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Consultation on regulatory reporting for the 2016-17 reporting year

Dear Sir/Madam

Please find attached Welsh Water's response to the consultation on regulatory reporting for the 2016-17 reporting year.

We are broadly comfortable with the proposed guidance and note that most of the revisions seek to promote greater clarity of reporting and consistency among companies.

Yours faithfully

Owen Hamnett
Financial Controller

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Glas Cymru Cyfyngedig

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We welcome correspondence
in Welsh and English

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Rydym yn croesawu gohebiaeth yn
y Gymraeg neu yn Saesneg

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

Where changes have been made from the tables used for 2015-16 reporting we consider that they add clarity to the reporting requirements and presentation of the tables and that they are consequently likely to promote greater consistency of reporting among companies.

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

While Ofwat considers that there is still a need to collect current cost data from companies, we recognise that a pragmatic approach has been taken in developing guidance which lessens the burden on companies, by removing the need to maintain a full current cost accounting ledger and permitting the use of CCD and IRC estimates.

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?**

We are broadly comfortable with the proposed guidance and note that most of the revisions seek to promote greater clarity of reporting and consistency among companies; we consider that Ofwat should seek to be prescriptive in areas where it considers consistency of reporting to be critical.

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 if it is necessary to calculate returned sludge liquors then a clear, common formula is required; we would note that this could involve additional cost (e.g. meter installation to capture flow data) and urge that this be taken into consideration when devising a suitable formula.

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 are comfortable that the approach is clear, and it is consistent with our existing treatment; however the guidance is silent on the treatment of savings from own use of self-generated energy.

Some of the energy we generate is used in the sewage treatment process and the cost of this is allocated to sewage treatment; the cost is lower than purchased energy and reported sewage treatment costs therefore reflect this. Had we exported this self-generated energy, the cost and associated income, and therefore the benefit, would be reported within costs of sludge processes – while sewage treatment costs would include the full costs of external energy purchase.

The guidance could be expanded to provide clarity on the required treatment in this instance.

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

Para 2.14 states, “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.”

We would welcome greater clarity and prescription in the guidance; while it is clear that costs should be split between water resources and water treatment upstream services it is not clear how exactly this should be done:

- How should companies obtain the costs of the exporting company, and which costs should be used?
- Where this is not possible, what alternative method should be used?

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?

We consider the guidance to be clear and do not have any further observations to make at this time.

Q8 Our intention is to include the metrics for the Financial Monitoring Framework and the site data for the Abstraction Incentive Mechanism (AIM) in the Annual Performance Report. Do you agree with this approach?

We would expect the data requests associated with the metrics for the Financial Monitoring Framework to replace or build on the existing financial metric reporting requirements in Table 4H; we consider this to be an appropriate means of capturing and reporting this data.

We are one of the five companies which are not required to report on the AIM, however if it is Ofwat's intention for this data to be available in the public domain then for those companies required to report we consider the Annual Performance Report might be an appropriate vehicle.

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

The rules governing metering arrangements between Wholesale and Retail remain in draft form but the proposals are to allow 'accredited' entities to provide certain wholesale services on behalf of an appointee, including metering activities. We believe it is appropriate for Ofwat to require greater transparency over metering assets and installation and maintenance costs from 2017; we agree that this could be achieved by incorporating specific requirements in the Regulatory Accounting Guidelines.

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?

While the development of new charging rules is ongoing, it may be more appropriate to collect this data by means of an information request; however, such data could be collected in Part 4 of the Annual Performance Report – we would urge that Ofwat be prescriptive where there is potential for inconsistent reporting, e.g. of “other costs associated with these charges”.