



# South Staffs Water

Green Lane, Walsall WS2 7PD  
[www.south-staffs-water.co.uk](http://www.south-staffs-water.co.uk)

Regulatory reporting consultation response  
Ofwat, Century City Tower  
7 Hill Street  
Birmingham  
B5 4UA

By email: [regulatory.accounts@ofwat.gsi.gov.uk](mailto:regulatory.accounts@ofwat.gsi.gov.uk)

12<sup>th</sup> September 2016

Dear Ofwat,

South Staffs Water welcomes the opportunity to respond to Ofwat's consultation on regulatory reporting for the 2016-17 reporting year.

Responses to the questions raised within this consultation are provided below:

Yours sincerely,

Philip Saynor,  
Director of Finance and Regulation

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

We have no comments on the format of the APR tables. However, we do have two comments on the RAGs.

In RAG 1, section 1.8 says that grants recognised in the income statement should be reported within 'other income'. We are unsure about whether this applies to IRE contributions (e.g. mains diversions) which we show as netted off against the IRE gross spend within operating costs. In our Final Determination, these contributions form part of the fast money within Totex so if they are shown within income there will be a mis-match between APR reporting and the FD. We therefore think that these contributions should still be netted off within operating costs.

In RAG 21.24, regarding wholesale revenue reconciliation, we suggest that the difference be split to one derived from wholesale revenue and one derived from grants & contributions. We believe this split to be valuable as they are inherently different type of revenue, the first derived from customer bills and the latter derived from developer (contributes no net benefit to companies).

**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 have no comments on this.

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

We believe the definitions are clear to recalculate the MEAV. However, we believe the current definition is not clear as to how operating cost should be categorised. For example, for a borehole pumping station, how should the costs be split between water resource and raw water transport? Also, each company has different methodologies in allocating general costs and we believe this could yield a notable difference across companies on the operating costs relating to water resources.

**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).

Not applicable for South Staffs.

**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?

Although some shifts in categorisation of assets will be necessary to fit the new boundary definition as part of the official MEAV exercise, we estimate that the most significant impact will be the shift of one of our reservoirs assets from water resource to raw water storage (network plus), amounting to around £18m.

We estimate that there will not be a significant change in water resource MEAV for the Cambridge region as a result of the new boundary definition.

Since we believed that the definition for operating cost was less clear, we have calculated an estimate for the asset element only.

**Q6 Staffs** 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.

We think that all pipes upstream of the boundary between water resource and raw water storage (or water treatment) should be considered water resource, regardless of the length of the pipe. We believe including a de minimis threshold will make the boundary definition less certain.