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Regulatory Reporting Consultation Response,
Ofwat,
City Centre Tower,
7 Hill Street,
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13th September 2016

Dear Regulatory Reporting Team,

Anglian Water's response to Further Consultation on Regulatory Reporting for the 2016-17 reporting year

We welcome the opportunity to respond on Ofwat's proposed changes to regulatory reporting. We have provided our answers to the specific questions raised in the consultation document below.

Yours sincerely

Phil Trussell
Head of Business Performance



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

Following our response to the March 2016 consultation and Ofwat's subsequent comments, we are comfortable with the content and format of the tables. However, we have three specific comments:

- Table 2D - According to Appendix 2 of the consultation document, proposal 1 that "intangible assets should be included" is an accepted change to the RAGs. However, at the same time, the name of the table has been changed to "Historic cost analysis of tangible fixed assets - wholesale & retail" as per the pro-forma in RAG 3.09. Can Ofwat advise whether this table will include intangibles or not?
- Table 2E - Although the table headers have been changed as proposal two in Appendix 2, they still do not reflect our treatment of G&C under IFRS. G&Cs are treated as deferred income and released to the income statement over the life of associated assets, which is not reflected in any of the header options.
- The pro-formas do not currently show prior-year comparatives. Will there be a requirement to publish these and to include them in the table returns to Ofwat?

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 agree that this will result in improved reporting. However, as this is a new requirement notified during the course of the year, the allocation of costs for 2016/17 should take account of this transition and where relevant, not be overly prescriptive. This will allow companies to put in place processes and procedures enabling more detailed cost allocations in 2017/18.

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

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).

Yes

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.

The change in allocation of operating costs will be significant with a much smaller (anticipated immaterial) impact arising from changes in MEAV. We have been unable to quantify the change in

operating cost allocation in the time allowed, however, we are fully supportive of the boundary definitions being proposed.

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 de minimis value.

Do you consider that a de minimis threshold should be introduced? If yes, what should value of that threshold be?

We believe the site boundary should be used to allocate costs. Every asset within the boundary of an abstraction site would be resources, every asset outside to the treatment plant including any relief on the way is raw water distribution.

In adopting this approach, it aligns to the way we plan and manage our assets and how a third party would operate.

We would be unable to comply with a methodology requiring pipe measurement as we do not capture this level of asset/investment information for schemes of this type.

Further general comments on the consultation:

We note that the RAG Guideline 4.05 issued for consultation in October 2015 and followed at Year End 2016, set out that the calculation of "Grants and Contributions – Wastewater" for Table 2E requires supervision fees from the adoption of sewers ("the Fees") to be included in line 2E.10 "Other contributions". The Fees were included in the calculation of grants and contributions for PR14, and are reflected in allowed wholesale revenue from grants and contributions set out in the Final Determination. However, Table 2I, which reconciles wholesale revenue to the revenue governed by the price control, sets out that line 2I.19 "Grants & contributions" (price control)" is equal to lines 2E.7 and 2E.8, and so excludes the Fees. Table 2I sets out at line 2I.22 the difference in revenue recovered from the amount assumed in the FD. On the basis of the exclusion of the Fees from revenue recovered, this results in performance against the control being under-stated.

The PR14 reconciliation rulebook sets out at section 3.6 that the WRFIM calculation for year t (2017/18 Charging Year) is based on the output of Table 2I for year t-2 (2015/16 Charging Year). The result is that the WRFIM will reset the baseline for allowed revenue based on an under-stated amount of recovered revenue for wastewater grants & contributions. The proposed licence modification, currently in process, will then allow companies to recover this supposed short-fall in 2015/16 revenue in-period i.e. through 2017/18 Charges.

We would be grateful for an opportunity to discuss this issue with Ofwat to understand how the calculation of the WRFIM for 2017/18 allowed revenue can be adjusted to accommodate this under-statement of recovered revenue in Table 2I for 2015/16, and also to confirm that the latest consultation for 2016-17 reporting year of the RAG Guidelines (August 2016) has addressed this issue.

