

South East Water's  
Response to  
Consultation on  
regulatory reporting  
(2017-18)

July 2017

## 1 INTRODUCTION

This document provides South East Water's response to the consultation on the review of regulatory reporting published in April 2017.

## 2 ANSWERS TO SPECIFIC CONSULTATION QUESTIONS

Below are responses to the specific questions raised.

Q1. 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?

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

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

d. What line items need further definition?

a)

Where appropriate we believe expanding the APR to capture more granular data is justified and provides a transparent platform for future reference. However, we urge Ofwat to assess the usefulness of the supplied data in 2016-17 and make a decision to its inclusion in future years. Elements of the expanded data requested is time consuming to collect, and potentially submitted inconsistently amongst companies. In the course of Ofwat concluding their Totex modelling in the coming months we support the need to draw upon a wide range of explanatory data. However, should they identify components of data which is no longer required/relevant then Ofwat should seek to remove their requirement from future APRs to minimise burden.

b)

We appreciate the need for high quality data and therefore agree the data to be collected through a controlled process.

c)

For the recent cost assessment information request we have questioned the definition regarding number of boreholes. Given the purpose as an explanatory factor we consider this defined line should reflect the actual number of borehole sources thereby providing a proxy for cost to operate and maintain each borehole. We consider this to be more appropriate than counting groups of boreholes which could potentially underplay the required cost. This

is particularly relevant for SEW which operate a large number of boreholes, which is in contrast to the majority of the industry.

We have no issues with additional information requirements regarding new connections and believe additional focus targeted by these tables will help improve this area both operationally and in respect of information collection.

Otherwise we consider the guidance and definitions to be broadly sufficient for the additional tables, but the availability to confirm understanding with Ofwat remains useful during transition. We would request when new tables are introduced that the objective of collecting the data is clear and understood in the accompanying guidance.

*d)*

As per our previous regulatory consultation responses we continue to have concerns with the guidance of allocating debt management and doubtful debt on the suggested allocation guidelines. Given the current compulsory metering programme we have an inconsistent dataset of debt attributed to customer type against the current customer type (i.e. measured or unmeasured) distribution. The consequence is a skew to the cost to serve values that indicates unmeasured customers are more expensive to service than measured household customers. The result is that the measured premium potentially shows a false outcome, which is inconsistent with the Final Determination.

We acknowledge Ofwat's statement that suggested drivers are a guide with onus on companies to identify the most appropriate cost driver. We support this approach and we will continue to outline in our methodology statement where we deviate from regulatory guidance due to unique circumstances. The methodology statements provided by each company offer an opportunity for Ofwat to assess drivers used by companies which deviate from the current suggested guidelines and provide useful feedback to test the incumbent suggested drivers.

Finally, we also note that definitions should broadly be consistent with PR14 guidelines – since companies are monitored against their Final Determination outcomes. Altering the definitions can potentially make overall monitoring difficult. We appreciate the requirement to ensure definitions are in place for PR19, however we ask the question of how Ofwat, via changes in RAG guidance, will ensure backward monitoring remains consistent.

Q2. What are your views on the proposed changes to the existing tables in Appendix 1?

- a. Tax and non-appointed revenue (table 1A)
- b. Totex analysis (table 2B, 4D and 4E)
- c. Other minor changes

No issues.

Q3. 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?

We agree that under the guidance there would be an element of residue non-household retail activity cost that remains. Whilst we are happy to accept this outcome and provides no material issue, the consequence is a question of whether such activities should exist in non-household going forward but be absorbed into the wholesale price-control where they seem more appropriate.

Q4. Do we have sufficient guidance around cost allocations between business units?

We consider the guidance and definitions to be broadly sufficient. The guidance is an evolution of previous guidance and therefore raises no significant issues, but the availability to confirm understanding with Ofwat remains useful. We have made comment regarding allocation of water resource expenditure in the below question.

Q5. Do we have sufficiently defined boundaries for water resources and Bioresources?

We consider the guidance and definitions to be broadly sufficient. Our only comment would be that the guidance remains asset boundary based, which whilst appears to be the most suitable approach does have the potential to offer some unique conflicts. For example an objective of our compulsory metering programme is to control water resource requirements. Under the boundary guidance provided it would appear to be a treated water distribution (network+) activity, however common sense would place this activity as a water resource function. A further example would be water quality sampling points upstream from the water resource function – their boundary position would place this in network+ under current guidance, however should the cost be attributed to water resources?

No comment regarding bioresources.

Q6. Have we provided sufficient guidance for Average Pumping Head in table 4P (wholesale water non-financial data)?

The guidance provided represents a good default position. However where possible we look to refine the guidance by using the ground water level (Water Table on your diagram) rather than the Pump Level (PL) when known since this provides a more accurate determination of pumping head. Similarly where a treated water storage reservoir has a high level inlet we use the high level Inlet level instead of the top water level. We trust Ofwat support companies refining the guidance where appropriate and outlining such revisions in their methodology statement.

Q7. Should companies accrue for future ODI revenue rewards/ penalties?

We support keeping reporting simple and do not see any real benefit by including this additional information. Table 3A reports the level of reward/penalty and the RORE calculation already incorporates an accrual to take into account the cumulative effect of rewards/penalties

Q8. 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 will attempt to be compliant as possible in accordance with the new guidance and the requirements set out in the consultation document.

We note that the transition of the industry to reporting under the new methodologies will need careful communication by all companies and stakeholders.

Q9. Do you agree with the proposal to raise the small company turnover threshold to £10.2m?

No comment.

Q10. Does RAG5, in its current form, inhibit efficient bioresources trades from happening? If so, please explain why and if possible, provide evidence.

No comment regarding bioresources.

Q11.

a. Which of our proposed two options (Option A: incremental cost or above and Option B: incremental cost or above plus a margin) do you prefer and why?

b. In the case of Option B, do you agree with our proposed approach to specifying an appropriate margin? Please explain your reasoning and provide evidence where possible

No comment regarding bioresources.

Q12. What implications or concerns (if any) do you foresee for new entry to the bioresources market, as a result of our proposals on transfer pricing for bioresources?

No comment regarding bioresources.

Q13. Are there any other ideas that you propose, to improve our regulation of transfer pricing for bioresources? If so, please provide analysis and where possible, evidence, to support these.

No comment regarding bioresources.

Q14. Are there any other matters which we should be taking into consideration regarding transfer pricing for bioresources?

No comment regarding bioresources.

Q15. Do our changes have any implications for the rest of RAG 5 or for activities other than bioresources?

No issues.