

Consultation on regulatory reporting for the 2016-17 reporting year

Response from Northumbrian Water Limited

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

The changes appear reasonable.

Q2 Do you have any views on the revised guidance in RAG1 which is intended to assist completion of pro forma table 4G?

The revised wording of paragraph 2.1.5 is confusing and less clear than the wording in RAG 1.06, specifically, the third sentence. Paragraph 2.1.6 is clear.

As stated in previous consultation responses, we continue to question the value of the current cost information in table 4G.

Q3 RAG2 consists of a mixture of high level principles and detailed guidance for cost reporting;

- ***Q3a Is the balance of principles and rules appropriate?***
- ***Q3b Are there areas where more principles should be provided?***
- ***Q3c Are there areas where more guidance should be provided?***

Given the importance of consistency of cost allocation between price control units then it is important that there is clear, unambiguous guidance provided. We have not identified any areas where we would request further guidance.

Q4 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?

In line with our response to the May 2020 consultation, we believe that returned sludge liquors should be accounted for. Whilst we have no specific formula in mind, the principle should be that the STW should charge for receiving sludge liquor in the same way it charges for all other effluent. This may involve a Mogden format of charging, but this should not be prescribed by Ofwat as it may vary from site to site, between companies or over time.

Q5 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?

We agree that, where sludge assets are used for energy generation then all of the cost savings and all of the negative opex from external sales should be recorded as part of sludge treatment. Cost savings or income should not be shared with the sewage treatment operations.

Q6 In RAG2 we have set out how imported potable bulk supplies should be treated – do you have any views on this approach?

The RAG2 supporting document states:

2.14 Where companies import potable water then the costs should be split between water resources and water treatment upstream services. Companies should either use the costs of the exporting company as a guide to a split of the costs where possible and this should be described in the accounting separation methodology statement.

The word 'either' suggests there are two options, but the statement only provides one. The option proposed does seem reasonable.

Q7 In RAG3 we have clarified our expectations for reporting transactions with associates and the non-appointed business. Do you have any comments on these?

RAG3 confirms the more detailed guidance in RAG5. The transaction reporting thresholds and criteria are transparent and reasonable.

Q8 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?

We agree that reporting on the AIM is best done through the formal mechanism of the APR.

Q9 Should the Annual Performance Report contain more transparency over metering assets and installation and maintenance costs from 2017?

We are not convinced that reporting on total installation, capital or maintenance costs will be of value at the early stage of market opening. Such costs are only of value if there is a clear set of charges that can be compared for customer choice. While this may develop, at this stage, aggregate costs with no corresponding levels of activity will be of little use.

Q10 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?

We support the inclusion of the income and costs from new development in the APR. We feel the costs of new development should be separately identified for water and wastewater. This can then be compared to the income received, to give all parties assurance that overall developer charging has been cost reflective.

We do not feel there is any need for a further breakdown beyond this, as this would add little value in our view.

Northumbrian Water
27 June 2016