



Regulatory Reporting for 2016/17 - Response
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Dear Sir

PRT Response to Ofwat Consultation on Regulatory Reporting for the 2016/17 Reporting Year

Portsmouth Water welcomes the opportunity to comment on the proposed changes to the regulatory reporting for 2016/17. We believe that the new Annual Performance Report format for 2015/16 was an improvement on the previous Regulatory Accounts, with the focus more on reporting against the Final Determination and targeted commentary.

Ofwat Targeted Review (Sludge and Water Resources)

Following the Targeted Review by Ofwat, we propose to implement some changes in 2016/17, relating to the allocation of our costs and assets for the Water Resources business unit. This will ensure that there is more accurate reporting in advance of PR19. These changes include:

- Only reporting Raw Water Distribution where there is a movement of raw water between sites. (Not where there is a small movement of raw water to an on-site treatment facility)
NB We note that you have amended RAG4 to this effect.
- Allocation of part of the building structure at pumping stations to Water Resources, and associated depreciation charge.
- Allocation of pumping direct labour on a more accurate management estimate, and then on a direct basis when the new accounting system goes live.

We continue to develop further management information to support on-going accounting separation.

MEAV Discussion

The May 2016 Water 2020 document suggests that a full MEAV exercise will not be required for PR19, and in particular for the allocation of the RCV between Water Resources and Network Plus. We have yet to consider how to establish an appropriate asset value for the Water Resources business unit in particular.

Cost Assessment Data

Portsmouth Water has had some involvement in this project, and has given feedback on the list of data to be collected in August 2016. Overall we would prefer a smaller number of metrics.

If there is a degree of certainty over the data to be used for this, we agree that this data could be collected in the Annual Performance Report from 2016/17. However, if there is a large volume of data being collected we would prefer a separate submission, in order to effectively manage the work load involved during the busy year-end period and to avoid the Annual Performance Report becoming overly long and complex.

QUESTIONS RELATING TO 2016-17 REPORTING

As a general point, we note that there is an increasing number of detailed tables and information being added to the Annual Performance Report. Perhaps Ofwat could reflect on the balance between understandability of the APR and the need for more detail in specific areas. There may be a risk that as more complex and perhaps disparate data sets are added to the Annual Performance reports, it may lose cohesion and the ability to be easily understood by the user.

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

Pro forma Table Changes

The changes to the proforma tables seem to be relative minor, and we have the following comments to make:

Table 1A

We agree that Dividends should be included in this table, particularly as our reporting treatment is different between the Statutory Accounts and the Regulatory Accounts.

Table 2D

We agree that assets relating to Bulk Supply exports should be reported as 'Third party assets'.

Table 4D

We note the use of population as a comparator for unit costs. However, typically we scale by properties served, rather than customers served.

RAG2.06 Changes

Cumulo Rates

Ofwat have now specified that the allocation of rates should be using gross MEA values. We would appreciate further guidance as we are unclear if this means *all assets* or *excluding below ground assets*. However, subject to this further clarification, we feel that this is probably the best method of allocation.

Borehole pumping of Raw Water

We agree that pumping head is the best allocation method for electricity pumping costs, as well as direct materials and maintenance & electrical costs. However, direct pumping labour costs should be on a more direct allocation basis, with timesheets where possible. This is particularly important where the borehole and treatment works are in close proximity. We discussed this issue at the recent targeted review.

M&G Assets' allocation

We noted that the CEPA report highlighted the differences in the approach of companies to the allocation of shared assets within Price Controls, such as Wholesale. We would welcome further guidance on this and whether the principal use methodology is the preferred approach.

Definition of Household and Non-Households

Ofwat have specified that the definition of Household and Non-Household customers should be in line with the definitions for PR14. This is different from the Open Water definitions for eligibility of switching the Retailer. We welcome this clarification for the Annual Performance Report.

However, as we move to full retail separation, we caution that this approach could become unworkable. Companies will be record keeping on the basis of the MOSL code in order to be compliant and it likely to become difficult to retain parallel data based on the different definition for regulatory purposes.

RAG3.09 Changes

Tax Strategy for appointed business

We note this new disclosure.

Risk and Compliance Statement

We note that the risk and compliance statement has been removed. However, this is not discussed in the document and we would value further clarification/discussion.

RAG4.06 Changes

Treated Water Distribution – customer meters and meter chambers

We note that there is a proposal to split Treated Water Distribution, with meters identified separately. Further discussion from Ofwat is needed to understand the need for further disaggregation.

Q2. Do you have any views on the revised guidance in RAG1 which is intended to assist completion of pro forma table 4G? (Wholesale Current Cost Financial Performance)

Portsmouth Water welcomes the fact that current cost accounting is now only required at a high level, and believes that the guidance is clear.

However, we are continuing to maintain the Current Cost Asset Ledger, which is in a separate spreadsheet. This ensures accuracy of the data and direct comparison to the Business Plan. We understand that this methodology is under review and will await further guidance from Ofwat on any asset revaluation requirement.

Similarly, we have calculated the Infrastructure Renewals Charge using the old methodology. However, the IRC is becoming less relevant (with new UK GAAP) and there will be a need to revisit this as the methodology is, in effect, no longer supported by accounting treatment. This will continue to diverge from the accounting treatment over time.

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

- **Q3a. Is the balance of principals and rules appropriate?**
We believe that specific rules enable companies to be directly comparable and it eliminates any confusion. However, there are circumstances when company systems are not set up to deliver direct cost allocation. We are in the process of implementing a new accounting system and welcome the current flexibility to use allocation methods which are appropriate while we are still on the old system. We feel that the balance is about right.
- **Q3b. Are there areas where more principals should be provided?**
The amount of principals seems to be appropriate.
- **Q3c. Are there areas where more guidelines should be provided?**
Guidance on the amount of detail required for some of the disclosures.

Q4. NOT APPLICABLE

Q5. NOT APPLICABLE

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

Portsmouth Water do not have any imported bulk supplies, but it is reasonable to split the costs of this activity between water resources and water treatment using the exporting company costs as a guide.

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?

The guidance is now clear.

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 included the financial metrics in the Annual Performance Report for 2015/16, and agree with its formal inclusion for 2016/17.

We have 2 sites where AIM applies and by 2016/17 this will only be 1, due to completion of a river restoration scheme. We agree with this inclusion of table 3B from 2016/17.

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

We do not think that this detail should be included in the Annual Performance Report. This information could be collected separately, in the first instance, to gauge how different this is between companies. We need to present this information in a way that is not confusing to third parties. We would welcome further Ofwat guidance as to the rationale to seek this further level of disaggregated cost information.

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 believe that more detailed cost information on new connections should not be included in the Annual Performance Report. The level of detail requested in 2015/16 is sufficient.

We understand that Ofwat is seeking to develop new charging rules, but question whether the APR is the correct place to collect this detailed data. A separate data collection exercise could be undertaken for 2016-17 to understand the current costs and processes for each company. Customers need to understand the charges, but the differing approaches of companies may be confusing if not presented correctly.

Please contact me if you wish to discuss any of the issues raised in our response further.

Yours faithfully,



Helen Orton
Finance and Regulation Director