



Further consultation on regulatory reporting for the 2016–17 reporting year

Southern Water's Response

Southern Water's response to Ofwat's further consultation on changes to regulatory reporting

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

Comments on the changes to specific tables are listed below:

Table 1A – We note that grants and contributions recognised directly in the income statement are to be included within other income for regulatory purposes. Can you confirm that this should also be the treatment of grants and contributions indirectly recognised in the income statement e.g. those currently being amortised to revenue from deferred income in the statement of financial position?

Table 2D – You have included a section below the table to analyse the depreciation charge between principal and third party services. Could you provide some additional guidance in RAG 4 regarding the assets that you might expect to be related to third party services?

Note the definition in RAG 4 for row 13 refers incorrectly to principal services and line 14 refers incorrectly to agreeing with line 7 – this should be line 8.

Table 2E – there is a statement on page 21 of the consultation that the title has changed however it appears to be the same as the previous version.

Tables 2G and 2H – The guidance indicates that these tables should be presented to 3 decimal places for both costs (£m) and connections ('000s). As this would then be equivalent to reporting costs in £'000s and actual customer numbers it feels too low level for the published APR. We would propose reporting costs to one decimal place for the published APR and customer numbers to the nearest thousand.

Table 2I – Can you provide guidance on what should be included in line 15 – bulk supplies wastewater? This is not covered in RAG 4. In addition the numbering is incorrect in the draft RAG 4 for this table.

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

No comments regarding this change.

Q3 Do the definitions for the water resources activities in RAG4 provide sufficient detail for you to complete the pro forma tables 2A, 2B, 2D, 4D and 4E?

The definitions and inclusion of the schematic diagram in appendix 2 provide sufficient detail for us to complete these tables.

Q4 Do the definitions for the bio-resources activities in RAG4 provide sufficient detail for you to complete the pro forma tables 2A, 2B, 2D, 4D and 4E?

We welcome the introduction of the improved definition of the end boundary point for sewage treatment and disposal and the diagrams in the appendices to RAG 4 which will aid completion of these tables.

We would like to see some additional clarification provided in the following cases, which may require additional or variants of the diagrams in the appendices to be included:

1. Appendix 4 – (wastewater treatment works without STCs) – we have examples of sites where additional dewatering takes place to greater than 10 per cent via a centrifuge or plate press. A proportion of these sites just treat their own indigenous sludge whilst others receive sludge imports. We believe that for all these sites this activity and the subsequent transfer of the dewatered sludge to a sludge treatment centre would form part of the sludge treatment process. Any haulage costs would then also be part of the sludge treatment process, and not sludge transport
2. Appendix 5 – co-located sites – we would generally not expect any “Sewage Treatment” SAS, co-settled and/or primary sludge thickening to less than 10 per cent to occur within the WTW boundary on co-located sites. Any sludge leaving primary, secondary and/or tertiary sewage treatment would go straight to indigenous and imported sludge blending and/or thickening, as will be of a similar level of treatment to that of imported sludge. However for the limited number of instances where we have thickening to less than 10 per cent of indigenous sludge at a co-located STC, prior to mixing with imported sludge, this would continue to form part of wastewater treatment.

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 bio-resources at RAG4?

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 water resources we have identified two raw water storage facilities under the boundary definitions that we have previously counted as abstraction assets. We will be re-classifying these assets from Abstraction to Raw Water Storage. They have a net MEAV of £21.2 million as at 31st March 2016.

For wastewater we have identified assets associated with sludge thickening to less than 10 per cent solids and sludge holding assets for storing sludge at less than 10 per cent solids prior to transportation included in our Sludge business units. We will be moving these assets to Wastewater Treatment in accordance with the new boundary definitions. The assets have a net MEAV of £9.3 million as at 31st March 2016.

In terms of operating costs, there will be some movement of costs from Sludge Treatment to Sewage Treatment, particularly with regards to polyelectrolyte use where the output is less than 10 per cent dried solids. However, by far the largest change will be transferring the benefit of reduced power costs from Sewage

Treatment to Sludge Treatment where CHP units are on co-located sites with a single electricity meter.

Currently the benefit of the reduction in electricity costs is allocated to both business units. Allocating the benefit the reduced electricity usage in full to Sludge Treatment will lead to either a credit in power costs for Sludge Treatment, or an increase in the credit for “income treated as negative expenditure”. We would welcome additional clarification in RAG 4 to confirm which approach should be adopted. We would expect this movement to be somewhere in the range of £4 million to £5 million.

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 the value of that threshold be?

In discussion with Ofwat and CEPA as part of the targeted review conducted on bioresources and water resources we identified one length of pipe (1.5 kilometres) which we reclassified as raw water distribution for the 2015–16 APR. We would support the introduction of a de minimis threshold and would suggest using circa 1.5 kilometres for this value.