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Regulatory reporting consultation response
Ofwat
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By email: FinanceAndGovernance@ofwat.gsi.gov.uk

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Dear Ofwat,

Consultation on regulatory reporting for the 2017-18 reporting year

Thank you for the opportunity to respond to this consultation.

We support the purpose of the annual regulatory report; we view the reporting requirements as complimentary to other work we do to inform our customers and stakeholders about our performance. We therefore welcome Ofwat's aims and intentions to continue the recent improvements in this area and provide information that is helpful to all stakeholders and customers and the attempt to rationalise reporting arrangements for the companies' benefit. We believe that the report should collate all the information that Ofwat needs to monitor and regulate the sector effectively, to support the PR19 price control process and which add value and transparency to drive consistency and comparability. We would like to draw your attention to some of the requirements being proposed within the consultation that we consider may not meet the desired intentions:

- Overall, the granularity required to fulfil the regulatory report for 2017-18 has increased the regulatory burden and the reporting requirements rely on subjective interpretation and assumptions in some areas. Whilst we support transparency, we suggest a process is followed to evaluate where the benefit of transparency outweighs the burden placed on companies and the usefulness of the reports;
- We have concerns about inconsistency across companies in the methods and assumptions used, which could reduce the credibility of the desire to produce reliable and accurate information;
- In line with other processes that Ofwat has recently improved, we hope that the guidance is produced early in the process and is set out in one clear document;
- We would prefer to retain the 2016/17 approach of a separate submission of cost assessment data; and
- Request that a process is established to enable a further review of the data requirements for the cost assessment tables, as well as to help identify gaps in the guidance.

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We have some detailed concerns around the definitions and requirements of some of the required tables, which are explained further overleaf.

Again, we are very supportive of this consultation and wish to help produce the best outcome for customers and wider stakeholders. Please let us know if you would like to discuss any of the enclosed comments further. We hope our response is helpful.

Yours faithfully,



Mick Axtell
Chief Financial Officer

Questions relating to 2017-18 reporting

1. *Appendix 1 contains new tables for;*
 - *Information on new connections (table 2J)*
 - *Information on cost assessment (tables 4J to 4W)*

a. Do you agree with expanding the APR with more tables to capture more granular cost data?

There is a trade-off between the level of granularity required and simplicity. Providing more granular data for cost assessment aids transparency and it is critical to inform the PR19 cost assessment. However by including this data within the APR it may dilute the focus on performance in that report, as it would be dominated by other asset and cost data information. This could unintentionally create a lack of clarity in the overall purpose of the resulting (joint) return and result in a diluting of transparency for customers and stakeholders.

The previous approach to 2011 of companies producing Regulatory Accounts and a separate June Return allowed for extensive data capture whilst at the same time produced a focused set of Regulatory Accounts. As such, we would prefer to retain the 2016/17 approach of a separate submission of cost assessment data. We would likewise support retention of the equivalent assurance requirements for this submission. Reproducing all the excel tables in the APR format is very time consuming.

Should the proposal to expand the APR be implemented, understanding the implied impacts on reporting requirements will need to be communicated (and consulted upon) within a realistic timeframe. Whichever option is chosen, we do urge that a process be established to enable a further review of the data requirements for the cost assessment tables.

b. Do you agree costs should be captured through a controlled process?

We do agree that a controlled process is required for consistency of approach and accuracy of data. It is also far more efficient to capture costs simultaneously to reporting data for the year, rather than retrospectively. Requests for data in-year would represent an improvement towards a more controlled process, and one which does not require companies to provide data retrospectively for historic years, for which actuals may not have been collected at the time.

c. Do we have sufficient guidance and definitions for the additional line items provided?

At present there are instances where there are gaps in the guidance. We request that Ofwat works with the industry, perhaps through a working group, to further identify where these gaps exist.

d. What line items need further definition?

Further definitions would be helpful with regard to the following lines:

Table	Line	Bristol Water comment/ request for clarification
Table 1D		There does not appear to be any obvious distinction that table 1D is for capital grants only. At present the table just states grants and contributions.
Table 2A		The line definitions to ensure principal use charge only is included between price control units (Wholesale water, Wholesale waste water, Retail HH, Retail NHH) is beneficial and welcomed. However, where the table splits Water resources and Water Network+ into separate columns, it is somewhat misleading and as a result suggests the principal use should be applied to other segments and not just the four price control units stated above.
Table 2B		In regards to 'renewals expensed', if this is supposed to be IRE, why is there a non-infrastructure line? In regards to 'infrastructure network reinforcement', it would be helpful if the description specifies in more detail what should be included here, i.e. growth expenditure not directly funded by developers.
Table 2C		Non-household is still included as part of this table but further information is required as to what would be expected to be included.
Table 2E	Other contributions	Examples of non-price control other contributions would be useful in this line. For example, would this only include contributions from a third party?
Table 4J	Lines 14-16	Further clarity is needed in order to explain how the definitions for these lines relate to the annual totals for Table 4L
Table 4L		Further clarity is needed in order to explain what reference point should be used to determine the end date of projects.
Table 4P	Lines 7-13	Further clarity is needed in order to explain the distinction between a "direct" and an "indirect" source. The existing guidance only accounts for water sources that directly feed water treatment works. Bristol Water has a number of sources that only feed water treatment works indirectly and hence are not captured in these lines. As the purpose of the wholesale cost data submission is to provide data that allows the relationship between costs and cost drivers (e.g. number of sources) to be benchmarked between companies, the present reporting of these lines provides a distorted view of this relationship, as whilst operating and capital expenditure to maintain these "indirect sources" is incurred and reported, the relevant sources are not.
Table 4Q	Line 18	Further clarity is needed in order to explain whether reporting of this line should include lead communication pipes replaced as part of the mains renewal programme.
Table 4V		Definitions on the categories such as Impounding Reservoir, Pumped Storage, River Abstractions etc. need to be expanded. As an example where should "pre-treatment" costs be included?
Confidence grades		Further definitions around each possible confidence grade would be helpful. In particular it would be useful to have examples to assist with the distinction between reliability and accuracy. At present a degree of "expert judgement" has been exercised to apply these to each data point and therefore consistency across lines could be improved.

In addition, it would be helpful if the guidance in the 16/17 cost assessment question log be built into future information requests so that all the relevant information is kept and updated in one place.

2. *What are your views on the proposed changes to the existing tables in Appendix 1?*

a. *Tax and non-appointed revenue (table 1A)*

This information is available.

b. *Totex analysis (table 2B, 4D and 4E)*

The changes to 4D and 4E to address the changes to reporting IRE spend (as operating or capital cost) resulting from the introduction of IFRS has gone part of the way to assisting in this area, but requires further clarity as detailed in the table above.

c. *Other minor changes*

Bristol Water has no comments to add in regards to this question.

3. *Do you agree that there will be some residual non-household retail activities (for example, developer services and meter reading) for an incumbent that exits the non-household retail market?*

As the current definitions stand, there will be non-household retail expenditure with no associated income. Our developer services costs (which are capitalised in our statutory accounts, to wholesale assets) are non-household retail operating expenditure in our regulatory accounts. The treatment of this expenditure may need redefining as wholesale rather than retail. Companies, such as ourselves, consider this expenditure an integral part of the cost of the infrastructure to which it relates.

The cost allocation definitions need to be amended where there are references to allocating costs across the retail NHH price control to prevent stranded costs arising from applying the guidelines.

4. *Do we have sufficient guidance around cost allocations between business units?*

Bristol Water has no comments to add in regards to this question.

5. *Do we have sufficiently defined boundaries for water resources and Bioresources?*

Bristol Water has no comments to add in regards to this question.

6. *Have we provided sufficient guidance for Average Pumping Head in table 4P (wholesale water non-financial data)?*

Further clarification on which pumps should be included and excluded in reporting average pumping head would be useful. In addition, further information on how pumping head costs should be allocated between the different business units would also be beneficial, especially with regard to borehole pumping. Existing guidance (RAG 2.06, Appendix 1) expresses that pumping costs should be split between water resources and water treatment based upon an assessment of the actual head of the pump compared to its potential, with the difference of potential over actual forming the part of the costs which should be allocated to water treatment. Calculating this differential requires a degree of interpretation of when the actual head stops and in particular what reference point in the treatment works should be used to assess this (e.g. contact tank, pre-treatment tank or the highest

point in treatment works, amongst other possible interpretations of the definition). Greater clarity on this allocation would be useful.

Questions relating to Outcomes reporting

7. Should companies accrue for future ODI revenue rewards/ penalties?

We understand the benefits of early reporting of the impact of rewards and penalties, but also recognise that there may be practical issues and potential unintended consequences.

In order to recognise rewards and penalties in financial statements, we will require sufficient evidence to satisfy the Company's auditors of the amounts and the point at which they should be recognised. This could present difficulties and ambiguities, particularly where financial assurance is sought on matters related to non-financial performance. To avoid these issues, we are of the view that Ofwat would need to confirm adjustments for rewards and penalties before they can be recognised, including the effect on revenues.

In the absence of an Ofwat confirmation, it would be more difficult to support the accrual of rewards than penalties, due to the prudent approach of accounting rules. This combination may lead to an imbalance, with penalties being recognised to a greater extent than rewards.

If an approach is established for appropriately accruing for rewards and penalties, there are further impacts that would need to be considered. For example, recognition within period may produce the unwanted effects of volatility in bills and revenues. There is also a potential impact on financeability. We think it would be appropriate for Ofwat to consider whether other mechanisms could be used to address these issues, such as within period changes to PAYG rates.

In our opinion any differences between the statutory accounts and the regulatory accounts should be kept to a minimum.

Given the potential impact and complexity of the issue, we believe this is a question which would benefit from a joint workshop between Ofwat and the industry.

8. Do you have any comments on our proposed shadow reporting of leakage, supply interruptions and sewer flooding according to the new consistent reporting guidance?

We note that there is a short section on the shadow reporting of consistency measures (on pages 25-26 of the main consultation document). Bristol Water has supported the industry to accommodate the proposals regarding shadow reporting of 2016-17 data, which will be required by 31 August 2017, and to ensure that in following years, shadow data will be provided alongside the APR in mid-July. We have no further comments to add in regards to the reporting guidance.

Question relating to small companies (RAG3)

9. Do you agree with the proposal to raise the small company turnover threshold to £10.2m?

We have no particular objection to the movement of this threshold. We would note that the terminology 'small companies' can be misleading to customers and other stakeholders, particularly

as in other contexts could be taken to mean water only companies such as Bristol Water, and suggest that an alternative description is used for those companies to which the definition applies.

Questions (10-15) relating to transfer pricing guidance (RAG5)

Bristol Water has no comments to add in regards to questions 10-15.

Questions relating to adopted assets

16. *Should an additional line be added to table 1C in the non-current liabilities section; 'Deferred income – adopted assets'?*

The addition of this line would provide transparency of what it relates to. Further guidance is requested as to whether this line will be included.

Questions relating to amortisation of grants & contributions and adopted assets held as liabilities

17. *Should RAG 1 1.8.1 be amended to specifically include 'income recognised in the year which is recorded as negative operating expenditure' and require this to be adjusted and shown as 'other income'?*

Bristol Water has no comments to add in regards to question 17.

Questions relating to grants & contributions recognised in the income statement in year received

18. *Should RAG 1 be amended to specifically require amortisation of grants & contributions and adopted assets to be recorded as 'other income' and adjusted in table 1A?*

Including amortisation of deferred contributions in Table 1A line 5 "Other Income" (otherwise only net property rentals in this line), ensures:

- The validation with table 1A works; and
- The amortisation of deferred contributions is excluded from 2A,2B, Totex 4B and 4D.

We propose that a line for "amortisation of deferred contributions" be required in table 2A, which is excluded from totex, similar to the depreciation lines 4 and 5. This would leave line 5 on table 1A clean to contain "other rental income". We do recognise that other companies who treat contributions as revenue received in the year may prefer to use the "other income" line option. Currently, it looks as though where they have revenue from contributions in table 1A line 1 Revenue, they would need to include it on table 2A in line 2, which would still work and would not cause any double counting. It would seem appropriate therefore that companies treating contributions as revenue received in the year should include it in "other income" and ensure that a new line is added for companies who amortise deferred contributions "amortisation of deferred contributions".

Questions relating to supervision fees for adopted wastewater assets

19. *Should supervision fees be added to RAG 4 appendix 1 as price control income and the reference in the 2E.11 line definition be removed?*

Bristol Water has no comments to add in regards to this question.

Other Comments

A. Validation of tables

The validation included in the APR tables is very useful. It would be helpful if this was expanded as there seems to be a number of links which could be made between tables and are in the table definitions, but are neither linked with formulae, nor input as a validation check. Similarly, if they were included within the same spreadsheet some validation between APR tables and cost assessment tables would be possible, although as stated above (in response to question 1a) our preference is that these remain separate documents. To help illustrate our point, we have provided an example below:

Table 2I line 20 is an input field, however the definition says:

20	Relevant capital contributions from connection charges and revenue from infrastructure charges, defined in the final determination as covered by the price control. Equal to the sum of table 2E lines 1, 2 and 3 (column 4) for water and 7 and 8 (column 4) for wastewater. Column 4 of table 2E indicates the total of grants and contributions received (as governed by the price control) and so are indifferent to the accounting treatment.
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B. Final Version of RAGs

We request that there be no changes/additions/amendments to the final version of the RAGs, due to be issued in October 2017. This is already over 6 months into the year to which the guidelines relate. Producing further updates and variations, as has occurred in 2016/17, leads to confusion across the industry, and it is not always possible to produce the data required when given such a short notice period.

It would also be useful to have all the guidance in one place. The Introduction to the main consultation document is an example of how the guidance is spread throughout Ofwat documents and publications. Ideally all relevant guidance would be in one document, or be listed and accessible from one area of the website. Ensuring all documents are located in one location will help companies to provide the accurate information required, which will, in turn, assist transparency for our customers and stakeholders.

C. RORE and net debt

There needs to be consistency and clarity between the treatment of debt and interest. The RORE calculation includes preference shares in the interest calculation. The net debt table (1E) for example does not include preference dividends in the interest rates or interest cost. In addition calling IE net debt, when it excludes items included in true "net debt" is likely to cause confusion for the reader.

D. Current Cost Accounts

We do not fully understand the continued use of CCA. Maintaining MEAVs will become less and less accurate the further we are from 2015, when CCA were required in full. Under FRS101 infrastructure assets are depreciated, whereas CCA perpetuates the use of infrastructure renewals accounting.

E. Changes to text in RAGS 1-5

Further clarification would be helpful with regard to the following RAGs:

RAG	Issue	Bristol Water comment on proposed description
RAG 2	Contracting Out	Further clarification is required in regards to the FTE driver used. The RAGs state that an appropriate share of Joint venture companies full time employees should be included in the FTE cost driver. Is it therefore the intention that Bristol Water should include the FTEs that relate to our joint venture company, Pelican? Pelican does not contribute towards any of Bristol Water's Finance, IT, HR, Health and safety, etc. costs, and so it would not be appropriate to include a share of their FTE in the driver.
RAG 4	High lift pumps	Our understanding is that this change has already taken effect - the High lift pumps change to treated water distribution has already been incorporated in our 16/17 APR and cost assessment tables.
RAG 4	Eligibility for retail switching	The description needs re-wording to enable a greater understanding of what is required.

