

Wessex Water Response to RAG consultation – July 2016

Q1	What are your views on the content and format of the proposed tables in Appendix 1?
<p>With the exception of the specifics outlined in the following responses we have no issues with the tables in appendix 1. Although we note that through the cost assessment working group we expect more data requirements in future reporting years which we would expect to be able to comment upon in the August consultation.</p>	
Q2	Do you have any views on the revised guidance in RAG1 which is intended to assist completion of pro forma table 4G?
<p>We are comfortable stating current cost operating profit by water and wastewater, with a caveat around capital maintenance charges below and given these simplified requirements for calculating CCD & IRC and allocating financing costs by RCV within the AMP period.</p> <p>Please could you also clarify the meaning of the following sentence in RAG1.07 2.1.5: “The difference between this average level and the average amount expensed over the amp should be shown as the capital maintenance charge”</p>	
Q3	RAG2 consists of a mixture of high level principles and detailed guidance for cost reporting;
a	Is the balance of principles and rules appropriate?
<p>We consider the current guidelines as an appropriate mix between high level principles and detailed guidance and offer a useful checklist that we incorporate into our Methodology statement. However, we consider the companies to be best placed to understand what the most appropriate cost driver is to be used and report accordingly. In particular, Non-Executive director’s remuneration is particularly difficult to allocate to specific business units and the cost driver.</p>	
b	Are there areas where more principles should be provided?
<p>We consider the existing principles to be adequate</p>	
c	Are there areas where more guidance should be provided?
<p>We believe there is a reasonable level of guidance available. The more guidance that is provided the more uniform the responses will be across companies. However, as highlighted above, this may lead to a small level of non-compliance. We would anticipate reflecting on all companies APR submissions and discuss at the future Regulatory accounts working group.</p>	
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?
<p>We would consider this to be an output from the sludge working group which could then be refined in the August RAG consultation. We agree with the principle of using a common formulation, although adjustments for ammonia should only be incurred at sites with an ammonia consent as the existence of an ammonia consent is the cost driver in this instance.</p>	
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?
<p>We note your proposal to net off all income from power generated by the sludge process against the sludge activity. Our energy generating assets are held by an associated third party (WWE) which is not part of the regulated business. We buy power from them at a reduced cost for the benefit of customers & so we do not think this applied directly to us. Our approach means that the benefits of reduced power costs are felt by sewage treatment and sludge treatment processes.</p>	
Q6	In RAG2 we have set out how imported potable bulk supplies should be treated – do you have any views on this approach?
<p>This approach seems reasonable in accounting terms, but we note that given that the water resources price control is designed to encourage greater water trading; it would seem counter intuitive to exclude a proportion of bulk supply prices from the resources price control and so we would consider allocating 100% of costs to water resources.</p>	

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? Consultation on regulatory reporting for the 2016-17 reporting year 8
6.2.6 asks for disclosure to be £m to three decimal points. We think this is too low and to be consistent with normal financial accounting reporting would want to report in £m to one decimal point.	
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?
At present this metric does not include the financial element. The taskforce did not reach a conclusion on the appropriate AIM incentive, just how the performance relative to a baseline should be assessed. It should be noted that these metrics on AIM are different (but not inconsistent with) the metric behind our AIM Performance Commitment.	
Q9	Should the Annual Performance Report contain more transparency over metering assets and installation and maintenance costs from 2017?
Metering is a complex area with drivers of cost and activity that include meeting customer expectations, leakage & demand side management. There are always trade-offs around metering decisions, the benefits of which can be seen across the entire value chain, retail distribution and treatment and the appropriate metering approach will depend on the external challenges an individual company faces. Treatment of metering simply as a separate accounting entity may discourage the most overall beneficial decisions being made. If more transparency around metering costs and approaches to metering is required the APR may not be the most appropriate vehicle, a separate data collection focused on metering may be more appropriate.	
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 per our response to Q9 while we agree that more transparency may be preferable we are not convinced the best way to achieve this is through a predefined dataset in the APR.	