South Staffs Water

Green Lane, Walsall WS2 7PD
www.south-staffs-water.co.uk

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

By email: FinanceAndGovernance@ofwat.gsi.gov.uk

19 July 2017

Dear Sir,

Thank you for the opportunity to respond to Ofwat's consultation on regulatory reporting for the 2017-18 reporting year.

We support the proposed changes to the Regulatory Accounting Guidelines (RAGs) as it will increase transparency and comparability across the sector.

We have some minor comments and these are set out in the attached response.

Do let me know if you have any questions.

Yours sincerely,

P. J. Saynor

Philip Saynor,
Director of Regulation

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?**

We support the inclusion of the new tables within the APR to enhance transparency and ensure that the data is the best quality.

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

We agree.

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

In completing the 2016-17 tables, we have not identified any significant issues in guidance that weren't subsequently covered by the issued question log. However, we think that the subsequent review of the industry data can be used to refine definitions and ensure that all companies are reporting on the same basis.

d. **What line items need further definition?**

We have no further comments.

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

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

We support the changes to table 1A.

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

We are in support of the changes to the totex tables.

c. **Other minor changes**

We are in support of the other minor changes.

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?

There could be some residual activities but we think that they would be small. For companies who have exited, there is no retail non-household business so we think that these costs should form part of wholesale totex. These activities have a clear benefit to wholesalers who would, for example, hold the relationship with developers in the absence of any non-household retail business.

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

Yes, we believe that the guidance is sufficient.

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

We believe that the boundaries are now sufficiently defined.

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

Yes, we think that the rules around the allocation of average pumping head are now clear.

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

We would not accrue under the current methodology but would support an industry discussion into the accrual of "in year" ODI adjustments as they are becoming more likely in the future, and may represent a greater proportion of income.

The innovation in the regulatory space should be supported by appropriate changes in the accounting environment. This should apply to both regulatory and statutory approaches wherever possible to limit the number of differences between the two.

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 are in support of the drive to more consistent and comparable reporting of metrics across the industry. We agree that shadow reporting is the best approach in order to avoid confusion by stakeholders in the current period on a company's performance.

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

Not applicable.

Q10-Q15 RAG 5 and Bioresources

As a water only company, we have no comments on these questions.

Q16: Should an additional line be added to table 1C in the non-current liabilities section; 'Deferred income – adopted assets'?

We agree that an additional line should be added.

Q17: 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?

We can understand the reasons for making this change for those companies that report amortisation as negative operating costs so that they are not double counted in Table 2B. We do not include amortisation of capital contributions in Table 2B as we net it off against the depreciation charge so we do not have a double count. However, we can understand the need for all companies to show amortisation as other income in Table 1A in order to aid consistency in reporting across the industry.

Q18: 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'?

As highlighted in correspondence with Ofwat before publication of our Annual Performance Report, we currently offset the cost of mains diversions contributions within our Infrastructure Renewals Expenditure (IRE) which is wholly expensed within operating costs. As long as changing the treatment of these contributions to show them within other income has no detriment to either customers or companies (that is through either an income true-up/penalty or a totex reward/penalty) then the Company has no issue with this change.

Q19: Should supervision fees be added to RAG 4 appendix 1 as price control income and should the reference in the 2E.11 line definition be removed?

Yes, we agree.