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Regulatory reporting consultation response
Ofwat, Centre City Tower
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14^h September 2016

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

Dear Ofwat,

Thank you for the opportunity to respond to this consultation. We provide some comments and further evidence to each of the questions in your consultation below.

I hope that you will find our response helpful. If you have any questions, please do not hesitate to contact me.

Yours Sincerely,

Keith Hutton
Director of Strategy and Regulation

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

The expanded guidelines will be very useful with completing these tables.

Specific points

- “Local authority rates” in table 2B and 4D is a little misleading as this includes cumulo rates. Correct terminology may avoid further confusion.
- Table 1E does not include unamortised premia/costs, yet the lines in table 1C to which it cross references does.
- The interest cost included in table 1E relates to actual borrowings and does not include commitment fees on unutilised facilities (which companies are required to maintain). The definitions should make reference to this.
- We note the addition of a line to incorporate the impact of in-period ODIs on table 2I. For reconciliation between the wholesale revenue allowed at FD and that which the company has recovered in the year it may also be useful to include a line to show the adjustment made in respect of the WRFIM.
- We agree with the inclusion of Table 3B to show sub-measure ODI performance, as this will avoid the need for this information to be provided separately in commentaries.

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?

The main impact of this change is in respect of assurance:

PwC agreed their approach to auditing all companies with Ofwat, we assume other audit firms did the same. The agreement was that tables within sections 1 and 2 are subject to audit, other tables would be reviewed on request using agreed upon procedures. From the company’s perspective, as we are not able to influence what is included in the “audited” tables, bringing those within that remit would enable a greater degree of assurance to be secured. This does depend on Ofwat agreeing with the audit firms that the whole of section 2 including these new tables are included in the audited data.

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).

We have found the definitions to be sufficient, but there appear to be changes not flagged in 5.2 or 5.3 of the consultation document. Our interpretation is that there are changes to the definitions to the water resources boundary. Of those the pre-treatment changes are the only ones material to us.

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).

No comment as this relates to wastewater.

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).

Opex-£0.1m

The only significant change is that Pre-treatment would need to be categorised as Water resources if the water isn't already potable. The impacts would be on Energy, MEAV allocation of cumulo rates (small) , and the allocation between business units for Axbridge TW cost centre which would now be allocated to Water Resources. Estimated swing is £64k for Axbridge from Water Treatment to Water Resources.

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.

MEAV-£6.1m

Estimated movement is £6.1m for Axbridge TW from Water Treatment to Water Resources.

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?

A de minimis threshold should not be applicable where a raw water pipe runs between two water resource assets, otherwise it could result in the pipe being categorised as raw water distribution.

An indicative value may be more useful than a de minimis value, and we suggest 500m would be an appropriate value for this.