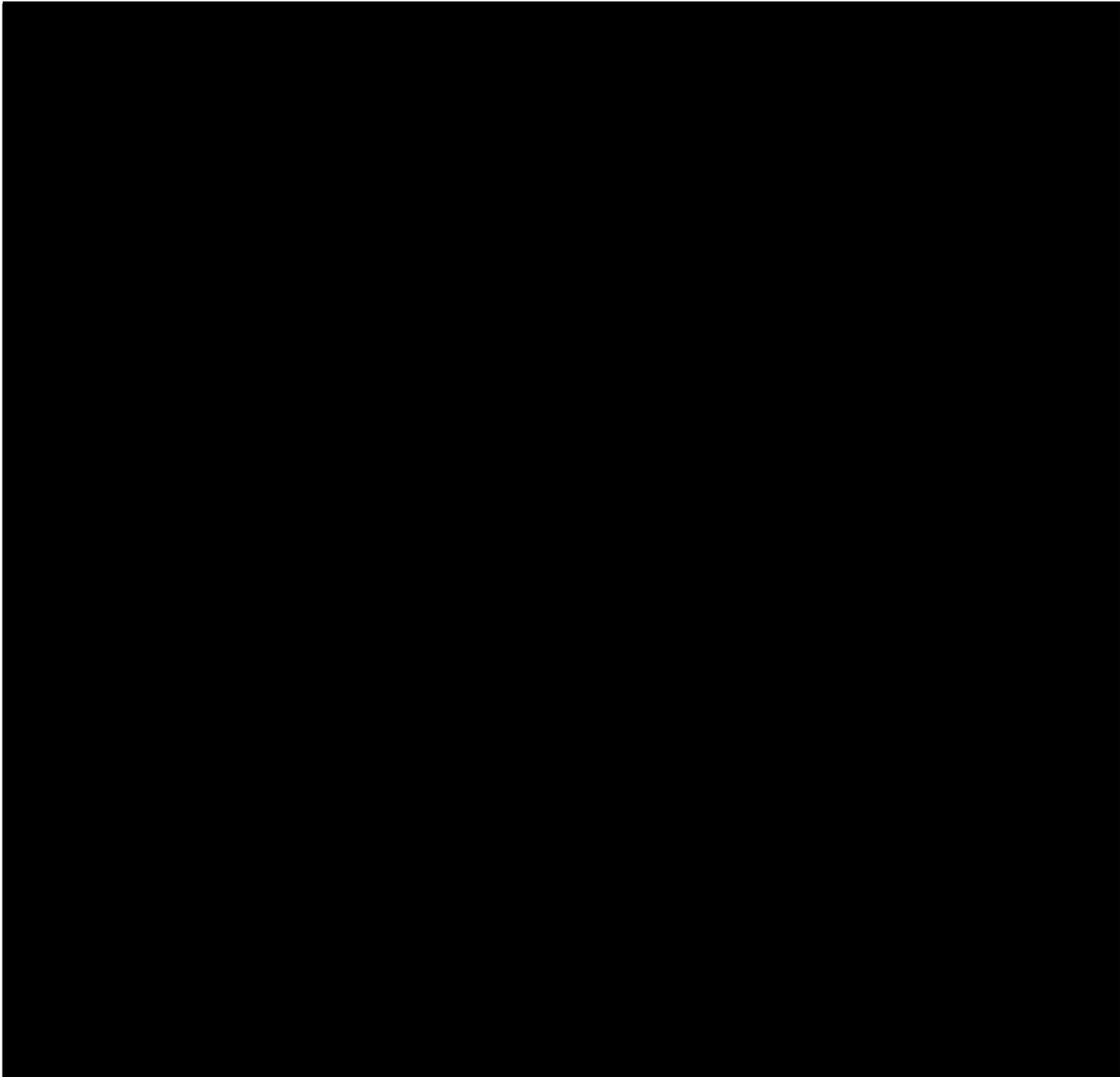


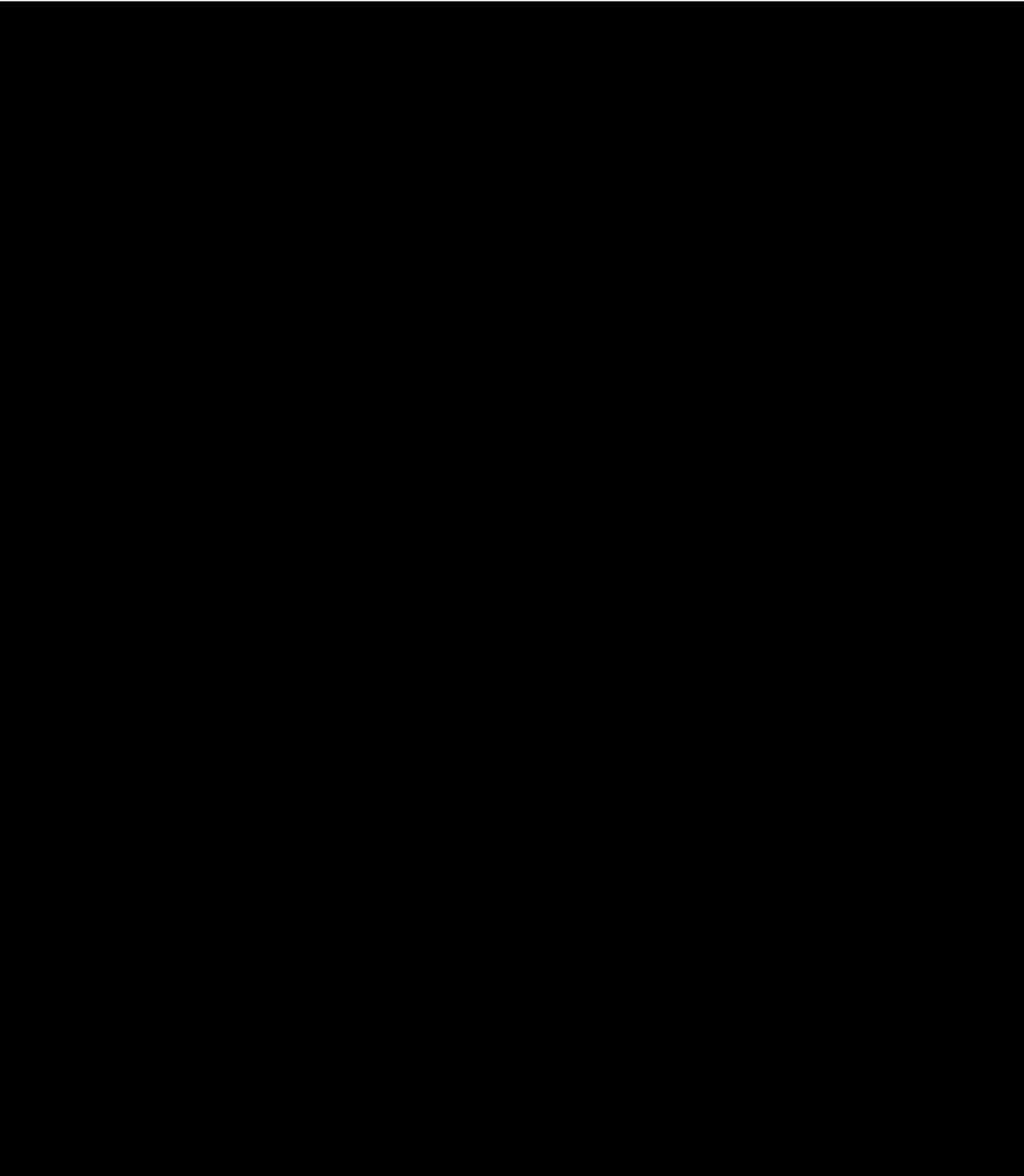


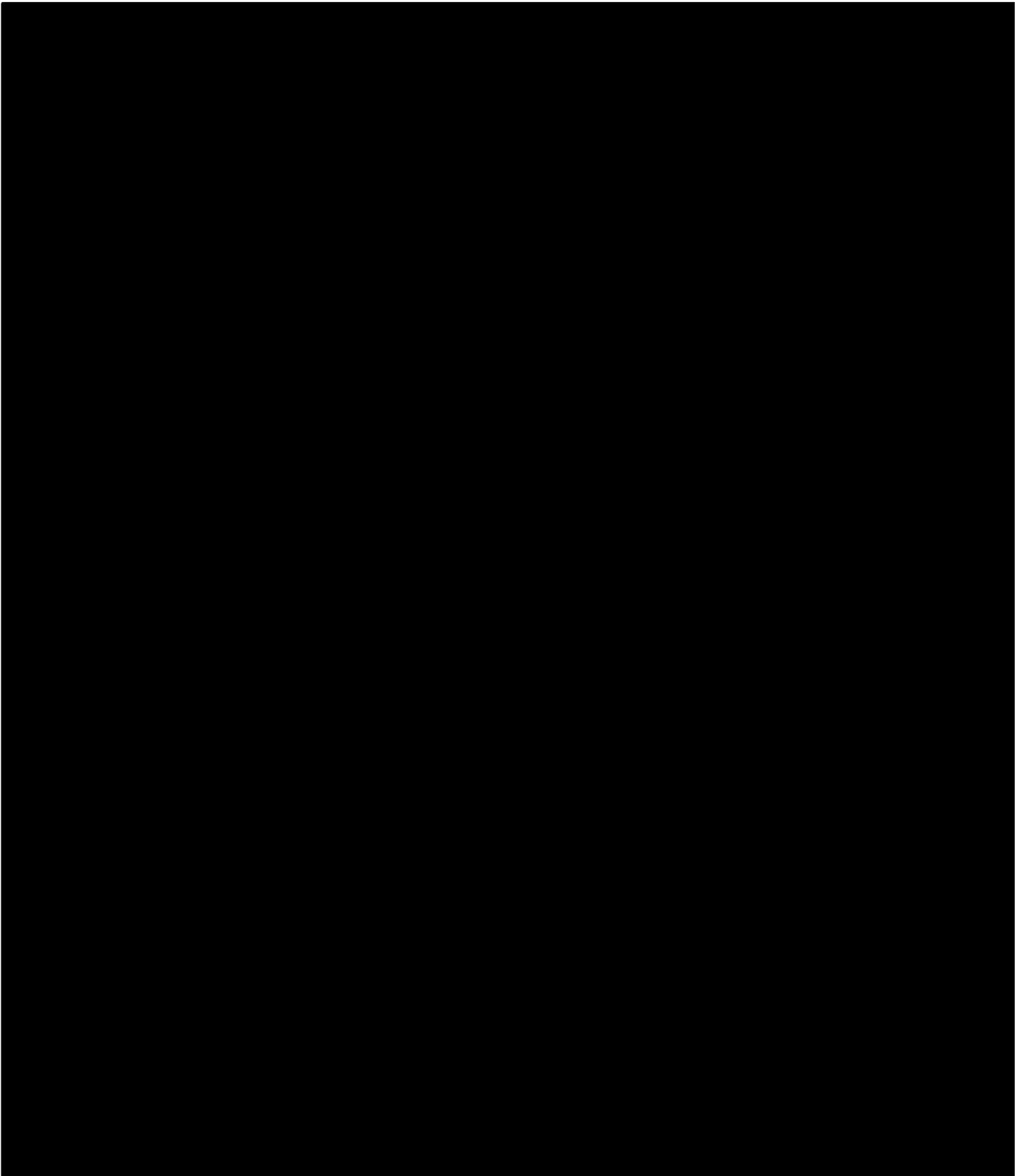


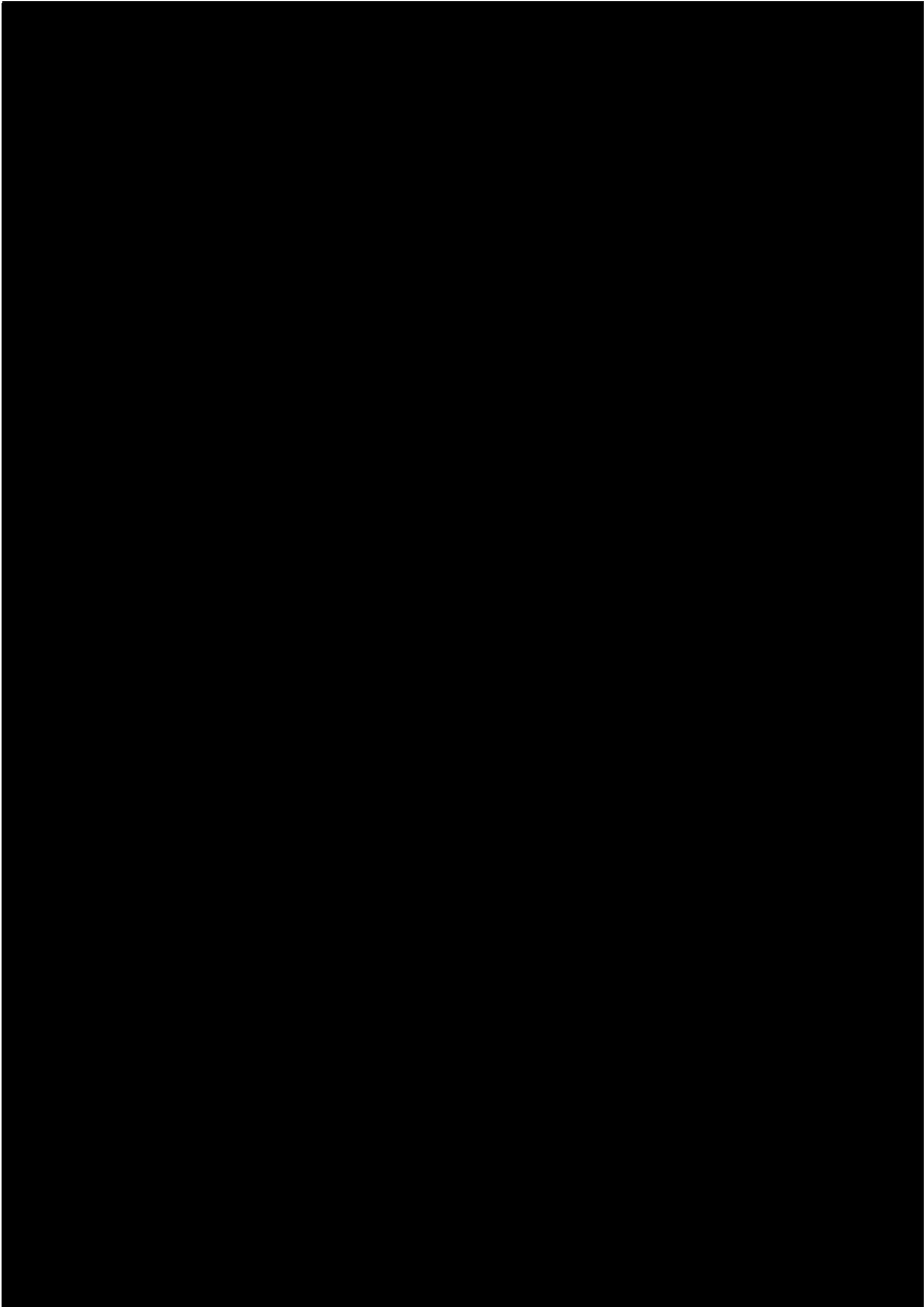


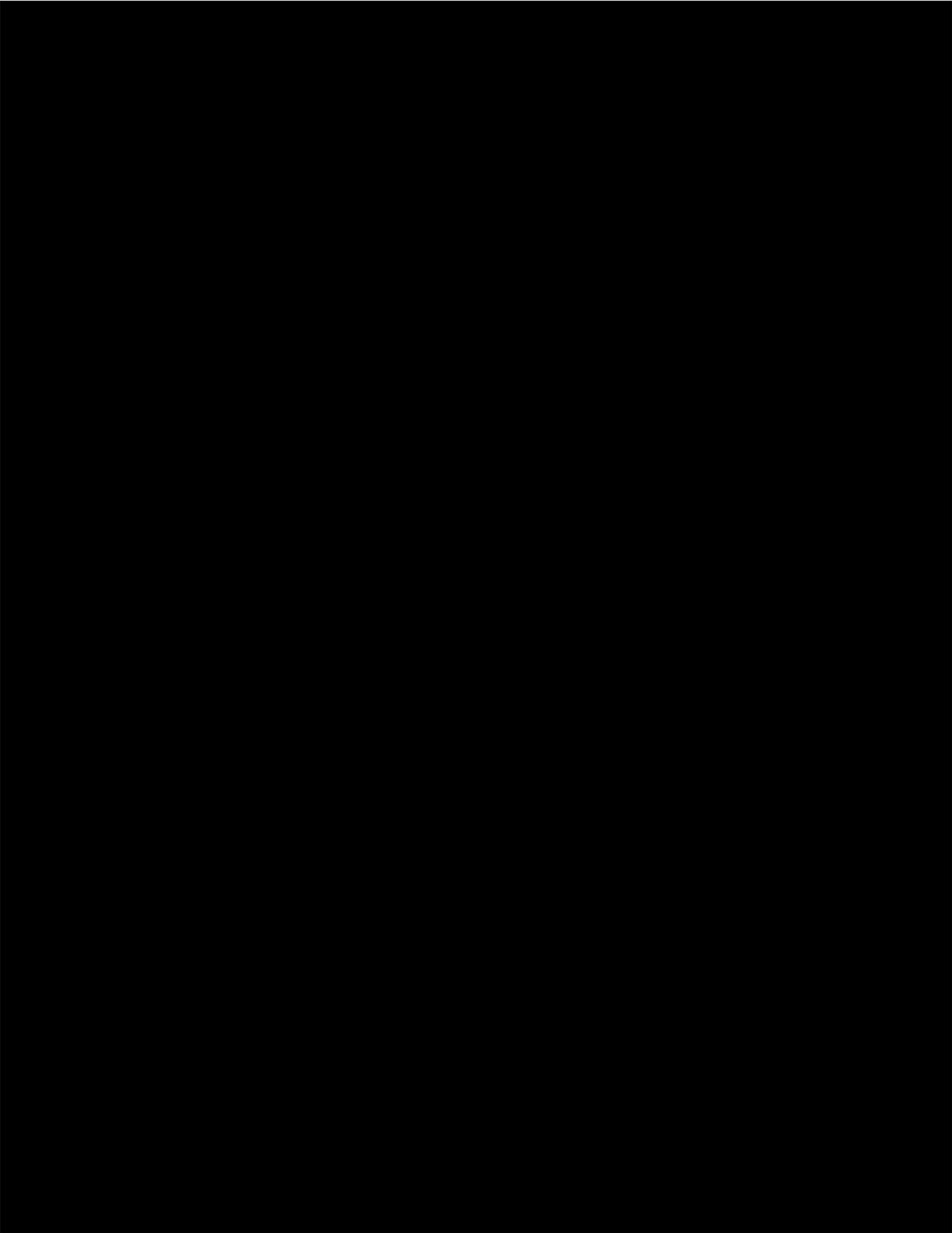


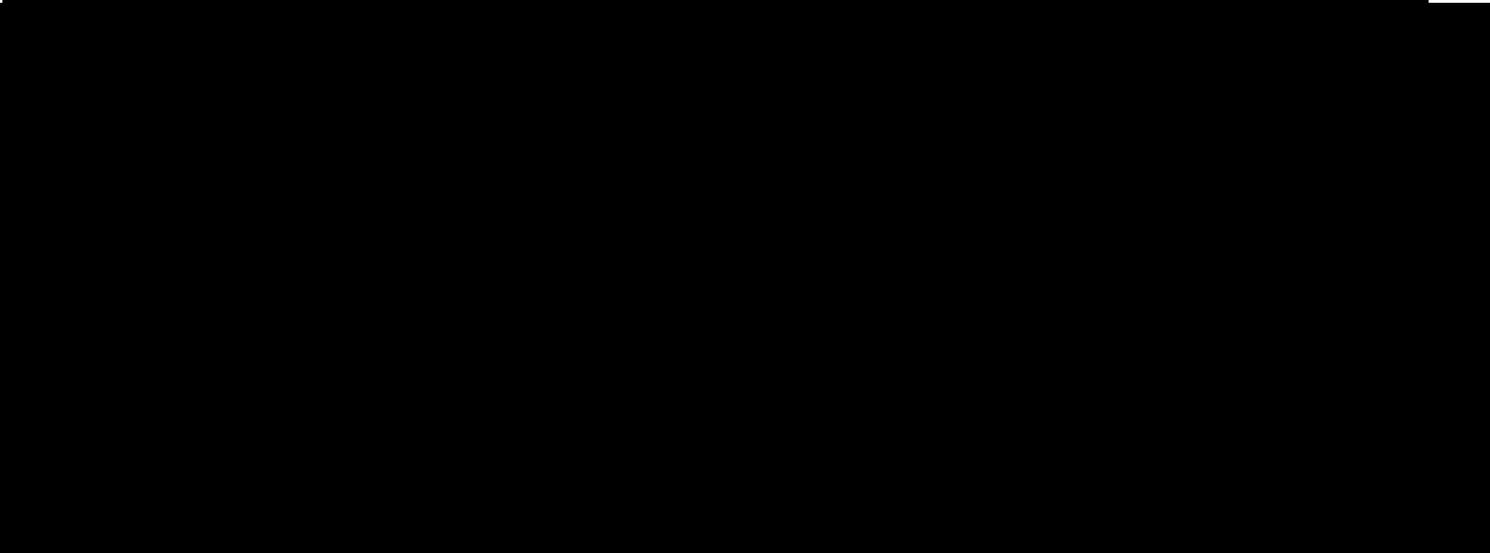
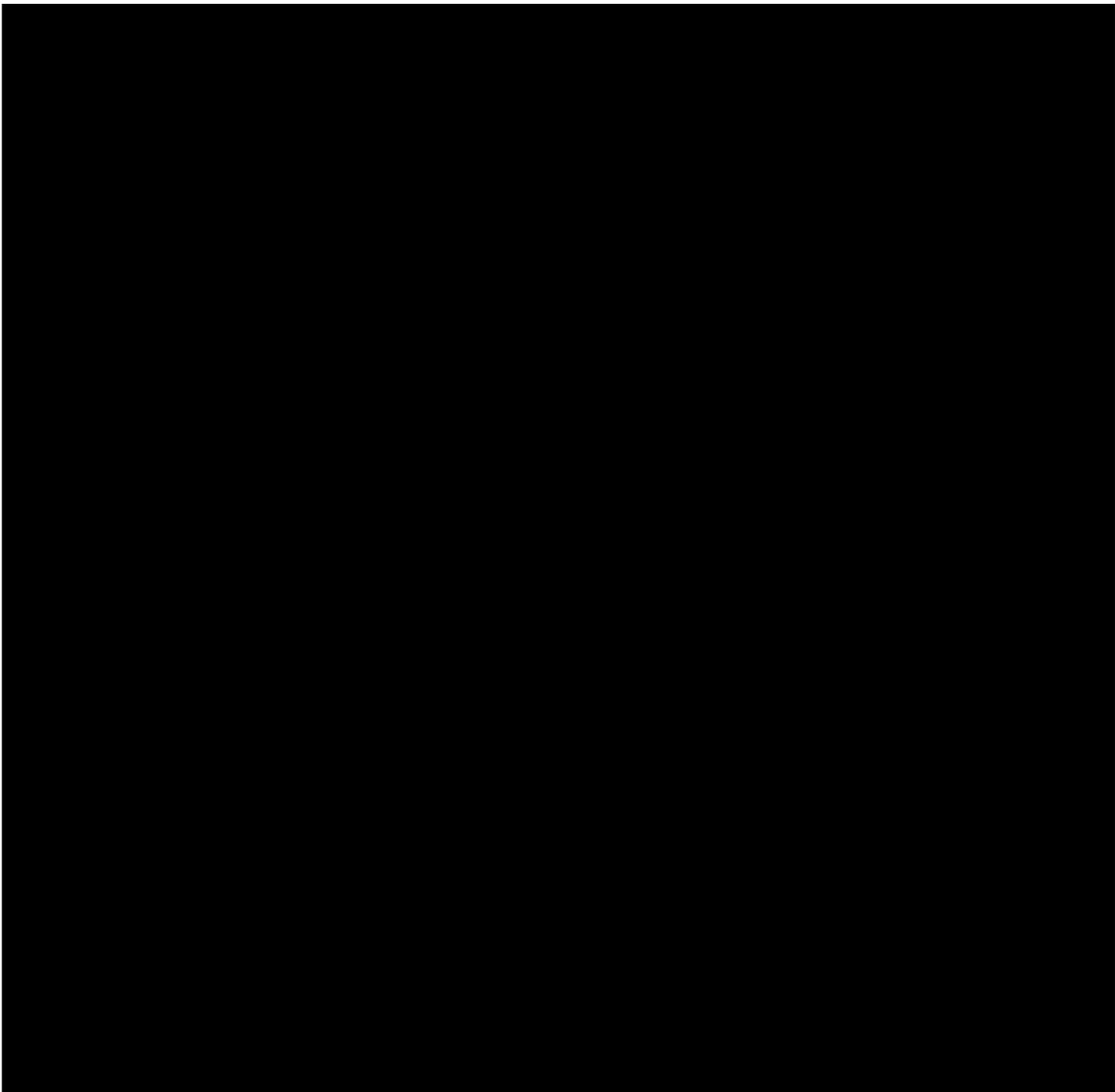












Question 6

Collaboration / Ways of working

- A. Please demonstrate how you will deliver the Statement of Requirements:
- collaboratively in line with the Partnering Principles set out in the contract and in line with Ofwat's SAILOR values; and
 - Working closely and seamlessly with Ofwat staff.
- B. Please set out your proposals for ensuring knowledge sharing with Ofwat, and embedding such learning and development within Ofwat.

Collaboration

Collaboration is at the heart of the way our consortium members work. Having repeatedly worked side-by-side with our clients, we find that transparent and open relationships are the most effective way to ensure we deliver the best project outcomes. We therefore always make the development of a strong and effective joint project team our highest priority when we begin our engagements.

Flexible contractual arrangements are an enabler of collaborative working. We frequently use framework agreements and Delivery Partner (DP) contracting approaches, which allow us to provide rapid deployment of shared staff across client programmes.

In a project of the length, complexity and intensity as PR19, it is imperative that the organisations working together have shared values. We have mapped the values of our consortium members against Ofwat's SAILOR values in the diagram below.

Figure 6.1: Mapping Ofwat's SAILOR values to consortium members

Ofwat	Support	Ambition	Integrity	Learning	Ownership	Respect
	Work Together We build teams that focus on clients' needs, knowledge sharing and reflect the diversity and experience of our people	Reimagine the possible Challenge the status quo and embrace change, learning from our failures to create something even better	Act with integrity Take responsibility for our actions, treat people fairly and make decisions as if our own reputation were at stake	Reimagine the possible Challenge the status quo and embrace change, learning from our failures to create something even better	Make a difference Challenge ourselves to ensure our actions have an impact, by being curious about the world around us	Care Support and encourage each other to be the best we can be, celebrating each others' successes and failures
	Drive We encourage teamwork and aim to exceed our customers' expectations through professional and commercial success	Excellence We develop innovative, efficient solutions that create value for our customers, and are proud of our heritage and our achievements	Integrity We deliver on our promises, behave ethically and promote a safety culture, targeting zero harm to all	Progress We embrace change, seeking sustainable outcomes for our stakeholders and the environment, whilst actively supporting the development of our staff	Integrity We deliver on our promises, behave ethically and promote a safety culture, targeting zero harm to all	Respect We respect the environment and the communities in which we work, value all peoples and cultures equally, and treat everyone with respect
		Bite Our work provides real solutions to real problems, with answers that really work	Robustness Our results and methods reflect the best approaches, and stand up both to scrutiny and to the test of time in action	Imagination We approach new situations, new challenges and new problems with new thinking	Robustness Our results and methods reflect the best approaches, and stand up both to scrutiny and to the test of time in action	

We see strong alignment across the values of our four organisations. Indeed a key link is the desire to make a difference. PR19 will set water bills for millions of households and businesses throughout the country. With totex spend in the tens of billions, the benefits that a high-quality and curious team can bring water customers is therefore vast. Every consultant in our consortium will work to do the right thing for Ofwat as a client, and the country, as the ultimate recipient of the benefits of our work. We look forward to making an impact with our work. We are excited about what we can achieve together for both the water industry, as a whole, and Ofwat.

Furthermore, over a long and challenging programme such as a price review, we know how important it will be that team members support and respect each other. Our consultants regularly work in high pressure and challenging environments. We pride ourselves on the strength of the teams we build, the mutual respect we have among our colleagues and the resilience to dig deeper or go the extra mile when circumstances demand.

At these times it is even more important team members feel supported and part of a high functioning team. Many of our consultants thrive because of the collective support and respect their colleagues bring them.

Our organisations also share similarities across our purposes. At its heart, Ofwat’s mission is to protect consumers by ensuring that water companies can appropriately and efficiently carry out and finance their functions. PwC’s purpose – ‘*To build trust in society and solve important problems*’ – is founded in our heritage of creating trust in capital markets, and providing advice to help public, private and voluntary organisations be successful. At Mott MacDonald (MM), we *aim to deliver optimum solutions and sustainable outcomes for our clients*, which is at the heart of the drive and determination we put into our project work. And at Europe Economics (EE) we aim to *work on projects that address real issues*. Few projects can meet the respective purposes of our businesses more closely than the PR19 price review.



We set out below how we plan to work collaboratively in line with the Partnering Principles.

Table 6.1: How we will apply Ofwat’s partnering principle

Partnering principle	How we will apply them
Integrity: establishing mutual trust and understanding through fair and honest conduct;	Our consultants work to the highest level of professional standards and are not only expected to behave fair and honestly, but also identify and escalate any evidence of questionable conduct. We have escalation protocols for staff to raise issues with their people manager, or directly with our <i>Human Capital</i> team. We are not afraid to speak up and will always do the right thing no matter the circumstances.
Common purpose: the Parties’ shared primary purpose is the successful delivery of the Price Review;	As consultants dedicated to excellent project and programme outcomes, we are committed to the successful delivery of all the work we do for our clients. We fully understand the importance and implications of the price review to the water sector, water customers and the country more broadly. We will take great pride in the success of the programme. Through the prime contract, sub-contracts between consortium members, and our performance appraisal and reward arrangements, we will ensure that all consortium parties and individual staff members are incentivised to deliver outstanding service to Ofwat.
Ambition: the Parties shall challenge each other to be the best organisations they can be, including by each challenging the assumptions and approaches of the other;	We understand many of the challenges of PR19 and there will be additional uncertainties along the way. We will put the success of the price control first and ensure we bring the right people onto the project to achieve this. Our efforts at PR14 resulted in the project receiving the 2016 Management Consulting Association (MCA) Award for Environmental and Social Value. We will strive for a similar level of award-winning excellence in the PR19 DP role.

Transparency and excellent communications: the Parties shall deal with one another transparently, through honest and open communication, and manage risk by being rigorous and clear about how judgements are made and decisions are taken. The Parties will aim to build effective relationships between their organisations at all levels in order to develop a culture of co-operation, which will enable innovation and structured, programmed and well managed continuous improvement;

As above, transparency and open and excellent communication as at the heart of a strong and successful team. We want our combined team to feel like a single programme, working seamlessly to deliver excellent outcomes. We will challenge you when we disagree with emerging conclusions and we will push internal staff to deliver the highest quality of work.

Equality and diversity: the Parties shall actively promote the principles of equality and diversity;

At PwC and within our consortium partners we are committed to creating an inclusive culture where everyone feels a sense of belonging, is comfortable being themselves at work and can reach their full potential, an environment where difference is valued. This comes across every day in how we treat each other and our clients. Both PwC and MM are global businesses and we regularly form impactful teams combining colleagues from across the globe.

We led the way on pay equality, reporting our gender pay gap in 2014, four years ahead of the government's regulation coming into force. We were also the first professional services firm to report this data under the government's guidelines in June 2017, when we also became the first professional services firm to extend this reporting to ethnicity.

Reputation: the Parties recognise the importance of the success of the Price Review to both of their reputations, and wish to ensure that their successes are recognised by the public and by wider stakeholders, including Parliament;

As set out in our shared values, our consortium takes great pride in solving important problems to the benefit of society and the working world. A successful and well-run Price Review will set the tone for the sector in the years ahead.

PwC's global reputation is something our staff are proud of. We bring energy and professionalism to all the work we do. We are the world's largest professional service firm and our brand is regarded 8th strongest in the world (Brand Finance – Global 500, 2018)

Maximising value: the Parties shall work together to secure value for money for the public in the provision of the Services;

Our financial proposal is designed to balance the success of the Price Review with cost efficiency. We have applied an inflationary increase to our PR14 rate card, despite higher cost increases, so Ofwat is getting better value than achieved in the PR14 DP contract. Our agile resourcing approach means that only efficient costs will be incurred.

Flexibility: the Parties shall respond positively and commercially to any changes which occur during the Term, as well as the day-to-day requirements of providing the Services; and

We hope our response on flexibility has identified how clearly we understand the uncertainties that could arise during a Price Review and how hard we will work to plan for them to mitigate their impact. We will also react quickly to any changes that do occur and provide a seamless service to Ofwat.

Value experience: the Parties will value the experience and opinions that each brings to this relationship.

We identify above how important trust and open communication are in maintaining a strong and collaborative team. We very much look forward to debating questions that arise during the project. We do not underestimate the learning opportunity this project will bring so many of our consultants, particularly those more junior.

Source: PROC.01.0516 - Schedule 6.1 (Governance and Contract Management) FINAL 26-2-18

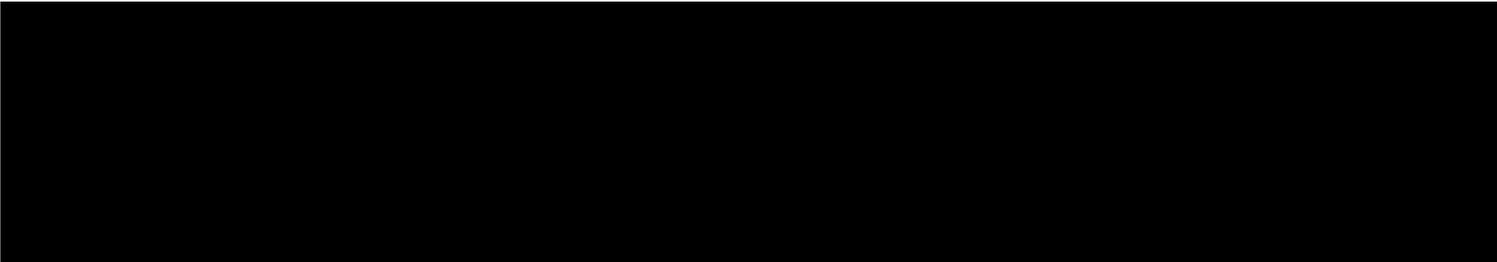
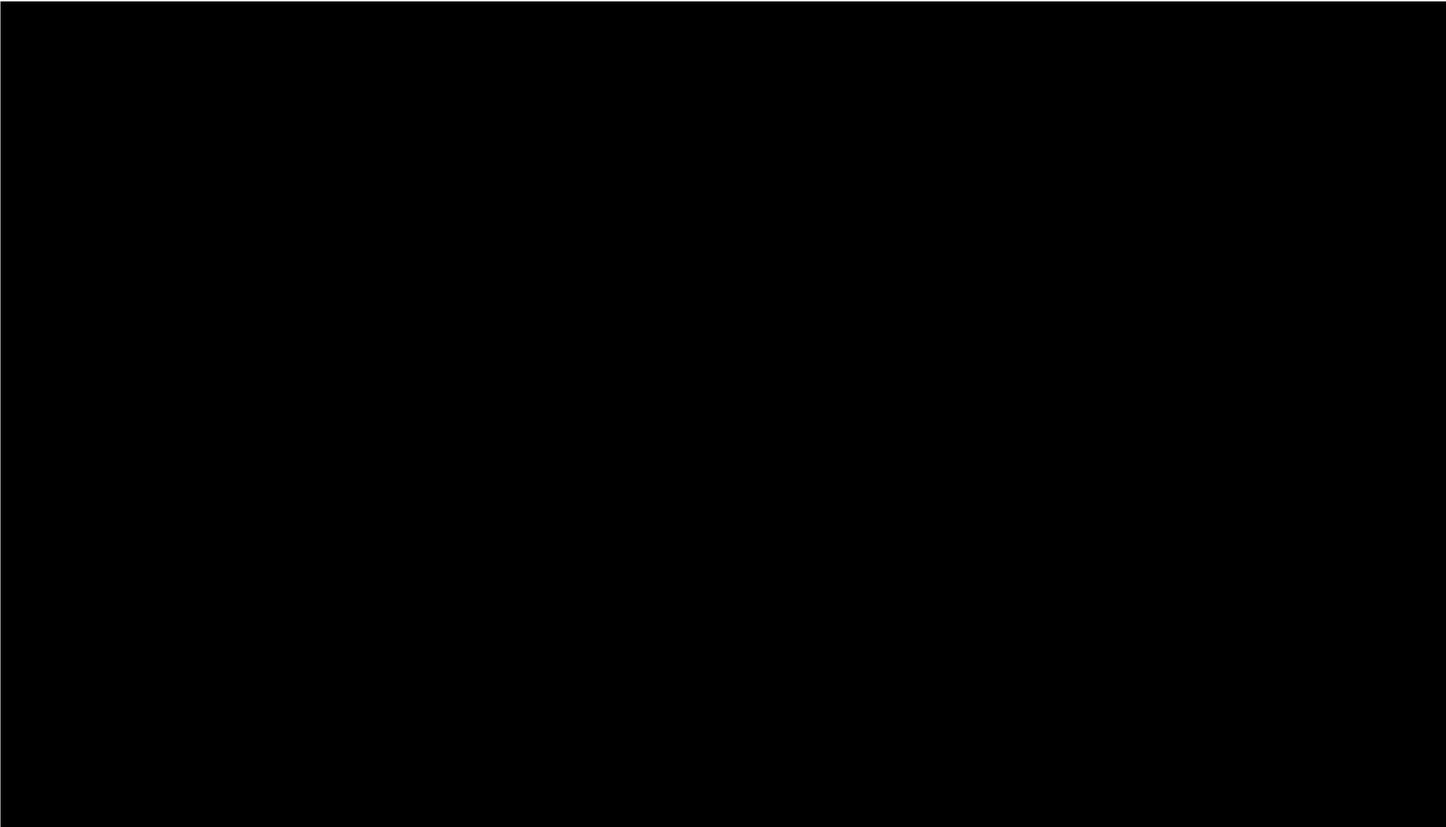
Working closely and seamlessly with Ofwat staff

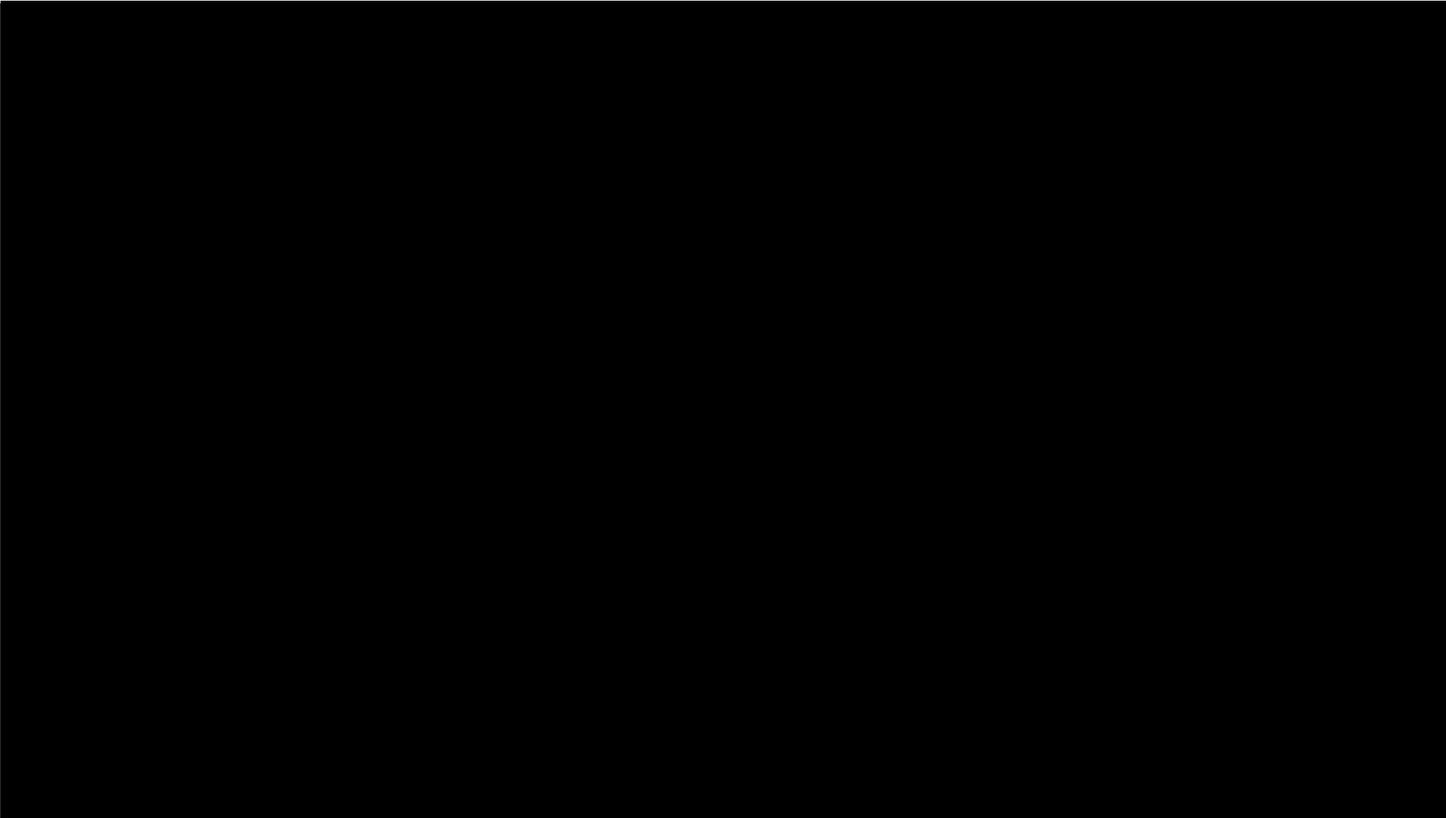
Some of the ways in which we will work to make PR19 a success. Many, if not all, of our suggested approaches and techniques are designed to create a close and seamless relationship between Ofwat and DP staff. Partnership is at the heart of this approach. We will work onsite at Ofwat's offices as one team and ensure DP staff are fully aligned and embedded with the programme. In most cases DP staff will work and report to an Ofwat staff member. Our staff regularly operate in this way and we see minimising communication channels in a programme of this size and complexity as being of utmost importance.

We will build trust across the team, holding regular, open and honest conversations on progress with workstream leaders. We will support Ofwat staff however we can. A programme of this size has many moving parts and interdependencies. Where deadlines are set, it will be important that staff and workstreams meet them. As one team, your deadlines will be our deadlines and where there are risks of overruns or delays, we will offer additional support to keep the programme moving forward. In the few cases that we have separate deadlines, such as the production of a standalone report, we will always meet them, unless circumstances are out of our control. We have the depth and breadth of staff across our three organisations to bring the right skillset and seniority into the DP. This will allow us to resource appropriately at the right level of seniority and skills throughout the programme to further facilitate effective interaction and collaboration.

Tools to assist collaboration

As a consortium that delivers over 100 separate services in several distinct lines of services, our projects are regularly cross disciplinary. Here multiple parts of our consortium (or firms within the consortium) collaborate to provide our clients with a tailored and complementary collection of services and expertise. Continuous collaboration has made us adept at building strong, multi-functional engagement teams. We have developed and employ a number of in-house techniques to make our working relationships as effective as possible:

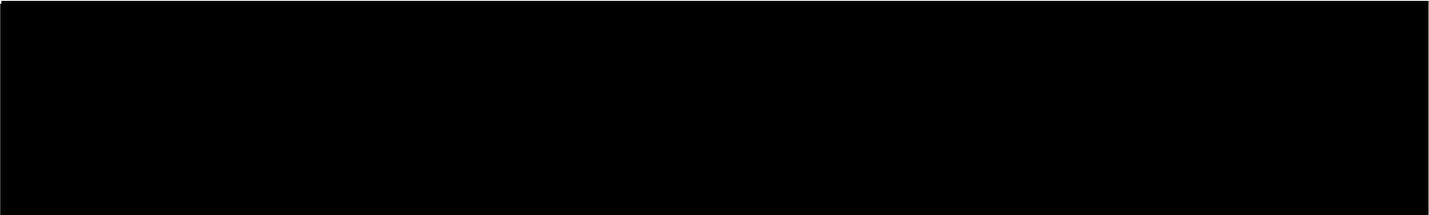


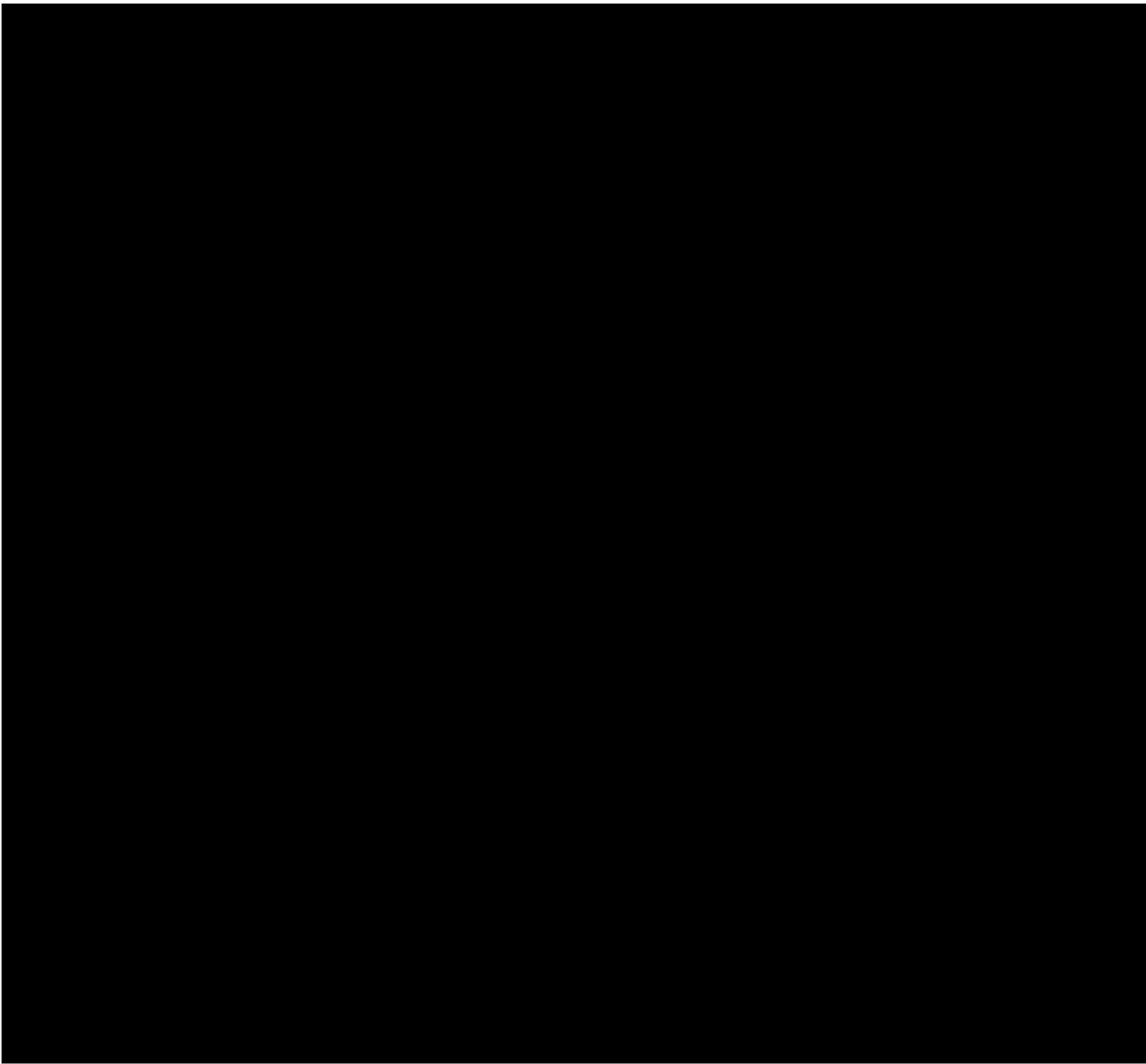


Knowledge sharing

Knowledge sharing was a key feature of our DP role in PR14. We were proud to leave Ofwat a more capable organisation after PR14. Most knowledge transfer took place informally through day-to-day conversations between Ofwat staff and DP staff. This is why we co-located to a PwC office (Union Street) at the beginning of the assignment and then collocated as much as possible in Bloomsbury and Birmingham for the rest of the price review. This is noted by Ofwat in its Lessons Learnt review of PR14:

“Internally, the resounding view is that the DP arrangement was a success...The delivery partner also played a very important role in the development of our staff. A key enabler was that the programme operated as a single team across both our Birmingham and London offices. This meant our staff were able to work alongside DP colleagues and learn from their experiences. This lesson is particularly important in the context of our transformation programme, and embedding programme and project working.”⁵





Question 7

Interview

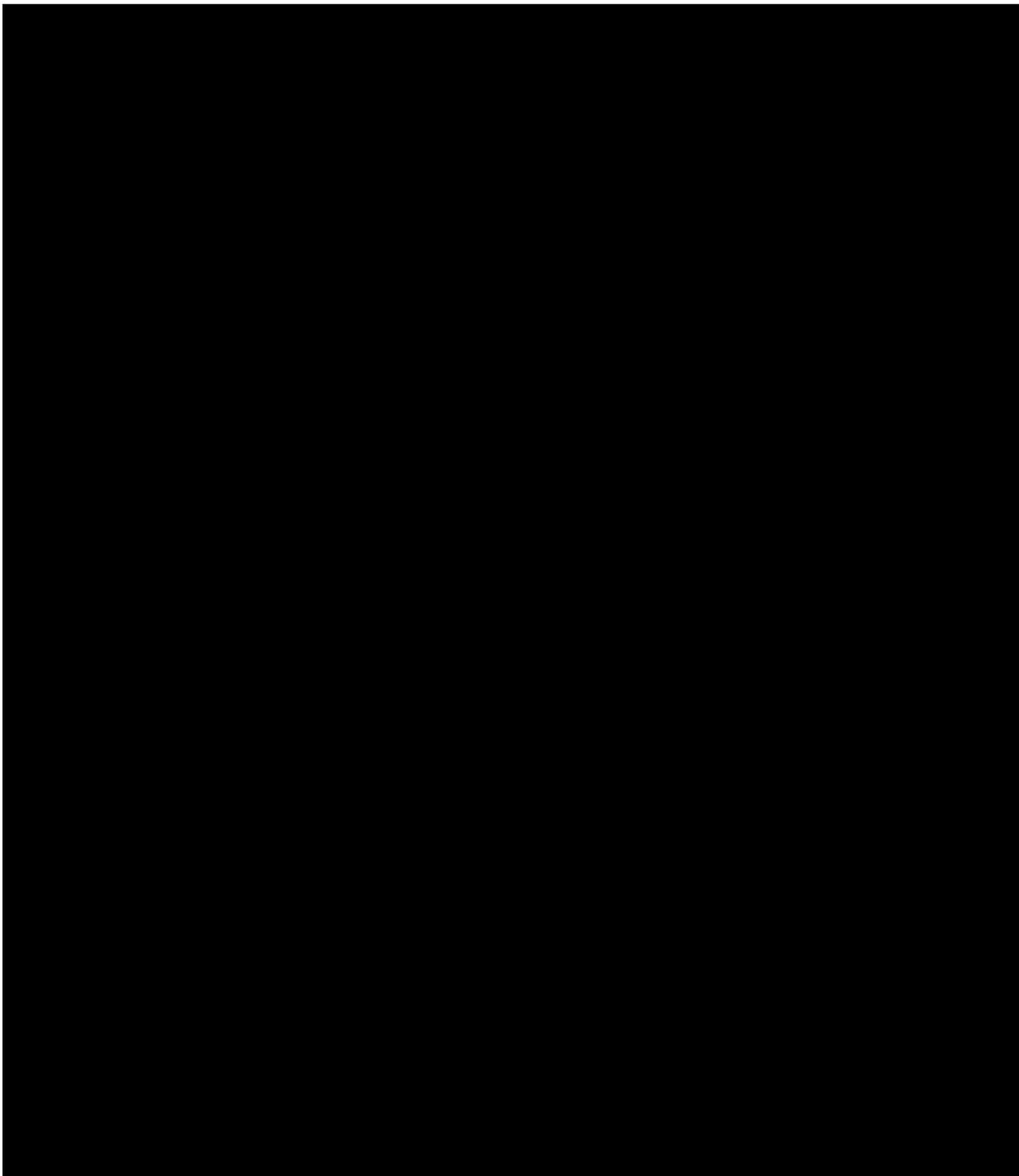
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Question 8

Incentive Design

We confirm that we accept the Incentive Payment Mechanism set out by Ofwat in Appendix D to the Invitation to Tender.







This is a proposal document and does not constitute a contract of engagement with PricewaterhouseCoopers LLP. The information set out in it is an indication of the terms on which we propose to carry out advisory services for you but the proposal is subject to the terms of any subsequent engagement contract that may be entered in to between us. In the event that our proposal to you is successful, our acceptance of the engagement will be contingent upon the completion of all our internal engagement acceptance procedures.

In the event that, in accordance with the Government's Transparency agenda or pursuant to a request which you have received under the Freedom of Information Act 2000 ("the Act") or the Environmental Information Regulations 2004, you wish to disclose or publish any information contained in this proposal, you will consult with us prior to disclosing or publishing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure or publication and to apply any relevant exemptions which may exist under applicable legislation to such information. By way of example, we consider that our fee rates, methodologies and the CVs of our team members included in this proposal fall within exemptions under the Act and therefore should not be disclosed. If, following consultation with us, you disclose or publish any information in this proposal, you shall ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in any copies disclosed.

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