



Regulatory Reporting for 2016/17 - Response
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Dear Sir

PRT Response to Ofwat Further Consultation on Regulatory Reporting for the 2016/17 Reporting Year

Portsmouth Water welcomes the opportunity to comment on the proposed changes to the regulatory reporting for 2016/17, published by Ofwat on 17 August 2016.

QUESTIONS RELATING TO 2016-17 REPORTING

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

Pro forma Table Changes

We broadly agree with the changes that have been suggested for 2016/17 reporting, but have the following comments:

Where there are material changes to the guidance for cost allocation and completion of the tables in the APR, will there be a restated set of results for the year 2015/16, when the final reconciliations are performed at the end of the AMP? In particular, this is important for changes that impact the Totex number and therefore the RCV adjustment at the end of the price review period. (E.g. Allocation of Cumulo Rates between Wholesale and Retail, and revised Grants and Contributions)

Table 1A (& RAG 1, RAG 3) and Table 2B, 2E and 2I – Grants and Contributions

We welcome further guidance and clarification on the reporting of grants and contributions. Moving this to 'other income' in the Income Statement will make it easier to reconcile the entries in table 2E.

In addition, we agree that there should be consistency with the reporting in 2E and the grants and contributions included in the Totex calculation in 2B. We would however like to highlight that this isn't consistent with our Business Plan submission and the allowed Totex in the Final Determination. Will the 2015/16 numbers be adjusted in the final true-up of the RCV at the end of the AMP?

Table 2I also requires Grants and Contributions to calculate the total revenue governed by the Wholesale price control. Should this number always agree to tables 2B and 2E?

Table 4B – Totex Analysis

We agree that the Allowed Totex should reflect the final menu choice for companies. We added this variance in our 2015/16 APR commentary to avoid confusion.

RAG2.06 Changes

Cumulo Rates

We welcome the change in guidance for the allocation of Cumulo rates between Wholesale and Retail. Floor space was difficult to measure and MEAV is already an available and audited measure.

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 support the inclusion of reporting for water resources and bioresources in section 2 of the APR. Portsmouth Water underwent a full audit of section 4 in the APR for 2015/16 and do not anticipate any material changes to the data/data accuracy that we report.

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 believe that the guidance for water resources is sufficient to complete the relevant tables.

Q4. NOT APPLICABLE

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 question 3 and 4 above)

Portsmouth Water has a large number of borehole sites which have a treatment works in close proximity to the abstraction points. Previously, we classified the small length of mains from the borehole to the treatment plant as Raw Water Distribution. We will reclassify this as Water Resources from 2016/17. The gross MEAV of these mains in 2015/16 was £0.433m and the annual depreciation was £0.004m.

In addition, at these borehole sites, we have previously allocated the whole building, which houses the treatment facilities, as Water Treatment. We will now allocate a percentage of the building to Water Resources, to reflect the area taken up by equipment that controls the boreholes. The value of this is yet to be accurately determined, but it will be approximately 20% of the building costs, which amounts to £0.863m in 2015/16 prices and the associated annual depreciation is £0.044m.

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?

Portsmouth Water does have a large number of sites where there are short lengths of pipe between the borehole source and the water treatment facility. However, it is relatively straightforward for us to identify any sites where this is immaterial and therefore does not require allocation to Raw Water Distribution. Raw Water Distribution relates to the movement of water between sites and therefore we do not need a de minimis value.

Please contact me if you wish to discuss any of the issues raised in our response further.

Yours faithfully,



Helen Orton
Finance and Regulation Director