



Regulatory Reporting consultation
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By email to: FinanceAndGovernance@ofwat.gsi.gov.uk

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Dear Regulatory Reporting team,

Consultation on regulatory reporting for the 2017-18 reporting year

SSE has a subsidiary company - SSE Water Limited (SSE Water) - that participates in the water markets under the New Appointments and Variations (NAV) framework and is sometimes known as a "new appointee" or NAV company. Such companies provide competition to existing incumbent water companies in the provision of local water and sewerage infrastructure to serve the needs of developer customers. As such, SSEW is not usually involved in the industry discussions about the development of the Regulatory Accounting Guidelines (RAGs), as these are focussed on the accounting requirements for the water companies subject to the periodic price review process. However, we notice that there is one question about small companies and we also have two general comments to make that are relevant to the regulatory reporting area of work and so we set these out in turn below.

Consultation Question

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

Response: Yes. We agree with this proposal, which aligns the definition of 'small company' with that used by government.

Other Points

We welcome any further developments of Ofwat's regulatory reporting guidance for the incumbent water companies that supports the competition brought by NAV companies to the industry – a recent example of such a development is that consulted upon last year in relation to the proposed reporting obligations for price controlled companies on connection costs and charges. Capital charges made directly by incumbents to developers should be consistent with charges made to NAV companies for matters such as off site reinforcement in order to maintain a 'level playing field' for competition and we welcome the contribution that targeted regulatory reporting can make to transparency in this area.

Another area where 'level playing field' considerations apply relates to the bulk supply charges made by incumbents to NAV companies. In the context of all the preparatory work that has been carried out to establish the difference between 'wholesale' and 'retail' costs of the incumbent water

companies prior to the opening of the non household retail market, many water charges published by the incumbents are divided into 'wholesale' and 'retail' components. As a NAV company, SSE Water expects to be charged by the incumbents on a 'wholesale' basis as that is the nature of the trade between the two parties. However, we have experienced the situation where some incumbents consider it appropriate to charge NAV companies for water on the higher 'retail' basis and discussions are ongoing with the companies concerned. We look forward to any Ofwat publication – perhaps as part of the ongoing review of the NAV market – that can address this point and we raise it in this context as it may be the case that some aspect of regulatory reporting could also be used to bring transparency to incumbent company policies in this respect.

I hope these comments are helpful and we would be happy to discuss.

Yours sincerely

Aileen Boyd
Regulation Manager