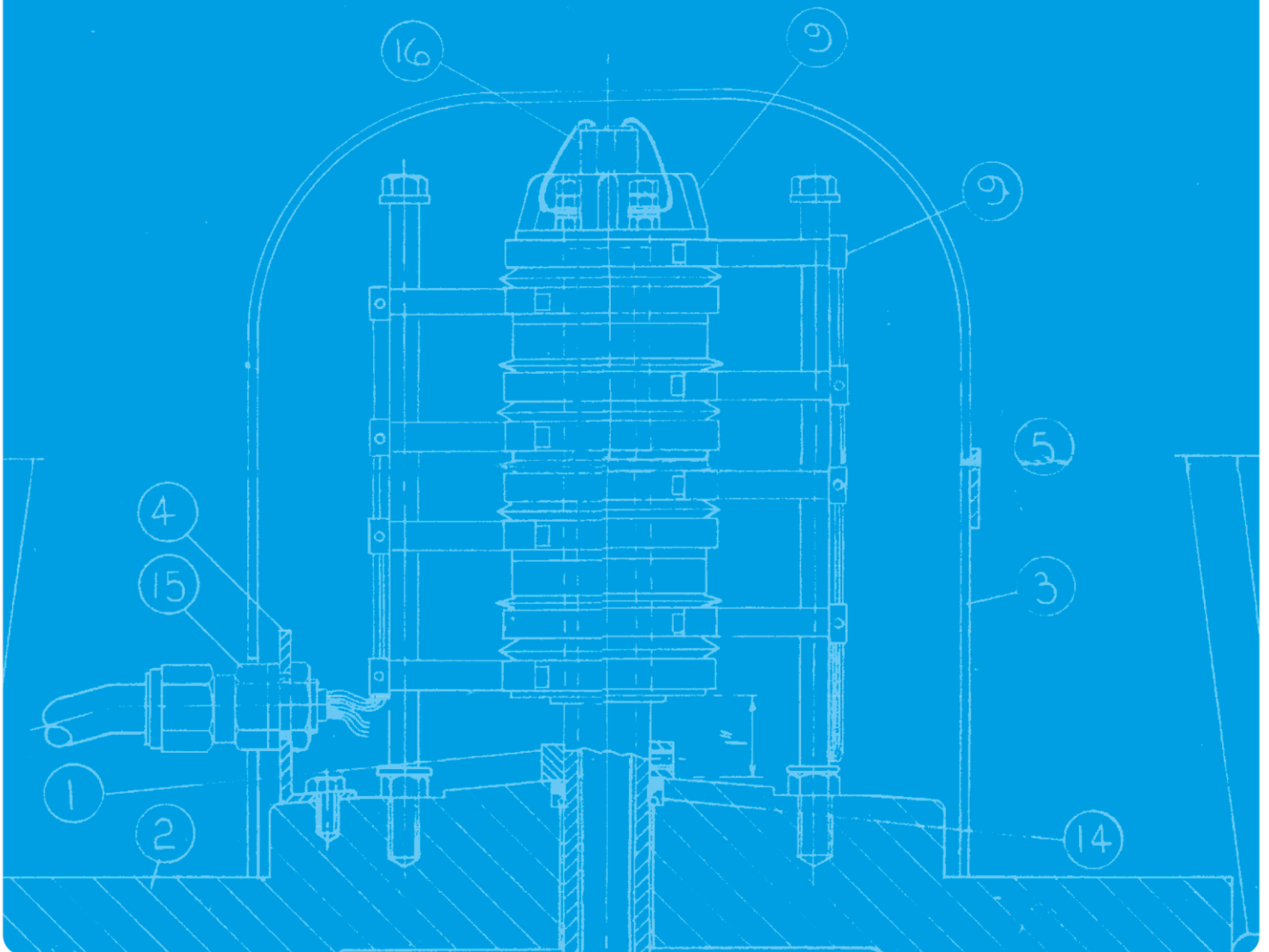


Further consultation on regulatory reporting for the 2016-17 reporting year

Date: 13th September 2016



Consultation on regulatory reporting for the 2016-17 reporting year

Summary of our response

We welcome this opportunity to comment on Ofwat's further proposals for regulatory reporting for 2016-17.

Overall we consider that the proposals will result in enhanced and more consistent reporting across the sector. We believe that the proposals strike an appropriate balance between achieving consistency of reporting between companies whilst allowing them the flexibility to ensure that their reports are relevant to their stakeholders and appropriately reflect their performance.

As a guiding principle, where OFWAT are looking at specific metrics to aid comparison between companies we would urge more specification/guidance to ensure a like-for-like comparison.

Although OFWAT have summarised the proposed changes in section 5 of the consultation, we believe that it would have been helpful for the link to the revised RAGs to include a change marked version of the new documents so that changes could be easily identified. It would be useful to provide a change marked version alongside the final RAGs in October 2016.

We would also like to highlight that due to the timing of the consultation over the main summer holiday period and shorter than usual response time allowed, we have been unable to consult with all the relevant stakeholders in certain areas, therefore some of our submission responses are not as detailed and comprehensive as they would usually be.

Our response to the consultation is attached in the accompanying template.

Appendix – Ofwat questions

Questions relating to 2016-17 reporting

Q1. What are your views on the content and format of the proposed tables in Appendix 1?

We are largely in agreement with the content and format of the proposed tables in Appendix 1.

The areas where we consider additional changes would aid understanding of the tables are as follows:

Tables 2B, 4D and 4E

We refer to proposal 11 in Appendix 2 of the consultation document which suggests reporting IRE on a separate line item within the opex section of the totex table rather than within other operating expenditure. The current OFWAT response is no change to the RAGs stating that this is no longer a relevant measure following the revisions to UK GAAP effective 2015-16.

We would agree with the proposal in item 11 as by including IRE within operating expenditure we could see significant changes in reported costs compared to prior periods due to changes in our investment profile. Users of the accounts would then need to refer to the methodology statement to understand variances as explanations for significant changes will be outlined in this document.

We disagree with the assertion that this is no longer a relevant measure following the revisions to UK GAAP. Infrastructure renewals expenditure represents expenditure to maintain the long term capability of assets so that base levels of services can be delivered. FRS 101 allows companies to record IRE as either operating expense or capital expenditure in line with their preferred accounting policy. The current proforma allows companies which have an accounting policy to capitalise IRE to record values in line 2B.10, but for companies which have an accounting policy to expense IRE, the only available category to record this is in line 2B.5. Having a separate line item to record IRE that has been expensed allows comparison between companies' infrastructure maintenance expenditure regardless of their choice of accounting policy.

In addition, we would propose that the new IRE line in the opex section of the table should be on a gross basis with a separate line added for recording grants and contributions. This ensures that all expenditure recorded in the table is on a gross and consistent basis.

Table 2C line 4 definition

The line definition has been updated to state that income from meter reading commission should be netted off meter reading costs. The income categorisation table in Appendix 1 includes this income as appointed income but the description should be updated to clarify that this should be netted against meter reading costs to avoid confusion.

RAG 3 Paragraph 4.2 Totex

The line numbers should be updated to reflect the new line numbers for actual and allowed totex.

Table 3C – AIM table

We note that the AIM table has been included in the proposed tables. Whilst AIM plays an important role in providing greater transparency for stakeholders it is important to ensure data is presented in a contextualised way. We therefore support both the table format and ability for companies to be able to provide fuller information / comments on progress against environmental objectives.

[Q2. Do you have any comments on our proposal to elevate the reporting for water resources and bioresources from section 4 of the APR to section 2?](#)

We agree that reporting water resources and bioresources in section 2 of the APR will bring increased focus to cost reporting in these areas, although the scope of the information currently reported is not changing other than the proposed changes in boundary definitions.

[Q3. Do the definitions for the water resources activities in RAG4 provide sufficient detail for you to complete pro forma tables 2A, 2B, 2D, 4D and 4E? \(Note that the decision over the location of the boundary is outside the scope of this consultation as set out above\).](#)

We believe that definitions for the water resources activities provide sufficient detail to complete the above tables.

[Q4. Do the definitions for the bioresources activities in RAG4 provide sufficient detail for you to complete pro forma tables 2A, 2B, 2D, 4D and 4E? \(Note that the decision over the location of the boundary is outside the scope of this consultation as set out above\).](#)

We believe that definitions for the bioresources activities currently provide sufficient detail to complete the above tables. We would however expect that following any disaggregation exercise in relation to boundary changes, additional definition queries may arise requiring definitions to be updated.

Addressing the following items would also add clarity to the definitions:

The list of assets in the activity streams excludes cake pad assets. We believe these should be included in sludge treatment as these are the holding pads for the material at the end of the sludge treatment process.

Although the location of the boundary is outside the scope of the consultation, the sewage treatment & disposal definitions refers to Appendix 2 instead of Appendix 4. The sludge treatment definitions should refer to Appendix 5 for completeness.

The RAG 4 definitions confirms the treatment of income received for treated sludge in the sludge disposal service. Income generated from sludge treatment activities should also be included in the sludge treatment service in order to be consistent.

Q5. Please could you provide an estimate of the impact, for the changes that we have proposed to the boundary definitions for both water resources and bioresources at RAG4? (See questions 3 and 4 above).

The impact should include an estimate of the change in Net MEAV resulting from the assets that have moved under the change in boundary definitions for both water resources and bioresources separately.

In respect of the water resources boundaries, we are unable to ascertain where any changes in boundaries have been proposed. It is our understanding that the boundary definitions have been clarified by adding additional information to the definitions rather than being changed.

In respect of the proposed changes to the boundary definitions for bioresources it is expected that a significant proportion of assets will transfer from sludge treatment to sewage treatment in respect of the sludge activities of the smaller wastewater treatment sites without sludge treatment centres. However, due to the time allowed for the response to the consultation we have been unable to quantify the impact.

We would expect a disaggregation exercise to be followed with a detailed assurance process so that we are able to provide a prudent estimate.

Q6. In the responses to our March consultation, some companies suggested that to avoid recognising numerous discrete connections as a raw water transport activity, a de minimis value (for example, length of pipe) should be added to the RAGs. This would clarify the allocation of raw water transport between water resources and water treatment. Under this approach if the length of pipe were below the threshold, the asset would be classified as water resources, and raw water transport if above. We propose an amendment to RAG4 to address this concern by making a specific reference to sites in the definition of raw water transport but have not added a de minimis value.

Do you consider that a de minimis threshold should be introduced? If yes, what should value of that threshold be?

We believe that referring to co-located sites within the raw water transport definitions is sufficient to allow assignment of costs and assets to the correct service and would not recommend a de-minimis threshold be introduced.