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Regulatory Reporting Consultation Response
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Dear Ofwat,

Thank you for the opportunity to respond on this consultation.

We support the introduction of the Annual Performance Report and its usage to collate relevant regulatory data. Our preference is that where Ofwat requires data from companies on an annual basis, it is provided through the APR rather than separate submissions. This allows us to implement a more efficient and co-ordinated process for collation and assurance of the data.

Our responses to the consultation questions are attached.

Please let us know if we can be of further assistance on this.

Yours Sincerely,

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Director of Strategy and Regulation

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

The clarity over whether the tables are HCA or CCA is appreciated, but it would be helpful if any amendments to prior versions could be flagged clearly.

Pro-forma tables are useful to understand the values required, and interdependencies, especially the validation checks. Early beta testing of the tables to remove any errors would be useful.

2. Do you have any views on the revised guidance in RAG1 which is intended to assist completion of pro forma table 4G?

We support the retention of current cost accounting and it would be useful to understand the full extent to which Ofwat intends to use it. We have reviewed the guidance with the information we have available, but might be able to contribute further if these details were set out.

The simplified income statement, and exclusion of the balance sheet and cashflow does ease the burden of producing CCA information. However, we have retained our CCA fixed asset register to produce the current cost depreciation as we feel more comfortable with this approach at this stage.

2.1.5 The guidance on calculating the maintenance charge for infrastructure assets (the pseudo infrastructure renewals charge (IRC)) appears to require more input than previously indicated by Ofwat. For example, the original guidance was to simply inflate by RPI, but the new guidance incorporates business plan expenditure into the calculation. It also refers to a shortened time horizon which is the medium term cost, whereas the IRC is the 'long range normative charge' (Ofwat's terminology). We prefer the simplified approach of updating by RPI.

2.1.6-Guidance on a pragmatic approach to the allocation of interest between wholesale and retail is appreciated.

3. RAG2 consists of a mixture of high level principles and detailed guidance for cost reporting;
a. Is the balance of principles and rules appropriate?
b. Are there areas where more principles should be provided?
c. Are there areas where more guidance should be provided?

The balance is appropriate, in our opinion, as RAG2 lays out the principles and gives more detailed guidance for all the relevant allocations together with their drivers.

We note that the "Cost driver" heading is now "Possible cost driver." It would be helpful if Ofwat clarified if companies will be able to choose cost drivers and to what extent?

In our water resources targeted audit we discussed the allocation of rates, and how the distinction between cumulo rates and local authority rates needs to be made clear and have separate guidance. MEAV was discussed as an appropriate driver for cumulo rates. At present the guidance in tables 2.4.1 and 2.5.1 is different to the guidance in section 2.10 & 2.13.

Provision should be made in RAG 2 allocations to accommodate situations where companies have exited the retail non-household market. In these situations allocations to the retail non-household price control are not appropriate.

4. RAG2 suggests that a common method for calculating returned sludge liquors should be implemented. Do you have any observations on the approach suggested and any suggestions for a common formula?

No comment (sludge)

5. In RAG2 we have set out how energy costs and savings from sludge processes should be treated – do you have any views on this approach?

No comment (sludge)

6. In RAG2 we have set out how imported potable bulk supplies should be treated – do you have any views on this approach?

The requirements set out in the guidance imply that companies will have to share information prior to submission. In particular, there might be some difficulty in obtaining the business unit split from another company for the relevant year. To overcome this issue, the previous year's business unit split could be utilised as a proxy by reference to their previous years APR unit costs.

Another approach would be for the company purchasing the bulk supply to identify the cost they would have incurred in treating the water themselves, and show that cost in water treatment, and the purchase cost less that "water treatment" cost in water resources. (e.g. purchase cost £100k, BW water treatment cost £20k, water resources cost £100-20=£80k.) However, we recognise that this approach would put additional administrative burden on companies.

Alternatively treated water imports could be separately identified as it does not fall into the vertically disaggregated model.

7. In RAG3 we have clarified our expectations for reporting transactions with associates and the non-appointed business. Do you have any comments on these?

3.11.1 table 3.08 relates to risk and compliance and doesn't seem to exist anymore. It would be helpful if Ofwat could clarify these requirements.

There's a new note on associated companies' disclosure 6.2.6 which limits rounding. This could mean companies will have to report some very small and not material amounts. We wonder if the guidance could allow for an exemption for immaterial amounts.

6.1.6 in RAG3.08 is renamed from Transfer Pricing to proforma tables (6.3). We believe that renaming the title as "Transfer Pricing Table" will be more meaningful.

8. Our intention is to include the metrics for the Financial monitoring framework and site data for the Abstraction Incentive Mechanism (AIM) in the Annual Performance Report. Do you agree with this approach?

Our assumption is that the Financial monitoring framework metrics referred to here are those now in table 4H. Including these metrics in the APR seems reasonable.

We note that Bristol Water is not currently required to report AIM data, and so would ask that provision is made for a 'nil return' in this area where applicable.

9. Should the Annual Performance Report contain more transparency over metering assets and installation and maintenance costs from 2017?

If unit costs for these activities are required, it would be helpful if clearly defined components of the units costs are set out in the guidance.

This is one potential area that will be impacted by competitive activity in the future, through the use of accredited entities. We expect that the APR could become populated with a variety of unit costs for various other activities too. Therefore, we wonder if the annual performance report is the place to explore these possibilities, and list these costs.

10. Ofwat is working with the sector to develop new charging rules covering activities such as connection charges, infrastructure charges and other contributions from third parties. Should the Annual Performance Report contain more detailed cost information on new connections and other costs associated with these charges?

Were Ofwat to decide that companies should be required to provide this level of detail then we agree that the APR would be the most appropriate means of reporting. However, we believe that a balance should be found between transparency and the regulatory burden involved in increasing granularity of reporting (this also applies to question 9).