

Consultation on regulatory reporting

Southern Water's Response



Southern Water's response to the regulatory reporting consultation.

We welcome the opportunity to respond to the consultation on regulatory reporting and set out our response to the specific questions below:

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

Overall the proposed content and format of the tables appears sensible.

Specifically, currently a number of grants and contributions are amortised through the income statement within other income or turnover. As Table 2E stands there is not a column to enable us to do this. As such we would suggest amending the column headed as "amortised against depreciation" to "amortised through the income statement" to resolve this. Alternatively an additional column could be added.

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

The guidance in RAG 1 regarding table 4G is somewhat confused. Paragraph 2.1.4 confirms that there will no longer be the requirement to produce full current cost accounting (CCA) financial results, and the summary results in table 4G only require a current cost equivalent capital maintenance charge in line 3. Paragraph 2.1.5 sets out an acceptable approach to estimating this charge given that current cost depreciation (CCD) would require a full current cost accounting system and IRC does not exist under IFRS.

This would be assisted with an illustration, for example:

CCD+IRC from 2014–15

Less:

Disposals / fully written down items – estimate based on historic levels
IRE expensed in year or the average IRE expected to be expensed under IFRS from the business plan

Add:

Indexation

Impact of depreciation on additions / commissioned assets in year

Capital Maintenance charge estimate

Section 2.2 of RAG 1 seems superfluous given that CCA accounts are no longer required. It describes historic accounting conventions which are no longer in place as if they are still used which is confusing for anyone reading this section.

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?**

Q3a – We believe that the balance between principles and rules is appropriate.

Q3b and 3c – At present we are not aware of areas where more principles or guidance should be provided. This will become more clear when implementing any changes required and we would propose that any issues which arise are raised via Ofwat directly, discussed through the RAWG or addressed during the further consultation in the Autumn.

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?

We agree that the volume and strength of the returned liquors should be considered as a means of allocating costs. We suggest that either COD or BOD be considered as the measure of organic strength, not both as indicated in the consultation. Our preference would be for BOD as the measure. We believe that a modification on the Mogden Formula may be appropriate means of determining costs.

Typically there is a difference between the strength of liquors arising from the thickening of raw sludge to those from digested sludge. This should be formally considered to understand in this creates a material difference that would need to be formally recognised in any price controls.

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 believe that it is rational for the benefits of energy generation to be allocated to sludge treatment

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

The proposal in section 2.14 of RAG2 appears sensible, but would depend on the donor company making the relevant information available to the recipient, in a timely manner to enable inclusion in the Annual Performance Report. Whilst this may not be an issue for the larger suppliers, we have a significant number of smaller imports covering a handful of properties and requesting such information from them could represent a disproportionate regulatory reporting burden. We suggest that the proposed approach is adopted for bulk supplies greater than 1Ml/day so as to reduce the administrative burden

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?

No comment

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 the metrics for the Financial Monitoring Framework should continue to be included in the Annual Performance Report.

We also agree that the agreed metrics for the Abstraction Incentive mechanism should be included in the Annual Performance Report. However, as these metrics mature it may be necessary to review the trigger levels and monitoring points as new evidence is collected from specific environmental impact investigations or new environmental designations occur. Therefore this metric should also contain a section to explain if additional data has been incorporated into its' calculation.

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

We would caution Ofwat against introducing additional regulatory reporting burden without demonstrating a clear need for the publication of such data.

We are not clear what benefit the reporting of this information in the APR would provide.

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?

As set out in the consultation document, the industry is currently working with Ofwat to develop new charging rules for a range of services. As part of this work, companies are being asked to report certain charges on their websites in a standard format.

Given that this work is still in progress, we do not think that now is an appropriate time to request companies to report this information within the Annual Performance Report. Moreover, where information requirements are very specific and required principally by Ofwat for regulatory purposes, there is limited value in including this in a regulatory report for all stakeholders. We would also question the appropriateness of requiring incumbent companies to report potentially commercially sensitive cost data in areas that are opening up to competition.

Should you have any queries or regarding our response, or would like to discuss any aspect of it with us, please contact our Head of Economic Regulation, Nikki Deeley, on 01903 272336 or by email nikki.deeley@southernwater.co.uk.