

Regulatory Reporting Consultation Response
Ofwat, Centre City Tower
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By e-mail: regulatory.accounts@ofwat.gsi.gov.uk

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

Dear Sir/Madam

Please find attached Welsh Water's response to the further consultation on regulatory reporting for the 2016-17 reporting year.

Yours faithfully



Owen Hamnett
Financial Controller

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

We are broadly comfortable with the content of these and do not anticipate difficulties in being able to obtain the data.

However, we would like to see further clarity on the IRC calculation in Table 4G, specifically the adjustment between the IRE reported under IFRS and the IRC estimate.

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?

This seems to be a logical move given the introduction of a separate revenue control, particularly as it will be covered by the external auditors' opinion on the regulatory accounts.

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).

We consider that the guidance in RAG4 provides sufficient detail for completion of Tables 2A, 2B, 2D, 4D and 4E.

We would make the minor observation that capturing abstraction licence fee data is straightforward, however we will need to estimate the cost of negotiating with third parties to agree charges, being a proportion of individuals' time spent engaged in that activity.

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).

We consider that the guidance in RAG4 provides sufficient detail for completion of Tables 2A, 2B, 2D, 4D and 4E.

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).

We believe that we are already able to report in line with the proposed water resources guidelines and anticipate negligible associated additional costs. With regard to bioresources, while we believe we will be able to report in line with the proposed guidelines it is difficult to assess with any certainty the costs involved in doing so.

The boundary definitions will also impact on our organisational structure, with teams being adjusted to reflect the regulatory boundaries.

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.

We have reshaped our Net MEAV data against RAG 4.06; note that we have looked at the PR14 MEAV without any data refresh or adjustment for inflation.

Based on our interpretation of the revised guidelines, there appears to be no change to sludge treatment and disposal from our PR14 submission. Using the rule of <10% DS all of our sludge activity attached to the STW List is below the 10% threshold. We have made use of the tanker trackers data to understand % DS collected from each site. No site within the STW list exceeds the 10% limit and hence remain in the sewage treatment and disposal section rather than being moved to sludge treatment.

Please see the attached appendices showing, and commenting on, the splits in line with the new criteria.

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 do not currently capture this data and there would be a cost involved in building it into our data capture processes; until we begin to capture the data we do not feel we can comment on the appropriateness of a de minimis threshold or the level at which it might be set.