

Regulatory reporting consultation response
Ofwat, Centre City Tower
Birmingham
B5 4UA

13th September 2016

Dear Ofwat

Re: Further consultation on regulatory reporting for the 2016-17 reporting year

Overall, we are supportive of the changes proposed in this consultation. In particular we welcome the exercise which Ofwat undertook to extend the targeted review of water resources to WoCs and we believe that this exercise was useful and instructive for both parties.

Our responses to the questions you specifically raised in your consultation are below:

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

These seem to be appropriate, but we would like to query two particular points:

- In Table 2A, we are not clear how revenue can be allocated to Water Resources, or on what basis this allocation should be done. We also note that it is unusual for segmental reporting to show operating profit for some, but not all segments.
- The proposed changes to Table 2D seem to restrict its scope to tangible fixed assets. This would appear to specifically exclude intangible fixed assets. In particular, software is a significant asset class for water companies. We are not sure if this is deliberate, or a drafting error, but suggest that software assets should not be excluded.

Q2 Do you have any comments on our proposal to elevate the reporting for water resources and bioresources from section 4 of the APR to section 2?

We understand the logic of this as this reporting will form the basis of a separate and binding price review at PR19. This change seems to be an appropriate way of securing additional scrutiny and assurance for these numbers.

Q3 Do the definitions for the water resources activities in RAG4 provide sufficient detail for you to complete pro forma tables 2A, 2B, 2D, 4D and 4E? (Note that the decision over the location of the boundary is outside the scope of this consultation as set out above).

Yes, in most cases (NB comments above about 2A and 2D). We expect that there will be issues that will require further clarification and refinement, as is the normal process with regulatory reporting. However the definitions are generally fit for purpose.

Q4 Do the definitions for the bioresources activities in RAG4 provide sufficient detail for you to complete pro forma tables 2A, 2B, 2D, 4D and 4E? (Note that the decision over the location of the boundary is outside the scope of this consultation as set out above).

n/a we are a WoC

Q5 Please could you provide an estimate of the impact, for the changes that we have proposed to the boundary definitions for both water resources and bioresources at RAG4? (See questions 3 and 4 above). The impact should include an estimate of the change in Net MEAV resulting from the assets that have moved under the change in boundary definitions for both water resources and bioresources separately.

These changes will require considerable work on our part, including some major reanalysis of our asset data. This is a significant change for us, and we do not feel able to produce an accurate estimate of its effects at this point.

Q6 In the responses to our March consultation, some companies suggested that to avoid recognising numerous discrete connections as a raw water transport activity, a *de minimis* value (for example, length of pipe) should be added to the RAGs. This would clarify the allocation of raw water transport between water resources and water treatment. Under this approach if the length of pipe were below the threshold, the asset would be classified as water resources, and raw water transport if above. We propose an amendment to RAG4 to address this concern by making a specific reference to sites in the definition of raw water transport but have *not* added a *deminimis* value. Do you consider that a *de minimis* threshold should be introduced? If yes, what should value of that threshold be?

We do think a *de minimis* threshold would be a good idea in order to avoid excessive reclassification of trivial assets that would not deliver any value to customers or the industry as a whole. We feel that Ofwat should consider a capacity level (defined as length x diameter) rather than just 'length'. A short pipe connecting a river to a bankside works could be a significant asset while a long gravity operated pipe from a small borehole to a treatment works could be a very minor asset.

Yours sincerely

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