Consultation on regulatory reporting
About this document

This consultation considers the future regulatory reporting requirements for regulated water companies needed to take account of separate price controls, company-specific delivery performance assessment, and forthcoming changes to accounting standards from 2015-16.

In this document we present our draft proposals for an overall framework for regulatory reporting in the 2015-20 period, and a summary of the proposed reporting requirements along with our justifications for these requirements. In certain areas, we have identified alternative options, and we are particularly interested in stakeholders’ views on the preferred form, scope and contents of the regulatory reporting framework in these areas.

Contents

Responding to this consultation 2
Executive summary 3
Questions for consultation 13
1. Introduction 15
2. Form and scope of regulatory reporting 17
3. Section 1 – Regulatory financial reporting 23
4. Section 2 – Price review and other segmental reporting 29
5. Section 3 – Performance summary 34
6. Section 4 – Other regulatory information 41
7. Other areas for consideration 48
8. Next steps 53
Appendix 1: Regulatory report pro forma tables 54
Responding to this consultation

We would welcome any comments on this document. Please email them to regulatory.accounts@ofwat.gsi.gov.uk or post them to:

Regulatory reporting consultation response
Ofwat, Centre City Tower
7 Hill Street
Birmingham
B5 4UA.

The closing date for this consultation is 11 November 2014. We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004. If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory ‘Code of Practice’ which deals, among other things, with obligations of confidence.

In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.
Executive summary

Our emerging vision for the sector is that there should be trust and confidence in the services that are provided by all companies. Services are largely provided by vertically integrated monopolies, and it is vital that there is appropriate transparency on their performance, which includes reporting on the services they deliver to customers and the costs they incur for those services. In the water sector it is particularly important that there is comparative information available so that all stakeholders are able to analyse relative as well as absolute performance.

We are mindful of the need for regulatory reporting to add value for customers and other users, and the costs incurred by companies to produce such information must be justified on this basis. We are consulting on changes to the regulatory reporting framework that are necessary to ensure that reporting requirements are aligned with Ofwat’s wider strategy and approach to regulation – for example, in the 2014 price review (PR14) – and to take account of changes in accounting standards.

Throughout PR14, we have encouraged companies to focus on what their customers want and need, and for them to own and be accountable for their plans, delivery and performance.

We wish to regulate in a way that delivers on our statutory objectives, by:

- protecting customers’ interests;
- allowing efficient firms to finance their functions; and
- promoting resilience for the industry.

So our approach to regulation should be transparent and predictable, reduce the burden of regulation where appropriate, and be set within a risk-based framework.

Our proposals for regulatory annual reporting are consistent with this, recognising that information about the costs and quality of services provided to customers is crucially important to all stakeholders. These proposals are aligned to our vision for the water sector and our vision for Ofwat as the sector’s economic regulator, which we will publish this year, following consideration of inputs from our workshop with stakeholders on 4 June 2014.
Form and scope of regulatory reporting

We propose that the purpose of our regulatory reporting framework should be to provide the basis on which good quality conversations can take place between companies and stakeholders about how the sector is delivering for its customers, which create an impetus for the sector to deliver sustained and sustainable improvements. It should also inform decisions that we take as the sector regulator about whether, when and how we should intervene in the sector.

We propose the regulatory reporting framework should:

- focus on value-added reporting;
- be risk-based, practical and targeted; and
- provide flexibility for the future.

We present proposals in this document for a single, annual regulatory report. The financial components of this report would be based on the existing regulatory accounts framework, but widened to reflect the importance for stakeholders of being able to assess financial performance in a consistent manner, with a combination of narrative and financial reporting.

This integrated published annual ‘regulatory report’ will allow further steps towards implementing our more risk-based regulatory framework, and be the primary vehicle that companies use to demonstrate compliance with the separate price controls. This does not replace the responsibility of companies to take ownership of reporting to their customers and stakeholders on their own performance, including outcome delivery. But stakeholders will benefit from consistent reporting across the sector to support comparability; this is the key purpose of the regulatory report.

We propose that the companies prepare and publish this report in the form of a separate document, but append it to their statutory accounts to reduce the level of repeated information and to help cross-referencing.

The proposed regulatory report structure is as follows, with the key features of each section discussed in turn in this executive summary.

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Regulatory financial reporting</td>
</tr>
<tr>
<td>2.</td>
<td>Price control and additional segmental reporting</td>
</tr>
</tbody>
</table>
3. Performance summary

4. Additional regulatory information

Reporting requirements

Regulatory financial reporting

We regulate companies with a price control framework that requires financial information to be used and presented in a way that is sometimes different from the way information is reported in statutory accounts. We also consider that statutory accounts on their own are insufficient to assess the performance of vertically integrated, price-controlled monopolies. This is particularly relevant in a water sector with long-life assets and where there is an absence of competitive markets for different parts of the value chain. This means a separate regulatory report is required, but it should nevertheless use audited information that can be reconciled back to statutory accounts where appropriate.

To present a clear comparable picture of appointee financial performance to stakeholders, companies will be required to present a baseline level of historical cost financial information that is aligned to the way in which price controls (and associated regulatory performance commitments and incentives) are being set for the next control period. This information should be reconciled back to statutory accounts, and provided regularly to inform stakeholders on an ongoing basis, and to allow regular performance review.

Price control and additional segmental reporting

As part of PR14, we have set separate price controls for the different wholesale and retail elements of the appointee business, in order to target incentives and facilitate competition in specific parts of the value chain. So we require companies to present financial information for each. This includes disaggregation of revenue and costs, to allow stakeholders to review companies’ performance against final determinations.

Aligned with the Water Act and our price review principles, it is likely that price controls will be further disaggregated from the 2019 price review (PR19), and be based on revenues as well as costs. As such, further cost allocations are needed between the segments within companies’ wholesale businesses to understand the composition of these costs and inform future regulation.
Consultation on regulatory reporting

Licence condition B allows us to determine how companies must demonstrate their compliance with their obligation to levy charges in a way best calculated to comply with the price controls we set. Responses to this consultation will inform those decisions.

Performance summary

All companies will be required to present a performance summary in a separate section of the regulatory report. This is a high-level report of the performance of the appointed business, including outcome delivery and the regulatory financial results of the regulated business. As noted above, this does not replace the requirements for companies to develop their own performance reporting, but will drive comparability and consistency, particularly in relation to outcome delivery.

As a minimum, we expect this section to include reporting on the following:

- outcomes and delivery service levels – performance against delivery commitments and associated delivery incentives (including the service incentive mechanism or SIM); and
- cost performance – the company’s efficiency in delivering wholesale and retail services compared with the expectations set in final determinations. This is particularly important because cost under or over-performance will be shared with customers at the end of the price control period. Stakeholders should be able to understand the extent to which companies are genuinely delivering lower cost solutions (the benefits of which are likely to be shared with customers), as opposed to phasing costs differently from expectations.

While there is a level of differentiation between companies’ outcomes, we expect there to be some consistency between the metrics that all companies present on their outcome performance, and a minimum level of reporting to ensure comparability. The reporting of outcomes and service delivery levels should be a subset of the separately assured outcome reporting that companies are required to prepare for their own customers’ purposes, but should include, as a minimum, the in-year and in-period performance against their outcomes, and information to show the future financial impact of this performance. Except where required by IFRS, companies should not make any adjustment to the underlying financial information for future rewards and penalties.
Additional regulatory information

To provide flexibility, we propose that companies use the final section of the regulatory report to present additional information as required by Ofwat and other stakeholders. The information provided in this section will support the regulatory framework as it evolves over time, following consultation as required.

This section will contain information on companies’ own bespoke outcome delivery performance measures (where price review determinations based on business plan proposals vary significantly between companies).

This section will also include additional reporting for all companies, to provide further detail and support the performance reporting included in the previous section.

Two key areas we propose to include in the base level of information provided by all companies in this final section are current cost information and economic performance, which we summarise as follows.

Current cost basis of reporting

We have reviewed the requirement for the reporting of financial data on a current cost basis, consistent with the principle of financial capital maintenance set out in regulatory accounting guideline (RAG) 1.05. We consider that reporting of certain data on a current cost basis is important for the ongoing regulation of the water sector industry (as well as the day-to-day operation of the companies). This information supports the performance of regulatory duties, including in relation to access pricing, price determinations and competition cases. This could change over time as the wider regulatory framework continues to evolve further, but it remains important in a regulated industry with long-lived assets. We discuss the key benefits to stakeholders of companies’ continuing to report current cost information in more detail in chapter 4 of this document.

Financial performance against price controls

As well as performance against specific expectations in final determinations, we note that income statements prepared on an IFRS basis for regulatory reporting purposes would not provide a full picture of companies’ overall economic performance against the business planning assumptions and expectations relevant to setting price controls.

A possible solution to this will be for companies to present a separate analysis – for example, allowed total expenditure (totex) reconciliations, provisional or shadow
RCVs – where actual performance relative to the price control assumptions can be directly compared.

We would typically expect companies to have their own processes in place to report a base level of this information to stakeholders, outside of the common regulatory reporting framework. But we set price controls on a consistent regulatory basis, including the use of sector notional capital structures to set allowed returns and assess financeability, and using comparative cost information to identify the scope for efficiency. So there may be benefit in requiring some minimum level of comparable reporting by all companies in this area. We consider that the final section of the regulatory report may be the appropriate location for such common comparative data. This provides customers and stakeholders with consistent information against which to assess performance, and the extent to which performance will impact customers in the longer term.

The final section of the report will also provide flexibility for additional reporting for certain specific companies and certain information, either within or outside the scope of the audit report, arising from the application of our proposed graduated reporting and assurance model. Where separate assurance procedures are required, the information will remain included within the final section of the main regulatory report, increasing the level of transparency of reporting. These additional requirements are discussed below.

**Risk-based reporting**

For a number of years we have emphasised the importance of regulating in a risk-based manner. A key feature of the proposed regulatory reporting framework is the tailored nature of reporting and assurance that will be required from different companies in the next price control period.

Whether we impose additional reporting requirements above the basic requirements applicable to all companies will depend on our assessment of the confidence we can place in the quality and accuracy of the information on which our controls have been based. This includes:

- the information companies have used to support their performance commitments and reported progress against them;
- the methodologies companies use to allocate costs in line with our PR14 guidance and the regulatory accounting guidelines;
• the robustness of judgements companies have made in preparing their reported information; and
• our assessment of the risks associated with graduated reporting of performance by each company.

We set out this basic graduated reporting and assurance model in ‘Setting price controls for 2015-20: Draft price control determination notice: technical appendix A9 – assurance, monitoring and reporting obligations’ (our ‘assurance technical appendix’, which we published alongside our August draft determinations), where we proposed three levels of assurance requirements for the business plans:

• self-assurance;
• selected assurance; and
• strong assurance.

As a minimum, we require all companies to obtain a base level of external assurance on the regulatory report, which includes an external audit report covering the first three sections of the report.

But for those companies subject to additional reporting and assurance requirements under our proposed graduated model, certain information may be required within the regulatory report that is not within the scope of the audit report covering the minimum reporting requirements for all companies. It is this information that will be subject to the additional requirements of the graduated assurance model. We will confirm these requirements following consideration of representations on our August draft determinations, setting out the implications for affected companies in our final determinations.

**Regulatory accounting guidelines (RAGs)**

The RAGs ensure that the companies prepare their regulatory information consistently in line with our overall regulatory reporting framework and requirements. The requirements are set in accordance with condition F of companies’ licences.

As well as the wider changes to RAGs to align with the new regulatory framework, we will also be updating them to reflect the change in accounting standards, which companies will be implementing for their statutory and regulatory reporting at the same time.

New accounting standards replacing UK GAAP were available for adoption by companies for the year ending 31 March 2013 and are mandatory for the year
Consultation on regulatory reporting

ending 31 March 2016 – the first year of the new price control period. So, for consistency, and to reduce the regulatory burden, we propose that changes to the underlying accounting framework are reflected in the RAGs as they apply to the preparation of the regulatory accounts.

The key changes arising from the transition from UK GAAP are:

- renewals accounting is not permitted under the new accounting frameworks: infrastructure expenditure must in future be allocated as either capital or operating expense;
- grants and contributions must be treated as deferred income under all new accounting frameworks; and
- the fair value of financial instruments must be brought ‘on-balance sheet’, with movements reflected in profit and loss where hedge accounting is not applied.

Relevant changes to accounting practices arising from the adoption of the new accounting frameworks are considered in section 3 of this document.

Transition

As well as the new requirements, we propose to keep some existing reporting for at least a transitional period. Whether or not some information is likely to be useful for companies to maintain for their own purposes, we may need to continue to require this information for regulatory purposes while the regulatory framework continues to evolve. For example, under the Water Act 2014 there is provision for us to issue charging rules covering areas such as network access, having regard to Government guidance. We expect to consult on such rules during the next control period, and until we have done this it is difficult to prescribe the nature of the supporting information we will need.

Also, for future price determinations we may need to compare more recent information with historic data from before 2015. This will be important for investors as well, because a significant proportion of sector expenditure is on assets with long lives covering multiple control periods. Some level of parallel reporting will provide an opportunity for stakeholders to understand the impact of the developments in the regulatory framework, and to determine what alternative information may be required following transition. For example, for infrastructure renewals expenditure, we propose that companies present the total and percentage of ‘infrastructure spend expensed’ for a transition period of at least two years.
Flexibility

While we consider that focused reporting should be integral to the future regulatory reporting framework, we also expect further changes as we progress through the next price control period to PR19. These changes may require more disaggregation of cost and non-cost reporting – for example, to support:

- network-plus based incentives;
- network management information;
- the abstraction incentive mechanism (as set out in ‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans’ – our ‘final methodology’); or
- future implementation of provisions in the Water Act 2014.

We consider it is important to ensure that companies generate and maintain the accurate and robust information needed to support such changes and developments.

Following each year of reporting from 2015-16, we will issue an annual update that will cover:

- feedback on the previous year’s reports;
- any need for updated guidance on areas of existing reporting requirements; and
- guidance for any new reporting requirements – for example, additional disaggregation of accounting information, or additional narrative requirements.

Flexibility is also important to implement our proposed graduated reporting and assurance model. This is because we have to identify both the potential for companies to move between categories within the control period and the potential for effective and proportionate use of horizontal audits, process assurance and targeted reviews based on priorities and issues arising, in line with our wider risk-based approach to regulation.

Financial monitoring

In our final methodology we set out our intention to introduce a financial structure monitoring framework, to keep under review and assess the risks to customers posed by companies’ financial structures.

The continuing development and application of up-to-date financing structures within the water industry means that any monitoring of financeability needs to go beyond
the regulated business and include an appropriate understanding of the financing position and structure of the wider group in which the regulated business sits.

We plan to issue a separate consultation later this year which will address additional financial monitoring. The precise form and scope of the monitoring and the appropriate data disclosure to be provided is under consideration.
Questions for consultation

Throughout this consultation, we raise a number of specific questions, which we have summarised here. As well as responses to these specific questions, we welcome views from stakeholders on any of the issues and matters we raise in this document.

**Q1** Do you agree that we should require a separate regulatory report to promote consistent and comparable regulatory information? Should this be appended to companies’ statutory accounts?

**Q2** What are your views on the content and format of the proposed tables in appendix 1?

**Q3** We consider that performance against price determinations is important for stakeholders. To what extent do you think we should prescribe the content and format of such reporting? Do you have any views on how companies should present this information?

**Q4** What are your views on how companies can use narrative reporting most effectively in the regulatory report to add value and context to the financial information presented?

**Q5** Do you agree that we should keep certain features of regulatory accounting under UK GAAP, including infrastructure renewals expenditure? What are your views on alternative approaches we could adopt?

**Q6** Are there particular areas where flexibility of reporting is a beneficial approach and any particular areas where we should issue more prescriptive guidance to promote comparability of information across companies?

**Q7** Do you consider that a full segmental income statement is required, or would a reduced level of reporting, such as a contribution statement before interest and tax (in line with the basis of allowed returns in retail price controls), be a more appropriate format?

**Q8** Disaggregation of costs is important in the context of the Water Act and the future of price determinations. What are your views on the appropriateness of the services being reported within the segmental reporting cost tables, which have been proposed in the light of the pilot work undertaken in the current control period and our PR14 proposals for further development of such reporting in the next control period?

**Q9** To promote consistency and comparability, we are proposing a base level of reporting which may lead to overlap with other reporting companies choose to produce. How can we best manage the risk of overlaps between the information we require and other information companies may produce for their stakeholders?

**Q10** All companies are required to obtain third party assurance over their outcome reporting. We welcome views on the most appropriate form, scope and provider of outcome reporting and associated assurance.
Q11 What are your views on the format for presenting a reconciliation of allowed totex which shows like potential benefit that could be shared with customers? A suggested template is presented in section 5.8.

Q12 Should the ‘performance summary’ section of the regulatory report be included within the scope of the audit report, or subject to other, tailored and focused assurance procedures, given the challenges around applying materiality and the relatively specific nature of the assurance work required?

Q13 What are the incremental costs that companies expect to incur with retaining the current cost fixed asset register at a sufficient level of detail to provide the information proposed in this document, over and above the costs which would be incurred to maintain current cost information for the companies’ use?

Q14 How should we best reflect reporting requirements for specific business activities within the wider reporting framework, and how we should adapt the framework over time as stakeholders’ information needs evolve? Are there areas in addition to those identified in chapter 7 that should be addressed within the regulatory reporting framework?

Q15 How best can we ensure transparency to stakeholders of more disaggregated information on companies’ costs and charges for specific services such as providing new connections?

Q16 Revisiting the regulatory reporting framework presents an opportunity to improve consistency of guidance in relation to specific areas identified in chapter 7. Are there other areas of detail where you consider specific guidance is required?

Q17 Should other regulatory information be collected more frequently in the future, alongside or separate to the published annual regulatory report?
1. Introduction

Regulatory reporting must add value to customers and other users of the reported information, so that its usefulness and value to stakeholders justify the costs the companies incur to provide the information, which customers must fund. We are consulting on changes to the regulatory reporting framework that are necessary to ensure that reporting requirements are aligned with Ofwat’s wider strategy and approach to regulation, as reflected in PR14 – and to take account of changes in accounting standards.

We have encouraged companies to focus on what their customers want and need, and for them to own and be accountable for their plans, delivery and performance. We wish to regulate in a way that is transparent and predictable, reduces the burden of regulation where appropriate, and is set within a risk-based framework.

Our proposals for regulatory monitoring are consistent with this, recognising that information and data about the costs of providing services to customers is crucially important to all stakeholders.

Information collected under the reporting framework should also help stakeholders, including customers and investors, to make effective decisions and hold companies to account, and allow appropriate performance and financial monitoring and regulation for the period 2015-20.

Our final methodology and draft determinations have introduced a number of significant changes to the way companies will be running their businesses and how we will regulate them in the next control period from April 2015. All companies will also adopt changes to accounting standards from the start of 2015-16. We consider that the regulatory reporting framework needs to reflect these changes, which means that the framework must enable:

- companies to demonstrate how they are delivering real benefits for current and future consumers, including delivering the outcomes, performance commitments and delivery incentives for which we allow revenues in our final determinations;
- companies to demonstrate compliance with the separate price controls so reporting needs to be mapped to the four separate price controls (three for water only companies) we are introducing, covering retail activities for household and non-household and wholesale water and wastewater services; and
• stakeholders to understand the differences between statutory and regulatory financial information, where accounting treatments diverge, and the reconciliations between them.

This consultation covers the regulatory reporting framework for the period starting 1 April 2015. We proposed in ‘IN 14/05: Expectations for company reporting 2013-14 – regulatory accounts, accounting separation and performance information’ that reporting for financial year 2014-15 will remain consistent with the existing framework and guidance, but a transition period and parallel reporting may be needed for some types of information.

We expect that where companies currently report under section 4 of RAG 3.07 (small company regulatory accounts information requirements), guidance will be revised to reflect the outcomes of this consultation, but on a basis similar to the existing reporting framework.
2. Form and scope of regulatory reporting

We consider that the regulatory reporting framework must:

- provide valuable information to stakeholders;
- be risk-based, practical and focused; and
- be flexible for the future.

These features will ensure that regulatory reporting can help maintain and build trust and confidence in a sector that delivers an essential public service.

We propose that companies prepare a single annual regulatory report. The financial components of this report would be based on the existing regulatory accounts framework, but widened to reflect the importance of assessing financial performance in a consistent manner.

This report will take the form of an integrated published annual 'regulatory report' and will allow further steps towards implementing our more risk-based regulatory framework. We propose that companies prepare and publish this report as a separate document, appended to the company’s statutory accounts, to reduce the level of repeated information and to help cross-referencing.

We propose that a form of regulatory reporting is required, with the financial elements shaped by the presence of certain areas of divergence between accounting standards and the basis on which we regulate the industry. Regulatory reporting also provides an opportunity for companies to communicate with stakeholders in their regulated business activities, with more flexibility to address the requirements of wider audiences.

Q1 Do you agree that we should require a separate regulatory report to promote consistent and comparable regulatory information? Should this be appended to companies’ statutory accounts?

We propose that the regulatory report will contain four sections, each supported by an appropriate level of narrative and commentary, with the first three sections supported by an audit report from the company’s external statutory auditor. These sections are shown in the table below.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory financial report</td>
<td>A baseline level of historical cost financial information that is aligned to the way in which price controls (and associated regulatory performance commitments and incentives) are being set for the next control period.</td>
</tr>
<tr>
<td>Price control and segmental reporting</td>
<td>Financial information on the wholesale and retail elements of the appointee business, with additional disaggregation of revenues and costs as required.</td>
</tr>
<tr>
<td>Performance summary</td>
<td>High-level report of performance including outcome delivery and financial results of company.</td>
</tr>
<tr>
<td>Additional regulatory information</td>
<td>Additional financial and non-financial information, including (but not limited to):</td>
</tr>
<tr>
<td></td>
<td>• additional accounting policies;</td>
</tr>
<tr>
<td></td>
<td>• financeability statement;</td>
</tr>
<tr>
<td></td>
<td>• current cost reporting;</td>
</tr>
<tr>
<td></td>
<td>• detailed outcome and service level reporting; and</td>
</tr>
<tr>
<td></td>
<td>• totex analysis.</td>
</tr>
</tbody>
</table>

The proposed base level content of each section is discussed in the relevant chapters of this document. Proposals for the tables to be included in each section are included at appendix 1. In this consultation we do not set out prescriptive proposals for either the report or the format, contents and line definitions in the individual tables. We will do so in a follow-up technical information notice in early 2015 having considered responses to this consultation.

**Q2** What are your views on the content and format of the proposed tables in appendix 1?

The information companies present in the regulatory report will be essential for them to demonstrate their financial performance to stakeholders, and to allow regulation of the industry and review of performance against price determinations. Regulatory financial reports should be an important source of regular, consistent and audited financial information on the regulated businesses – partly to monitor historical performance but also as a forward-looking tool to inform stakeholders of a company’s priorities, challenges and future performance.

We consider that the existing regulatory accounts framework is the appropriate starting point for the design of the new regulatory report, but with significant amendments to:
• improve the transparency and readability of the financial information, and improve the focus of narrative reporting – this is particularly important in relation to the statutory to regulatory reconciliation and comparisons with the economic basis on which price controls have been set;
• reflect our final methodology for PR14, including separate price controls;
• provide flexibility for a core level of financial reporting and additional data as appropriate; and
• reflect changes to statutory accounting standards.

Key features of this reporting framework are as follows.

• We propose that companies will adopt the existing piloted approach of accounting separation in the regulatory report from 2015-16. This will include externally audited results from the full separation of the revenues and costs associated with the separated price controls, and separation of the costs of upstream services within the wholesale price controls. This information will provide stakeholders with additional transparency. While the definitions of services to be separately reported will align with the basis on which we have set price controls and the current upstream services pilots at the start of the control period, we propose to retain some flexibility for the future evolution of the services being reported. This is based on stakeholder and company feedback and is in line with our developing regulatory requirements in the next control period.

• Our approach to monitoring compliance with the different price controls will use the core financial information in the regulatory report where possible. Our assessment of a company’s reporting and assurance requirements will determine the scope of information in the regulatory report and the level of assurance required.

• While we expect the regulatory report to include appropriate and sufficient information to inform all stakeholders, as within other regulated industries, there may be a requirement for additional data to allow effective regulation against price controls, and in preparation for future determinations, given the specific use of comparative benchmarking in the regulation of the water sector. Some of this may not be relevant for all stakeholders, and so we may not specify requirements for companies to include such information within the main regulatory report.

• Additional narrative reporting will be required for each section of the report, to provide context and additional detail about both financial and non-financial
Consultation on regulatory reporting

performance, reflecting our proposal that the regulatory report is used more widely by stakeholders than to understand simply ‘accounting’ information. This will support our objective of enabling monitoring of companies’ success in meeting the expectations set out in their business plans and the PR14 determinations.

Regulatory accounts have historically been based on UK GAAP accounting standard information, with analysis provided to allow comparative regulation and review of financial performance. The move to IFRS accounting standards will not remove the need for companies also to compare their performance to the regulatory assumptions in their final determinations, and so we consider that some additional information to report performance on the appropriate economic basis is needed.

Q3 We consider that performance against price determinations is important for stakeholders. To what extent do you think we should prescribe the content and format of such reporting? Do you have any views on how companies should present this information?

Following each year of reporting (that is, 2015-16, and each subsequent year of the next price control period), we intend to issue an annual update which will cover:

- feedback on the previous year’s process;
- updated guidance on areas of existing reporting requirements; and
- guidance for new reporting requirements – for example, additional disaggregation, additional narrative requirements.

2.1 Narrative reporting

Our proposed narrative reporting requirements are intended to enable the regulatory report to provide external stakeholders with a key source of information on the performance, risk, strategy and delivery performance of the regulated business of the company. To support this, we propose to merge the core content of the existing risk and compliance statement with revised narrative reporting requirements, adapted where relevant to reflect the regulatory obligations of companies in the next price control period.

Following the conclusion of this consultation, and following considerations of the responses, we plan to publish a technical information notice, supporting more detailed guidance on regulatory reporting requirements. This more detailed guidance will cover the narrative reporting required to supplement the four sections of the regulatory report.
With statutory narrative reporting requirements developed over recent years, we consider that the companies would include the significant areas required by stakeholders as a result of the regulatory framework within their statutory accounts narrative reporting, which must present a fair, balanced and understandable view. As such, we propose that there will be a certain level of flexibility for narrative reporting, meaning that companies could present the required information in separate sections supporting each element of the standalone regulatory report, or cross refer to the statutory accounts.

We propose that certain information that we, consumers and other stakeholders will need on a consistent basis, to support the effective regulation of the sector, will be subject to a more prescriptive reporting framework. The extent to which narrative reporting over and above that included within companies’ statutory accounts is included in all companies’ standalone regulatory reports is a key question for this consultation.

Following the conclusion of this consultation, guidance on narrative reporting will be updated in the revised regulatory accounting guidelines. We provide more detail on the narrative reporting requirements for each of these areas in the relevant chapters of this document.

Q4 What are your views on how companies can use narrative reporting most effectively in the regulatory report to add value and context to the financial information presented?

2.2 Assurance

The first three sections of the regulatory report will all be covered by a single audit report, provided by the companies’ statutory external auditors. This audit report will take the form of a ‘fairly presents’ opinion, consistent with the existing audit report on the regulatory accounts, and will be the baseline level of assurance for all companies. The audit report will include a statement that the narrative within the regulatory report has been read, to identify material inconsistencies with the financial information presented. This scope of assurance will assure both compliance with the RAGs and the accuracy of the information used to prepare the regulatory accounts.

The other, final, regulatory reporting section will be subject to a flexible assurance framework, with requirements based on the information in question, and our assessment of the need for any different reporting and assurance, based on the company’s risk profile – including an assessment of the quality of data provided in
PR14 and in previous years. As we explained in our assurance technical appendix, the achievement of outcomes commitments and associated incentives for all companies will be subject to third party assurance. We will set out the baseline form and scope of this assurance of PR14 outcomes in our final determinations of those outcomes requirements, but reflecting where possible the proposals set out by companies in their PR14 business plans following customer engagement. The corresponding reporting requirements within the regulatory report will be confirmed in line with this consultation’s timetable.
3. Section 1 – Regulatory financial reporting

To present a clear picture of appointee financial performance, reconciled back to statutory accounts, the regulatory report will have a baseline level of historical cost financial information.

3.1 Proposed content

3.1.1 Financial reporting

- Income statement and totex analysis.
- Statement of total income and expense.
- Statement of financial position.
- Statement of cash flows.
- Revenue analysis.
- Appointee revenue and wholesale control reconciliation.
- Net debt analysis.

3.1.2 Narrative reporting

- Explanations of adjustments between statutory and regulatory reported financial information.

The historical information in this section of the regulatory report will continue to be presented in line with RAGs, which we publish every year. The existing RAGs are:

- RAG 1.05 – guideline for accounting for capital maintenance charges and current costs;
- RAG 2.04 – guideline for classification of capital expenditure;
- RAG 3.07 – guideline for the format and disclosures for the regulatory accounts;
- RAG 4.04 – guideline for the definitions for the regulatory accounts tables; and
- RAG 5.05 – guideline for transfer pricing in the water and sewerage sectors.

We will maintain the existing RAGs in their current basic structure, but revise them to reflect the outcome of this consultation and our PR14 final determinations in December, to ensure that they remain fit for purpose and continue to provide guidance to companies covering all aspects of regulatory reporting.
Also, we propose to issue further formal guidance for the form and scope of assurance requirements for the regulatory report.

3.2 IFRS and other accounting considerations

In November 2012, the Financial Reporting Council (FRC) published FRS 100 and FRS 101, with FRS 102 following in March 2013. FRS 100 outlines the future framework for financial reporting in the UK; FRS 101 permits companies to adopt the recognition and measurement principles of IFRS but with a lower disclosure requirement; and FRS 102 is a ‘new’ UK GAAP with a number of similarities to, but also some subtle differences from, IFRS and FRS 101.

These accounting standards set out the future accounting framework for UK statutory reporting. The standards are available for adoption by companies for the year ending 31 March 2013 and are mandatory for the year ending 31 March 2016. The mandatory adoption date of year ending 31 March 2016 means that all companies will be required to present comparative information and reconciliations of the impact on the accounts of changing policies at the opening balance sheet date, that is, 1 April 2014.

The current regulatory accounts in the water sector are currently prepared on a UK GAAP basis. So we need to reflect the changes to the underlying statutory accounting framework outlined above in the guidelines for preparation of the regulatory accounts from 2015-16.

Statutory and regulatory reporting will be aligned from 2015-16 in consequence, with the adoption of IFRS-basis accounting standards for both forms of reporting for all regulated companies in the sector.

But there will still be areas of divergence and judgement between the statutory and regulatory bases of financial reporting which we need to consider in framing the RAGs and providing regulatory reports under IFRS from 2015-16.

We discuss the key changes that will apply to companies adopting FRS101 or FRS102 below, alongside the implications for regulatory reporting.

3.2.1 Property, plant and equipment

Under UK GAAP, for infrastructure assets, asset additions/enhancements are capitalised but not directly depreciated. Renewals accounting instead provides a
Consultation on regulatory reporting

proxy depreciation charge. This investment is added to the regulatory capital value (RCV). For asset maintenance, infrastructure renewals expenditure (IRE) is reported in the capital expenditure tables but is charged to the profit and loss account as an infrastructure renewals charge (IRC) which is based on the medium-term average level of expenditure (past and future).

IAS 16 does not allow this form of renewals accounting in statutory accounts. All capital investment is capitalised and depreciated.

But, with our PR14 approach to move to totex as the key cost metric used for setting and incentivising cost performance under wholesale price controls, the accounting splits that were previously made between capital, renewals/enhancements and operating costs have become less relevant than under previous price controls. All costs previously treated as infrastructure renewals will be classified as either capital or operating expense for statutory accounting purposes, according to a company’s accounting policy and determined treatment. In most cases this will also align to the tax treatment of these costs.

In calculating adjusted interest cover ratios, ratings agencies have historically adjusted operating profit for long term maintenance costs (that is, IRE). Companies that wish to continue to present IRE as an additional performance indicator in support of their statutory reporting have flexibility to do so but would not be required to do so under statutory accounting forms of IFRS.

**Implications for regulatory reporting:** although there will be no statutory requirement for presentation of IRE information, we propose that information is still required to be presented in regulatory financial reporting for at least a two-year transition period, with companies ensuring that records are maintained for sufficient assurance to be obtained over the split between capital, operating and renewals expenditure. Under our proposal, companies would include a split of IRE in the reconciliation of operating and capital expenditure to totex and would include an accounting policy for infrastructure assets within the property, plant and equipment accounting policy.

**3.2.2 Borrowing costs**

IAS23.8 requires borrowing costs to be capitalised, with FRS101 and FRS 102 making this capitalisation requirement optional.

**Implication for regulatory reporting:** for consistency across the regulated companies, we require IAS23.8 to be disapplied for the purpose of regulatory
Consultation on regulatory reporting

financial reporting, and the options in FRS101 and 102 not to be taken. So borrowing costs should not be capitalised in regulatory financial reporting under our proposal, and an adjustment will be required in table A1. Without this treatment of borrowing costs applied in the regulatory reporting tables we risk the regulatory reports including information that is not comparable between companies nor consistent with the basis on which price controls were determined using a single set of notional capital structure assumptions for the sector.

3.2.3 Revenue

IAS18.26 and FRS 102(23.16) provide companies with discretion over the recognition of turnover in the event of doubtful recovery. But if this IFRS flexibility were to be reflected in regulatory reporting it would be difficult to compare company performance to the consistent basis on which relevant price controls (including those which reflect sector average costs to serve retail customers) are being set.

Implication for regulatory reporting: for comparability and consistency of application of accounting policies, we propose that turnover must be recognised in full for regulatory purposes despite the likelihood of recovery and for IAS18.26 or FRS102(23.16) to be disapplied for the purpose of presenting regulatory financial information. This means that revenue is recognised in full in the regulatory accounts regardless of payment history or whether the company has the occupier’s name (provided the property has not been confirmed as being a void property).

IFRS 15 – ‘Revenue from Contracts with Customers’ – is a relatively new accounting standard published by the IASB in May 2014. Companies will first be required to apply IFRS 15 for the year ending 31 March 2018.

Implication for regulatory reporting: IFRS will not be available for application by companies for statutory reporting in 2015-16 and so it will not create any relevant issues for regulatory financial reporting in this first year of the new price control period. We propose to provide further guidance on the application of IFRS 15, and its impact on the information required within the regulatory report in subsequent years, in due course.

3.2.4 Grants and contributions

IFRIC 18, FRS 101 and FRS 102 (34) allow flexibility in relation to the treatment of grants and contributions.
Implication for regulatory reporting: when we set our price controls, we include allowances for contributions in setting the revenue limits concerned. To allow us to monitor the actual contributions against these allowances, we propose to require a breakdown of capital contributions between type, as well as the accounting treatment applied. This level of transparency will also allow the actual contribution amounts to be compared between companies on a consistent basis, where the statutory accounting treatments under IFRS may differ between companies.

3.2.5 Pension deficit repair

Companies have options available under statutory accounting standards in relation to the treatment of pension deficit repair balances. The costs can be taken to the income statement as operating expense, capitalised on the balance and depreciated, or capitalised and not depreciated.

Implication for regulatory reporting: under a totex environment, there should be less importance placed on which accounting option is taken for pensions costs. But, in relation to the true up of our PR14 cost performance incentives performed for each company at the next price review, the pension allowance at PR14 will be separately considered, outside of totex, as we have confirmed that only fixed deficit recovery allowances will be allowed as a component of overall allowed revenues for each affected company in the next price control period.

Given this regulatory approach, it is important that we have transparency over how companies account for pension contributions over the next control period. One option for the associated regulatory financial reporting requirements would be for us to dictate how the pension balances are treated and ensure that there is consistent treatment across the sector. An alternative option would be to request additional as part of their totex reconciliation.

Ultimately, when undertaking the totex reconciliation in the next price review, our key regulatory objective is to have transparency on how companies have treated pension deficit repaid and to ensure these deficit recovery costs are kept separate from totex and associated cost performance incentives. So our recommendation is that companies provide additional transparency in their disclosure on how they have accounted for pension costs.

3.2.6 Transition

Whether or not some information is likely to be useful for companies to maintain for their own purposes, we may need to continue to require this information for
regulatory purposes at least in a transitional period while the regulatory framework continues to evolve. For example, under the Water Act 2014 there is provision for us to issue charging rules covering areas such as network access, having regard to Government guidance. We expect to consult on such rules during the next control period, and until we have done this it is difficult to prescribe the nature of the supporting information we will need.

Also, wholesale cost assessment in future price controls is likely to benefit from comparison with historic data from pre-2015, which will be important for investors as well as the regulator, as many sector expenditures are on assets with long lives covering multiple control periods. Some level of parallel reporting will provide an opportunity for stakeholders to understand the impact of the developments in the regulatory framework, and to determine what alternative information may be required following transition. For example, for infrastructure renewals expenditure, we propose that the total and percentage of ‘infrastructure spend expensed’ is presented at least for an initial transition period of two years.

**Q5** Do you agree that we should keep certain features of regulatory accounting under UK GAAP, including infrastructure renewals expenditure? Do you have any views on alternative approaches we could adopt?

**3.2.7 Accounting treatment discretion**

Other than the areas where company comparability is important for stakeholders, as set out above, we do not intend to mandate specific accounting treatments where IFRS permits different accounting options for the treatment of similar transactions. The accounting policies section of the regulatory accounts should, where appropriate, explain the specific accounting treatments reflected in the financial statements where companies have choices of options under IFRS.

But we will keep this flexibility under review following the implementation of IFRS. Where additional comparable information is required to allow effective monitoring and regulation, we will consider the need for additional specific information requirements to be included in the RAGs during the annual review process in the next control period.

**Q6** Are there particular areas where flexibility of reporting is a beneficial approach and any particular areas where we should issue more prescriptive guidance to promote comparability of information across companies?
4. Section 2 – Price review and other segmental reporting

4.1 Proposed content

4.1.1 Financial reporting

- Segmental income statement (four-way split).
- Wholesale water operating cost analysis.
- Wholesale wastewater operating cost analysis.
- Retail operating cost analysis.
- Wholesale water fixed asset analysis.
- Wholesale wastewater fixed asset analysis.
- Retail fixed asset analysis.
- Capital contributions and land sales.
- Analysis of non-household revenues and charges.

4.1.2 Narrative reporting

- **Revenue and cost allocation methodology** – included in this section to provide relatively high level details on the methodology companies apply to the allocation of costs between business segments, including basic details on approach to compliance with the RAGs, cost drivers used and consistency with earlier periods.

As set out in our final methodology statement, we will set separate price controls for the wholesale and retail elements of the appointees’ businesses in our final determinations in December.

This means that in the next control period companies will not be able to recover more revenue than allowed under each specific price control, nor move actual reported costs or revenues between the business areas covered by the individual controls, reflecting the fact that our revenue allowances for each price control will be determined by our assessment of the relevant costs specific to the services covered by that particular price control.

Existing transfer pricing guidance is included in RAG 5.05 covering terms of trade between group companies. The structure of the price controls is such that this guidance will need to be expanded to cover the terms of trade between wholesale and retail elements of the integrated appointee businesses, based on agreed transfer pricing rules in this area.
This creates important benefits for providing more targeted and effective cost performance and delivery incentives for the discrete services covered by the separate controls, and thereby supports the development of the relevant markets – in particular, those provided for by wider reforms enabled by the Water Act 2014. As set out in ‘Future price limits – a consultation on the framework. Appendix 1: Impact assessment’, this more targeted regulation of the different services that companies provide through separate controls should help to keep prices down, while encouraging innovation and sustainable solutions.

Consistent with this approach, we have separated our draft determinations into proposals for:

- retail water and wastewater services to household customers;
- retail water and wastewater services to non-household (business) customers;
- wholesale water services; and (for relevant appointees); and
- wholesale wastewater services.

**Note:** to be consistent with the proposals in our August draft determinations, Thames Water would be required to present financial information on the basis of their proposed five binding price controls, and within the separate Thames Tideway wholesale control to report those costs which fall outside of the Tideway cost performance menu and are subject to different regulatory cost performance incentives.

To report financial performance of the different business elements subject to the separate binding price controls, the regulatory report needs to present consistent financial information on this basis, to allow review of companies’ performance against the expectations in our price control determinations and business plans.

The basic level of segmentation of appointee results proposed is for separate income statements on a price control basis, with further breakdowns of revenue and costs then also provided as appropriate for each control. The further segmental and disaggregated financial information proposed for the regulatory report includes segmental revenue information and disaggregated cost information, within individual price controls.

Disaggregation of revenue and costs within these price controls is fundamental to allow companies to demonstrate compliance with the separate price limits. This includes financial and narrative information to assess companies’ abilities to forecast against allowed wholesale service revenue, under the wholesale revenue forecasting incentive mechanism, where we will monitor companies’ outturn revenues against
allowed revenues. We propose that companies present this in table 1F as shown in appendix 1.

For segmental reporting of financial results for the separate binding price controls, a full income statement would provide transparency over the full disaggregation of income and expense; but a split for all expenses may not be readily available, and would require more assumptions to be made than for a contribution statement.

Q7 Do you consider that a full segmental income statement is required, or would a reduced level of reporting, such as a contribution statement before interest and tax (in line with the basis of allowed returns in retail price controls), be a more appropriate format?

One area of additional segmental reporting below the level of the binding price controls relates to the reporting of costs, disaggregated within the wholesale controls on an upstream services basis.

We propose that the existing piloted approach of reporting costs of upstream services separately will be adopted in the audited information in the regulatory report. This information will provide stakeholders with additional transparency. While the definitions of services to be separately reported will align with the basis on which price controls have been set and with the basis of the current upstream services pilots at the start of the control period, we propose to retain some flexibility in terms of the future evolution of the services being reported, based on stakeholder and company feedback and in line with our developing regulatory requirements in the next control period.

Q8 Disaggregation of costs is important in the context of the Water Act 2014 and the future of price determinations. What are your views on the appropriateness of the services being reported within the segmental reporting cost tables, which we have proposed in the light of the pilot work undertaken in the current control period and our PR14 proposals for further development of such reporting in the next control period?

4.2 Methodology statement

To present the accounting separation between binding price controls and to upstream services within wholesale price control areas, we require companies to attribute costs to each area and, where costs are shared, to allocate them across the affected segments.
Where costs are directly incurred by activities associated with services covered in one segment, we do not expect the attribution of the costs concerned to be a challenge.

But, where costs are incurred by the business to support services in more than one segment, companies may need to make judgements over the allocation of these shared costs between segments.

Historically, we have required companies to publish an accounting separation methodology statement and accompanying commentary at the same time as their regulatory accounts, setting out the approach to allocation of costs in line with our guidance. We have updated this guidance over previous years to reflect the learning from the accounting separation pilots, and have further refined it to align with our final methodology for PR14, and will include the updated guidance within the RAGs applicable from April 2015.

We propose that companies include a methodology statement, confirming how they have applied accounting separation in line with the RAGs, within the regulatory report for each year of the next price control period – to present the basis for revenue and cost attribution and allocation alongside the financial data to which it relates. This will cover how companies have implemented our updated RAGs on transfer pricing for segmented reporting in line with companies’ licence obligations, and allow the actual allocations to be audited by reference to the methodology applied.

The level of detail included in companies’ methodology statements has previously been left to individual companies to determine, based on a general requirement for there to be enough detail to enable users to understand the how the companies have prepared the separated accounts.

We propose that that this more flexible approach to defining the formats of methodology statements remains the basis for regulatory reports in the future, with minimum disclosure requirements being:

- cost allocation bases (cost drivers) and any changes year on year (shown in columnar approach in the relevant tables);
- a breakdown of the recharges paid to and received from other business units for the use of fixed assets;
- significant changes in cost types in the year; and
- details of processes and systems and any changes year on year.
The information should provide relatively detailed information on the methodology that companies have applied to the attribution and allocation of revenues and costs between business segments, including basic details on cost drivers and consistency with earlier periods.

4.3 Future segmental reporting

During the next control period we may require more disaggregation of cost reporting – for example, to support the implementation of the network plus information proposals set out in our final PR14 methodology statement and the implementation of reforms enabled by the Water Act 2014.

If we need to change our regulatory reporting requirements in future years in this way, we will set out our proposals in our annual updates, and companies would be required to reflect these within the ‘other regulatory information’ section of the regulatory report for the years concerned.
5. Section 3 – Performance summary

5.1 Proposed content

- An overall assessment of the performance in the year, in particular by reference to the company’s agreed outcome delivery commitments, associated delivery incentives and wholesale and retail expenditure and costs.

The regulatory report will be a key source of information for stakeholders to assess the performance of the companies – both against the expectations and commitments set out in our final determinations and companies’ own business plans, and against comparator companies so that customers and other stakeholders can understand appointees’ performance compared with their peers.

We propose that this section of the regulatory report will present a summary of the company’s performance in the period, on a regulatory, price determination basis.

We plan to set out a minimum level of information that we expect companies to report to stakeholders about their overall performance, and the related financial impacts reflected in the financial information for:

- outcomes and service levels – performance against delivery commitments and associated delivery incentives (including the SIM); and
- cost performance – the efficiency in delivering wholesale and retail services relative to the expectations set in final determinations.

Many companies are planning to produce separate reporting for stakeholders – to communicate performance against business plans, and progress against priorities identified. This may lead to some overlap between any minimum prescribed information required by us for comparison purposes, and companies’ other more bespoke reporting arrangements. In addition, outcomes reporting is required to be subject to third party assurance, as set out in our PR14 draft determinations.

Q9 To promote consistency and comparability, we are proposing a base level of reporting which may lead to overlap with other reporting companies choose to produce. How can we best manage the risk of overlaps between the information we require and other information companies may produce for their stakeholders?

Q10 All companies are required to obtain third party assurance over their outcome reporting. We welcome views on the most appropriate form, scope and provider of outcome reporting and associated assurance.
5.2 Outcome delivery reporting

We have asked companies to publish detailed policies on reporting of outcomes performance to customer challenge groups or successors and customers, as well as arrangements for independent assurance. We envisage that companies will provide a summary of that reporting in this section of the regulatory report, highlighting emerging positions on all incentives (financial and non-financial), and explaining any substantial variances against the committed performance levels in the agreed package of incentives.

As a minimum we would require two aspects of the assessment of outcome delivery performance to be included within all companies’ published annual regulatory reports, based on the companies’ assured outcome reporting:

1. review of performance in the year and over the control period to date; and
2. financial impacts of achieved outcome delivery performance.

5.3 Performance review

We propose that companies provide an assessment of the overall performance against their outcomes in the year covered by the regulatory report, and over the control period to date. This review should include an appropriate mix of tabular and narrative reporting, to provide a clear and accurate picture of performance.

We expect companies will aim to provide effective high-quality reporting in this area. But to ensure a base level of comparability for key information across relevant companies in the sector, and to provide guidance on the areas of importance, we plan to prescribe a minimum level of tabular reporting requirements despite the more flexible arrangements for the underlying details.

In this context, we consider that delivery performance cannot be reflected purely on a financial basis. In their business plans, and in our draft determinations, not all companies proposed to incentivise their outcome performance commitments with direct, targeted financial incentives. This is in line with our final PR14 methodology. And supporting narrative is usually needed to understand the reasons for reported performance, particularly when tabular metrics are relatively new, or there are limits to simple historic or cross-company comparisons.

So, we propose that companies provide or refer to narrative reporting, to allow a more rounded and complete assessment of their delivery performance. We propose
that there should be some flexibility for companies to determine how to report the narrative content required under the regulatory framework, including by reference to statutory disclosures, or within this separate regulatory report – in line with the variations in companies’ proposed performance commitments and their future engagement with customers in the next control period.

5.4 Financial impacts

The consequences of actual delivery will be subject to associated financial rewards or penalties, to be shared appropriately between customers and investors. As well as the review of overall progress and performance, companies will be required to confirm the achievement of certain performance commitments, and the estimated financial rewards or penalties. This is to allow users of the regulatory report to understand how the company’s assessment of its performance against the outcome commitments is reflected in the associated reported financial information, including estimates of the position for actual and expected rewards and penalties.

We note that in some cases proposed by companies in their business plans, the potential rewards and penalties can be earned or incurred against allowed revenue in the next control period or subsequent periods, while in others they would translate into RCV adjustments.

Except where required by IFRS, no adjustment should be made to the underlying financial information for future rewards and penalties. But we request that companies present an estimate of the future adjustment to revenue based on the current, estimated position. While not determined within PR14, so that there is flexibility remaining until PR19, we expect all such adjustments to be reported as accrued revenue adjustments to assist in comparability.

To reconcile between the company’s assessment of performance against outcomes, we propose the following table is included within the performance summary in the regulatory report.

<table>
<thead>
<tr>
<th>Outcome performance commitment</th>
<th>Assessment of current year performance</th>
<th>Range of potential benefit/penalty</th>
<th>Timing of benefit/penalty</th>
<th>Benefit/penalty recognised at 31 March 201X</th>
<th>Future accrued revenue adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Traffic light</td>
<td>£ amount</td>
<td>AMP6 year X/ end of AMP6</td>
<td>£ amount</td>
<td>£ amount (estimate)</td>
</tr>
</tbody>
</table>
5.5 Service levels (including SIM)

The SIM to be applied to all affected appointees with price controls in the next control period was designed to encourage further improvements in the level of service that water companies provide. It is based on two consumer experience measures:

- a quantitative measure based on the number of complaints and unwanted contacts a company receives; and
- a qualitative measure (one based on the quality of the experience) derived from a consumer experience survey.

These two measures aim to capture both the number of times a company fails to meet the expectations of its consumers and the experience of those consumers.

Due to the comparative nature of the results of the SIM, the existing SIM reporting mechanism which requires consistent reporting from all affected companies will remain in place for the 2015-20 period.

5.6 Outcome comparability

For six areas of wholesale service performance commitment, there was more similarity across companies’ business plan proposals and so in our August draft determinations we said that we would reflect this higher level of comparability in setting our final determinations.

These performance commitment areas are:

- leakage;
- supply interruptions;
- water quality contacts;
- drinking water compliance;
- pollution incidents; and
- internal sewer flooding.

Having considered responses to our draft determination proposals, and to the regulatory reporting proposals in this consultation, we may issue further guidance in relation to the presentation of performance information against these more comparable wholesale outcome commitments. This guidance would build on the existing industry reporting of areas such as leakage, but would also be consistent
with the reporting of performance against the sector-wide SIM metrics and incentives for retail service delivery.

So, we intend to include in the RAGs a reporting template for these wholesale performance measures, along with guidance for the narrative information required within the performance review.

We consider that there should be more flexibility as to how companies present their performance in other areas of outcome delivery, as comparability across companies will not such a key factor.

There is a diverse set of other outcomes within the company proposals, and we consider that it is important for companies to report all metrics on which we will assess them within the regulatory report. Because of the differences in outcome performance measures, as well as expected differences in our requirements for monitoring and assessing performance in the final determinations, we propose that companies include performance against other individual outcome commitments covered in the final determinations within the regulatory report, but under a separate heading in the performance summary section from those identified above. Further details would then be provided in the subsequent section on additional information. We propose that companies note in the regulatory report that sector comparisons may not be possible, based on the different assessment methodologies applied.

### 5.7 Accounting for outcome delivery incentives and penalties

Incentives and penalties for delivery performance for certain outcomes will not be confirmed until price controls are reset in PR19. In some cases, this may cause some uncertainty over the likelihood of financial rewards or penalties being earned or incurred by the companies, and statutory accounting standards may dictate that such benefit or penalty is or is not reflected in the underlying financial records.

In these cases, companies will need to exercise judgment over the level of likelihood of any given outcome, with factors such as timing of confirmation and potential for change needing to be taken into account.

While accounting standards should be followed in determining the accounting treatment for reward or penalty in a given reporting year, we consider that clarity of outcome reporting is central to the usefulness of regulatory reports to stakeholders. As such, we would propose that companies include additional narrative in the
Consultation on regulatory reporting

performance report to summarise key judgments they have taken in determining the accounting treatment for these items.

5.8 Totex and costs to serve efficiency

To present a summary of cost performance comparable to our expectations in the final determinations, we propose that the regulatory report should include in the performance summary section of the report a reconciliation of totex performance in the period, against the allowed totex used in setting the allowed wholesale revenues in final determinations.

This reconciliation will take into account:

- differences in companies’ planned expenditure phasing relative to our final determination assumptions;
- inflation;
- variations in planned totex incurred; and
- any other relevant factors.

By comparing actual totex to allowed totex in a table like the one shown below, stakeholders will be able to assess the company’s view on the relative impact of its efficiency or inefficiency at the end of each year in the price control period, although noting that some judgment may be needed to identify the relative impacts of different factors, and that the position is subject to change each subsequent year, and confirmation of the relevant true-up results at the end of 2015-20 following our determinations of these matters in PR19.

Q11 What are your views on the format for presenting a reconciliation of allowed totex which shows like potential benefit that could be shared with customers? A suggested template is presented in section 5.8.
Consultation on regulatory reporting

<table>
<thead>
<tr>
<th>Final determination totex</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPI adjustment</td>
<td>X</td>
</tr>
<tr>
<td><strong>Nominal totex</strong></td>
<td>X</td>
</tr>
<tr>
<td>Phasing in AMP adjustment</td>
<td>X/(X)</td>
</tr>
<tr>
<td>Changes to planned spend</td>
<td>X/(X)</td>
</tr>
<tr>
<td>Other factors</td>
<td>X/(X)</td>
</tr>
<tr>
<td>Efficiency/(inefficiency)</td>
<td>X/(X)</td>
</tr>
<tr>
<td><strong>Actual totex</strong></td>
<td>X</td>
</tr>
</tbody>
</table>

**5.9 Assurance**

We consider it important for information in this performance summary section also to be assured, so that stakeholders gain the value intended from the regulatory reports, and within this we propose that certain aspects (for example, outcomes delivery performance) should be subject to specific minimum assurance requirements.

But the level of disaggregation and more varied nature of the information included within this section means that it may not be possible to include the external assurance of all of it within the scope of the standard audit report proposed for the first three sections of the regulatory report. So, additional assurance procedures could be required.

**Q12** Should the ‘performance summary’ section of the regulatory report be included within the scope of the audit report, or subject to other, tailored and focused assurance procedures, given the challenges around applying materiality and the relatively specific nature of the assurance work required?

We propose that, as part of our annual review, we should consider whether any other additional information should be within the scope of the audit report, or separate assurance procedures, to improve the effectiveness of the regulatory report for stakeholders in future years.
6. Section 4 – Other regulatory information

6.1 Proposed content

We propose that the companies use this section more flexibly, to present a range of additional information, with minimum requirements expected to include:

- additional performance review information;
- accounting policies;
- financeability statement;
- current cost fixed asset analysis;
- detailed outcome and service level reporting;
- allowed totex reconciliation;
- reporting against price control building blocks; and
- number of properties and volumes.

As well as providing flexibility for additional information, this section would also enable additional reporting and assurance for companies, which could be required based on their categorisation as set out in chapter 7. Additional information would be covered by separate assurance requirements from the more standardised audit report covering the sector-wide information relevant to the earlier sections.

At this stage, we expect any such additional reporting and assurance requirements will include further reporting of outcome delivery performance in the next control period, as companies have provided a range of different proposals in this area in their business plans, following extensive customer engagement in PR14.

So the information in this section should:

- supplement the information presented in the earlier sections of the report;
- inform future regulatory decisions or price determinations;
- provide additional information on areas of particular relevance or importance in a given year; and
- provide additional regulatory information where the base level of regulatory information and assurance is not considered sufficient.

Where separate reporting and assurance procedures are required for specific companies as indicated above, the additional information will also be included within this same final section of the regulatory report, increasing the level of transparency of reporting and allowing specific different components to be readily identified by
external stakeholders. This approach should help to consolidate and streamline the regulatory reporting process, and reduce the level of separate reports required.

The key areas of additional regulatory information are summarised below.

### 6.2 Additional performance review

By producing an income statement on an IFRS basis for regulatory reporting purposes, we note that there are some areas which would not be included that stakeholders may find useful, but is not readily available from the previous sections of the report. This is because the way we set allowed revenues in price controls differs from the way relevant costs are routinely included in annual financial information reporting according to IFRS accounting standards.

Such additional regulatory reporting information would:

- allow stakeholders to judge on a consistent basis if, where and why companies are out- or underperforming the bases on which we set allowed revenues in the final determinations;
- allow customers to see what rewards to shareholders the companies will be paying in future for company outperformance, since the licences and the periodic nature of price reviews mean that existing controls do not automatically adjust for such annual outperformance;
- allow investors to gain a more comprehensive and comparable understanding of the impact on overall returns of a company’s ongoing performance within the regulatory framework, including returns to regulatory equity; and
- reduce the level of uncertainty attached to the consequences of the PR14 cost and performance incentives for future bills and investor returns after the PR19 periodic review.

Such information is mainly about the transparency of performance against the economic basis of setting allowed revenues in the PR14 process, which intentionally focuses on the whole five-year period and does not rely only on IFRS annual accounting data.

A possible solution to helping users understand the impact of these differences is for companies to present separate supporting analysis within this final other regulatory information section of the regulatory report to complement the high level summary provided in the preceding performance summary section – for example, allowed
totex reconciliations, provisional or shadow RCVs and the contribution of cost and/or delivery performance to expected returns.

This information would not normally be included in core financial information, presented on an annual historic IFRS basis. We would expect companies to have their own processes in place to report a base level of this type of information to stakeholders outside of the common formal regulatory reporting framework. But by including some minimum requirements for the consistent reporting of this information in the regulatory report, we could potentially increase stakeholders’ ability to compare company performance more meaningfully within the sector.

6.3 Current cost regulatory financial information

RAG 1.05 currently provides guidelines for accounting for capital maintenance charges and current costs.

We have reviewed the existing RAG requirement for the reporting of financial data on a current cost basis in the next control period.

We consider that continued regulatory financial reporting of certain data on a current cost basis will be important for the ongoing regulation of the water sector industry (as well as the day to day operation of the companies), for the reasons set out below.

6.3.1 Regulatory duties

There are a number of regulatory functions and duties for which current cost information is the most appropriate basis for our regulatory assessments and conclusions. These duties usually require current cost information on an aggregate basis. These functions and duties include the following.

Review of access charging
While forward costs can in principle be the most appropriate method for setting access charges, current cost information based on existing assets can in some cases provide acceptable proxies in the absence of detailed forward cost information. In 2015, having regard to any relevant Government guidance, we expect to consult and communicate on new access charging rules under the provisions of the Water Act 2014, and until we have done this it is prudent to require companies to maintain current cost information at least during transition.
Assessing charges more generally
As well as charges covered by new charging rules under the Water Act 2014, Ofwat already has functions to determine some charging issues, and for that purpose we can assess whether companies’ charges are cost reflective. Again, consideration of the allocation of assets valued at current costs can be a useful method to support our charging guidance and determinations if needed.

Periodic price control determinations
The PR14 price determinations of allowed wholesale revenues remain linked to inflation-adjusted measures of costs. Although current cost depreciation and infrastructure renewals charges are no longer core to the periodic price determinations, now that these are being based on totex, determinations are still based on assessment of expenditures in real terms, with companies’ regulatory capital values (RCV) and allowed revenues for the control period then both adjusted each year by RPI to take account of inflation impacts in a way consistent with companies’ licences and our final PR14 methodology.

Competition cases
Historically, competition cases have sometimes required detailed current cost information. In the absence of such information maintained by the companies, an alternative is to estimate and make assumptions about current costs, using information on historic asset expenditures. Where audited current cost information is available, to tie back to underlying data relevant for the period under investigation, we (and the Competition and Markets Authority) have a better and more consistent basis for assessment of costs relevant to competition cases. So, maintaining audited current cost information is likely to be beneficial to both the regulators and companies and other interested parties in ensuring compliance with competition law.

Individual price determination cases
Price determination cases – for example, for the specific prices paid by existing large users and new appointees and variations (NAVs) – often require a detailed assessment of the costs to serve a specific customer. To do this, forward or current costs can be the most appropriate basis on which to perform this assessment. While this information would ordinarily be required on a detailed level (that is, below company level, where a customer imposed specific costs), having assured information on at least a company level provides greater supporting assurance over the accuracy and consistency of the more specific data being used.

Despite the above case for continuing to require current cost information at least on a transitional basis, we have considered whether a more focused information requirement will meet these needs in future.
Based on this consideration, we propose that the current cost data included in the regulatory report is in future limited to a detailed fixed assets table for each of the business units established by our accounting separation requirements.

This table will provide details of the opening and closing current cost of fixed assets attributed to that business unit, reconciled using the current cost additions, disposals and depreciation in the year.

Q13 What are the incremental costs that companies expect to incur with retaining the current cost fixed asset register at a sufficient level of detail to provide the information proposed in this document, over and above the costs which would be incurred to maintain current cost information for the companies’ use?

6.4 Appointee financial and risk monitoring

One of our primary duties requires us to secure that an efficient appointee is able (in particular by securing reasonable returns on its capital) to finance the proper carrying out of its functions. We consider that the regulatory accounts should allow us to perform as a minimum a basic level of financeability monitoring at appointee level. This should include an ability to understand the appointees’ capital structure, financial risk management and identify financeability-related risks for the appointee given the basis of the assumptions we used in setting price controls.

6.4.1 Risk and compliance statement

The current risk and compliance statement included in an appointee’s existing regulatory reporting requirements contains important information in relation to compliance with companies’ obligations in legislation and licences.

We propose that the information currently presented in the annual risk and compliance statement is brought within the scope of a wider financeability statement in the final section of the regulatory report, and that statements comparable to those which have previously been made in the risk and compliance statement continue to be made in this section of the report on:

- sufficiency of financial and management resources (licence condition F6A);
- sufficiency of rights and assets available to enable a special administrator to run the business (licence condition K);
- trade with associates is at arm’s length (licence condition F6);
any links between directors’ pay and standards of performance (section 35A of the Water Industry Act 1991); 
an investment grade credit rating (licence condition F6A.6); and 
dividend policy (F6.12).

This section of the report should also present confirmation that the company:

• considers it has a full understanding of, and is meeting, its financial obligations;
• has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations – where the company considers it is unable to provide such a statement, it should state that this is the case and explain why it is unable to do so; and
• has appropriate systems and processes in place to allow it to identify, manage and review its risks. Where any material or potential material risk is identified, the statement should set out the steps the company is taking or will take to manage and/or mitigate those risks. We expect the company to be responsible for identify materiality in this respect.

6.4.2 Credit ratings

Certain companies (including those with listed debt) are required to publish an investment-grade credit rating as at the date of publication of the regulatory accounts.

We propose that all companies present a real or shadow credit rating, obtained from at least one of Moody’s, Standard & Poor’s or Fitch, alongside a commentary of how the rating has been generated. Additional commentary can be provided to provide context to the rating, for example, in terms of the size or funding structure of the company.

6.4.3 Group financial monitoring

The continuing development and application of up-to-date financing structures within the water industry, necessitates that any monitoring of financeability needs to go beyond the regulated business and include an appropriate understanding of the financing position and structure of the wider group in which the regulated business sits.
We plan to issue a separate consultation later this year which will address additional financial monitoring. The precise form and scope of the monitoring and the appropriate data disclosure to be provided is under consideration.
7. Other areas for consideration

This consultation document does not aim to cover all areas of detail of the proposed regulatory reporting framework. For example, the pro forma tables in appendix 1 of this consultation are in draft form, and do not include prescriptive line definitions at this stage. But we have identified some areas of detail that are likely to be needed, which we highlight within this section for comment at this stage.

Q14 How should we best reflect reporting requirements for specific business activities within the wider reporting framework, and how we should adapt the framework over time as stakeholders’ information needs evolve? Are there areas in addition to those identified in chapter 7 that should be addressed within the regulatory reporting framework?

New connections and other specific services

The Water Act 2014 enables Ofwat to set charging rules covering a range of activities undertaken by regulated water companies. They include rules covering charges for connections, infrastructure charges and associated contributions from developers and other customers. At the moment there is limited transparency of the basis of which many companies charge, and of the costs they incur, in providing a range of relevant services in this general area.

Splitting charges for such specific services into their key cost components would help improve transparency, reveal differences in costs and improve understanding of what costs are incurred by and should be allocated to what services.

This greater customer understanding of what individual services, such as for new connections, comprise will also help to strengthen levels of companies’ service commitments, and promote the effective operation of relevant competitive markets. They should also make it easier for companies to demonstrate their compliance with competition law as required.

This more granular service-specific information would not naturally sit within a set of conventional regulatory accounts. But it may be more appropriately collected within a broader regulatory report of the form we propose.

Q15 How best can we ensure transparency to stakeholders of more disaggregated information on companies’ costs and charges for specific services such as providing new connections?
Specific reporting requirements

Due to specific mechanisms within the regulatory price control and charging framework in the water sector, there are certain specific items that companies will be required to report. While this list is not exhaustive, these items are expected to include:

- rebates paid in relation to surface water drainage due to any changes in the approach to how these have been treated in the price review – we propose shortly to issue a separate consultation covering this approach following prior engagement with companies;
- water business rates (in order to implement our PR14 draft determination proposals to treat these costs as a notifiable item in our PR14 final determinations for all affected companies); and
- reporting of separate totex and associated revenues for bulk imports and exports in order to implement our decision set out in the PR14 methodology to allow price incentives for qualifying trading in the next control period.

Q16 Revisiting the regulatory reporting framework presents an opportunity to improve consistency of guidance in relation to specific areas identified in chapter 7. Are there other areas of detail where you consider specific guidance is required?

Regulatory reporting data capture

We consider that the regulatory report is the most appropriate basis for companies to publish the routine, annual information we ourselves require to undertake our regulatory functions.

But there are also instances where we need access to additional information specific to our regulatory purposes which it would not be suitable for companies to publish each year.

As an example, in August 2013 for PR14, we required companies to provide us, with specific historic data on a comparable basis covering a number years to support our cost assessments in the periodic price review. These included details of relevant drivers of wholesale costs. The requirement to provide responses to this one-off request to support the implementation of our PR14 methodology presented challenges for companies, and put additional pressure on the process as a result. A more regular production of defined information might reduce such issues in the next price review.
But our PR14 information requirements were shaped by our specific PR14 price review methodology, and it may be disproportionate to require annual production of information that we only use in periodic reviews and which must be aligned to the specific review approach concerned.

**Q17 Should other regulatory information be collected more frequently in the future, alongside or separate to the published annual regulatory report?**

### Assurance requirements

Accurate information reporting and the use of robust assurance processes by companies during the five-year price control period will allow stakeholders and us to have confidence over whether companies are delivering outcomes and complying with the price control framework.

A key feature of the proposed regulatory reporting framework is the tailored nature of reporting and assurance that will be required from different companies in the next price control period.

Whether we impose additional reporting requirements above the basic requirements applicable to all companies will depend on our assessment of the confidence we can place in the quality and accuracy of the information on which our controls have been based. This includes:

- the information companies have used to support their performance commitments and reported progress against them;
- the methodologies companies use to allocate costs in line with our PR14 guidance and the regulatory accounting guidelines;
- the robustness of judgements companies have made in preparing their reported information; and
- our assessment of the risks associated with lighter touch reporting of performance by each company.

We set out this basic graduated reporting and assurance model in our assurance technical appendix, where we proposed three levels of assurance requirements for the business plans:

- self-assurance;
- selected assurance; and
- strong assurance.
As a minimum, we require all companies to obtain a core level of external assurance on the regulatory report, including an external audit report. This will ensure comparable information from all companies can be viewed with confidence by external stakeholders.

But for those companies subject to additional reporting and assurance requirements under our proposed graduated model, certain information may be required within the regulatory report that is not within the scope of the audit report covering the minimum reporting requirements for all companies. It is this information that will be subject to the additional requirements of the graduated assurance model. We will confirm these requirements following consideration of representations on our August draft determinations, setting out the implications for affected companies in our final determinations.

These will be based on the confidence we have in the quality and accuracy of the information on which that company’s performance commitments are based, as well as the methodologies use to allocate costs, the robustness of judgements made, and our assessment of the risks associated with lighter touch reporting of performance by each company.

We explained in our assurance technical appendix that we propose that transfer between these three categories will be possible during the 2015-20 period. A company in the full or additional category will have the opportunity to improve the quality and rigour of its reporting, to be moved into a higher category. Similarly, if we have concerns about a company in the basic or additional category (for example, there is evidence of misreporting or inconsistent reporting), the company can become subject to a stronger level of assurance.

We propose that a company subject to full assurance would be required to remain in that category for a minimum of two years. A company would be in the additional category for a minimum of one year before it could be moved to the basic assurance category.

As a baseline, all companies will be subject to the common sector reporting requirements set out in this consultation, with an audit report required on the first three sections of the regulatory report and external assurance required for specified elements of the final sections.

Additional reporting and assurance, including requirements specified for only some companies under our proposed framework, will be subject to separate communications through the annual update described in chapter 2 of this
consultation, with information and assurance reports presented outside of the first three audited sections of the regulatory report.

**Ofwat vision for the water sector**

We will publish soon our vision for the water sector and our vision for Ofwat as the sector’s economic regulator, following consideration of inputs from our workshop with stakeholders on 4 June.

We intend next to develop an assessment framework which is aimed at showing how the sector and Ofwat are progressing towards the vision we set out. We also anticipate that the information collected and analysed in that framework will form one of the principal foundations of the strategic conversations we hold with stakeholders inside and outside of the sector.

In assembling an assessment framework for our vision for the sector, we may need to use information held by companies and other stakeholders. For companies, this has a clear overlap with the regulatory reporting requirements we are consulting on in this document. While the regulatory reporting requirements stand in their own right – for companies to demonstrate their progress in implementing their business plans and delivering against our final price control determinations during the 2015-20 period – it is possible that we may need different or additional information to show the state of progress in the sector as a whole.

This assessment framework remains to be developed in the coming months as part of our work on a long-term strategy. We will consult separately on any additions to the information to be collected beyond what we set out in this document, as part of that strategy development.
8. Next steps

We are seeking comments on the proposals in this document by 11 November 2014.

Before this date, we intend to continue to engage and consult with stakeholders, holding a workshop with companies in October 2014, and meetings with other stakeholders as appropriate,

We will set out the baseline reporting framework and our decisions on certain fundamental elements in our final determinations in December 2014. We expect this to include the form and scope of outcome reporting, and company-specific assurance requirements. The reporting implications of these decisions and the additional details will be reflected in the RAGs and published in January 2015.

<table>
<thead>
<tr>
<th>Timing</th>
<th>Next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2014</td>
<td>Workshop with companies – invitation to follow in due course</td>
</tr>
<tr>
<td>October 2014</td>
<td>Meetings with other stakeholders – to be arranged in early October</td>
</tr>
<tr>
<td>11 November 2014</td>
<td>Responses expected to consultation</td>
</tr>
<tr>
<td>December 2014</td>
<td>We will set out our decisions on overall reporting framework in our final determinations</td>
</tr>
<tr>
<td>January 2015</td>
<td>Information notice on 2015-16 regulatory reporting with updated RAGs, and pro forma tables. And we will issue updates for 2014-15 reporting period</td>
</tr>
<tr>
<td>Ongoing</td>
<td>Continued work with stakeholders to refine requirements</td>
</tr>
</tbody>
</table>
Appendix 1: Regulatory report pro forma tables

<table>
<thead>
<tr>
<th>Section 1 – Regulatory financial reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1A – Income statement and totex analysis</td>
</tr>
<tr>
<td>Table 1B – Statement of total income and expense</td>
</tr>
<tr>
<td>Table 1C – Statement of financial position</td>
</tr>
<tr>
<td>Table 1D – Statement of cash flows</td>
</tr>
<tr>
<td>Table 1E – Revenue analysis</td>
</tr>
<tr>
<td>Table 1F – Appointee revenue and wholesale control reconciliation</td>
</tr>
<tr>
<td>Table 1G – Net debt analysis</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 2 – Price review and other segmental reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2A – Segmental income statement (4 way split)</td>
</tr>
<tr>
<td>Table 2B – Wholesale water operating cost analysis</td>
</tr>
<tr>
<td>Table 2C – Wholesale wastewater operating cost analysis</td>
</tr>
<tr>
<td>Table 2D – Retail operating cost analysis</td>
</tr>
<tr>
<td>Table 2E – Wholesale water fixed asset analysis</td>
</tr>
<tr>
<td>Table 2F – Wholesale wastewater fixed asset analysis</td>
</tr>
<tr>
<td>Table 2G – Retail fixed asset analysis</td>
</tr>
<tr>
<td>Table 2H – Capital contributions and land sales</td>
</tr>
<tr>
<td>Table 2I – Analysis of household revenues and charges</td>
</tr>
<tr>
<td>Table 2J – Analysis of non-household water revenues and charges</td>
</tr>
<tr>
<td>Table 2K – Analysis of non-household wastewater revenues and charges</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 3 – Performance summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 3A – Outcome performance summary</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 4 – Additional regulatory information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4A – Current cost fixed assets information</td>
</tr>
<tr>
<td>Table 4B – Number of properties and volumes</td>
</tr>
<tr>
<td>Table 4C – Allowed totex reconciliation</td>
</tr>
<tr>
<td>Table 4D – Reporting against price control building blocks</td>
</tr>
</tbody>
</table>

Link to proposed regulatory report pro forma tables