

November 2017

Trust in water

RAG changes following the April 2017 consultation

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1. Summary of changes to RAGs 1 to 5

1.1 Background

This document summarises the changes made to RAGs 1 - 5 as modified by this consultation.

Most of the changes are as a result of additional data for cost assessment and new connections work. Other changes have been as a result of resolving technical observations made by companies and requests for clarification.

1.2 Changes to text proposed in the consultation version

RAG	Issue	Description	Paragraph affected
RAG 1 RAG 3	Revenue reporting	Expand application note to include a reference to the new accounting standard IFRS 15	RAG 1 para 1.5.3 RAG 3 para 1.2.2 RAG 3 para 3.6.1
RAG 2	Contracting out	Use of appropriate cost drivers other than FTEs when outsourcing activities	RAG 2 chapter 5 definitions
RAG 2	Cross subsidy guidance	Overlapping guidance with RAG 5 deleted to allow RAG 5 changes to take precedence	RAG 2 paras 2.1 and 2.3.1
RAG 2	New rules for imported sludge	Overlapping guidance with RAG 5 deleted to allow RAG 5 changes to take precedence	RAG 2 paras 2.8 and 2.14
RAG 2	Definitions	Updated definitions to reflect recent changes	RAG 2 para 5.1
RAG 3	Non-appointed activities	Sludge and tankered waste opex and capital costs shown separately or in narrative	RAG 3 para 6.3.1
RAG 3	Tax and group relief	Disclosure of group relief transactions	RAG 3 para 6.3
RAG 3	RORE definition	Clarification of calculation period	RAG 3 para 3.14
RAG 3	Small company turnover threshold	Increase from £6.5m to £10.2m	RAG 3 para 5.1.2

RAG	Issue	Description	Paragraph affected
RAG 4	High lift pumps	Clarification that 'high lift pumps' are part of Treated Water distribution	RAG 4 chapter 2
RAG 4	Eligibility for retail switching	The retail household definition has been amended.	RAG 4 chapter 3
RAG 4	Sludge liquors treatment plants	RAG 4 clarification that stand-alone liquor treatment plants are part of sludge treatment.	RAG 4 chapter 2
RAG 5	Sludge	Revised transfer pricing rules for imported sludge activities.	RAG 5 para 9.8, new paras 9.9 to 9.13 and new section 12

1.3 Further changes to text made between the consultation version and this finalised version

RAG	Issue	Description	Paragraph affected
RAG 1	Other income	Paragraph 1.9.2 should be worded similarly to para 1.8.1 such that the reference should be to 'other income' in pro forma table 1A rather than 'other revenue' in pro forma table 2A.	1.8.3 1.9.2 1.9.3
RAG 2	Introduction	Replace 'activities' with 'resources'.	1.1
RAG 2	Objectives	Minor changes to final bullet point.	1.3
RAG 2	No cross subsidy between price control units	Superfluous sentence removed.	2.1
RAG 2	Definition of price control units	Clarification in relation to the relevant price control units in each of AMP6 and AMP7.	2.1 5.1
RAG 2	Water sludges	Water sludges added to list of activities	2.15 2.2

RAG	Issue	Description	Paragraph affected
RAG 2	RAG4 reference	Reference to RAG4 now removes superfluous version number	3.1
RAG 2	Imported tankered waste	Clarification of accounting treatment of recharges	2.8
RAG 2	Definitions	Terms re-ordered alphabetically.	5.1
RAG 3	Introduction	Text simplified	1.1.1
RAG 3	Shadow reporting of leakage, supply interruption and sewer flooding data	Table 3S is not required to be submitted as part of the APR	2.1.5
RAG 3	Cost assessment data	Tables 4J-4W are not required to be submitted as part of the APR	2.1.5
RAG 3	Regulatory equity	Typo correction.	3.1.1
RAG 3	Standards of performance	ODI text added.	3.2.6
RAG 3	Disclosure of information to auditors	Remove 'audit'.	3.3.3 a)
RAG 3	Wholesale revenue control reconciliation	Add bullet 'Changes in metering levels'.	4.4.2
RAG 3	Small company requirements	Explanatory footnote added.	5.1.2
RAG 3	Transfer pricing table templates	Comment added for rental of land and buildings.	6.3
RAG 4	Supervision fee for adopted wastewater assets	This income was anomalously referred to in line definitions but not classified in RAG4 appendix 1. After consultation, we now expect that this should be treated as part of the 'price control' grants and contributions. Appendix 1 has been updated accordingly.	Appendix 1

RAG	Issue	Description	Paragraph affected
RAG 4	Sludge treatment definition	'Measuring equipment' added to list of assets	Part 2

1.4 Changes to tables (RAG3) and definitions (RAG4) proposed in the consultation version

Table	Issue	Description of change	Table changes	Line definition changes
1A	Non-appointed revenue	Split between imported sludge, tankered waste and other.	Y	Y
1A	Effective tax rate	Calculation needs to exclude PY tax impact, maybe note to 1A to breakdown the tax charge between PY and other?	Y	Y
1D, 2B, 2E, 4D, 4E 2I - line definitions	Grants and contributions	Consistent wording needed; including table titles. Clarify that 1D is for capital grants (as defined by GAAP treatment) but section 2 and 4 refers to all grants.	Y	Y
2A	Recharges	Add heading in table and change line definitions to ensure this is for principal use recharges only.	Y	Y
2B, 4D and 4E – split of renewals	Ability to create proxy for pre-2015 infrastructure renewals expenditure	Insert 2 new lines to collect cost data on renewals	Y	Y
2B (amendments), 4D and 4E - rename	For clarity Local authority rates includes cumulo rates	Change to 'Local authority and cumulo' rates.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
2B, 4D, 4E	New connections - network reinforcement	Add a new line for network reinforcement, redefine 'other capex' lines (12 and 13) in 2B, 4D, 4E to exclude network reinforcement.	Y	Y
2C	'Household' definition	Reference to definition of household updated to reflect changes now captured in RAG 4.	n/a	Y
2D	Depreciation; third party services	Depreciation for third party services should only be recorded for dedicated assets.	n/a	Y
2E	Other contributions	Split between price control and non-price control.	Y	Y
2G, 2H	Retail exit - no need to populate	Text added on line definitions.	n/a	Y
2I	Grants & Contributions	Updated to take into account new lines in table 2E.	n/a	Y
2J	New connections - network reinforcement	Insert new table.	Y	Y
3C, 3D	Outcome, performance commitment and outcome delivery incentive data - Presentational issues	Pro forma 3C; year references removed from headers Pro forma 3D; line 5 changed from C to I and text added to line definition; line 6 description: changed from 'Quantitative composite score' to 'Total contact score'	Y	Y
4B, 4C (1E, 4H)	Cross references to FD / rule book	Cross references to be simplified to make a general reference to the rule book model and FD documents, this was previously causing confusion. Dependent	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
		references on other tables updated.		
4C	New lines	New lines to give increased transparency in calculating changes to the RCV.	Y	Y
4F	Cost assessment for retail	Table 4F changes - description updated from 'Operating cost analysis' to 'Cost analysis' Line 4F.9 'Depreciation-tangible fixed assets' further split into pre and post 1 April 2015 assets. New line added for capital expenditure Reference to definition of household updated to reflect changes now captured in RAG 4.	Y	Y
4J to 4W	Cost assessment - new tables	Add new tables 4J to 4W	Y	Y

1.5 Further changes to tables (RAG3) and definitions (RAG4) text made between the consultation version and this finalised version

Table	Issue	Description of change	Table changes	Line definition changes
1A	Other interest expense	Examples clarified	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
1A	Tax charge	'Payments for group relief received' added to example list of inclusions for this line.	n/a	Y
1A	Grants and contributions	Scope of adjustment for grants and contributions widened to incorporate all items that are recognised in the income statement.	n/a	Y
1A, 1D	Amortisation of grant income and adopted asset liabilities	Where amortisation of grant income and adopted asset liabilities occurs in the income statement these should not be netted off opex so that double counting in table 2B is avoided.	n/a	Y
1C	Deferred income - adopted assets	New line added to record 'Deferred income - adopted assets' (line 27)	Y	Y
1C	Cash & cash equivalents	Definition clarified by referencing to table 1E	n/a	Y
1D	Pension contribution cashflows	Definition clarified as being the difference between the charge included in opex and the cashflow (lines 6 and 7).	n/a	Y
1D	Net loans received	Include treatment of loan repayments (line 20).	n/a	Y
1E	Net debt analysis	Title changed to reiterate that this table is for the appointed business only.	n/a	Y
1E	Debt	Clarification that debt should be entered positive.	n/a	Y
2B	Other cash items	Definition clarified (line 23).	n/a	Y
2B, 4D, 4E	Energy related income	Further examples added.	n/a	Y
2B, 4D, 4E	Renewals	Incorrect text removed from line 6.	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
2B, 4D, 4E	Capital expenditure	Consistent text established for lines 12 and 13.	n/a	Y
2C	Non-household costs	Delete comment re third party billing - not needed post market opening.	n/a	Y
2D	Fixed asset revaluations and impairments	Two new lines added to allow entries for revaluations and impairments.	Y	Y
2E	Other contributions	Insert 'water' (lines 4 and 6)	n/a	Y
2E	Other contributions	Insert 'wastewater' (lines 11 and 13)	n/a	Y
2E	Sewer adoption supervision fee	Anomalous reference removed from line definitions (moved to RAG4 appendix 1).	n/a	Y
3A	Forecast ODI penalty/reward	Line 14 definition amended to clarify treatment of rewards/penalties already earned.	n/a	Y
3D	SIM	Line 5 amended to clarify rounding rules.	n/a	Y
3S	Shadow reporting of leakage, supply interruption and sewer flooding data	New table	Y	Y
4A	Household properties	Updated definition	n/a	Y
4D, 4E	Infrastructure network reinforcement	Specific exclusion from the remaining enhancement capex lines.	n/a	Y
4D, 4E	Water and wastewater	Overlapping text in line 16 removed.	n/a	Y
4F	Retail assets	Asset commissioning date confirmed as the point at which classification in this table should be considered.	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
4H	RORE	Replace 'regulated' with 'regulatory' (lines 2 to 5).	n/a	Y
4H	RORE	Line 5 formula changes for interest rates and RORE	n/a	Y
4H	RORE	Formula for deflation factor corrected.	n/a	Y
4H	RORE	Fisher equation included.	n/a	Y
4H	Credit rating	Line 9 amended to include outlook/watch status.	n/a	Y
4J	Abstraction charges/ discharge consents	Line 3 - Definition amended to clarify charges covered	n/a	Y
4J	Renewals	Line 6 – Incorrect reference to pipework removed.	n/a	Y
4J	Third party services	Line 10 - Amended reference to RAGs	n/a	Y
4J	Atypical expenditure	Line 25-29 - Amended definition of Atypicals and corrected formula (previously, by mistake, it was excluded)	Y	Y
4K	Renewals	Line 6 – Incorrect reference to pipework removed.	n/a	Y
4K	Third party services	Line 10 - Amended reference to RAGs	n/a	Y
4K	Maintaining the long term capability of the assets - infra	Line 12 - Definition now includes guidance on enhancement vs base - consistent with 4J.12	n/a	Y
4K	Maintaining the long term capability of the assets - non-infra	Line 13 - Definition now includes guidance on enhancement vs base - consistent with 4J.13	n/a	Y
4K	Atypical expenditure	4K.25-29 - Amended definition of Atypicals and corrected formula (previously, by mistake, it was excluded)	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
4L	NEP - Making ecological improvements at abstractions (Habitats Directive, SSSI, NERC, BAPs)	Line 1- definition amended to widen scope.	n/a	Y
4L	NEP Eels regulation	Line 2 – new line	Y	Y
4L	New connections	Line 11 – new line	Y	Y
4L	NEP ~ Investigations	Line 15 – new line	Y	Y
4L	Metering optants	Line 17 amended to apply to meters requested	Y	Y
4L	Metering by companies	Line 18 amended to apply to all meters even if not used for charging.	n/a	Y
4L	Capital expenditure	Lines 20-29 clarification regarding consistency with previous data submissions.	n/a	Y
4M	NEP Eels regulation	Line 5 - new line	Y	Y
4M	NEP ~ Monitoring of pass forward flows at CSOs	Line 8 - new line	Y	Y
4M	NEP ~ Schemes to increase storm tank capacity	Line 10 - new line	Y	Y
4M	NEP ~ Chemicals monitoring / investigations / options appraisals	Line 12 - new line	Y	Y
4M	NEP ~ National phosphorus	Line 13 - new line	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
	removal technology investigations			
4M	Transfer of Private Sewers	Line removed from table	Y	Y
4N	Estimated sludge costs in size band 6 works	Line 11 - new line	Y	Y
4O	Flow passed to full treatment	Units are m3/d	Y	Y
4P	Groundwater works	Line 4 - changing definition to refer to groundwater works	n/a	Y
4P	Groundwater works	Line 10 - changing definition to refer to groundwater works	n/a	Y
4P	Groundwater works	Line 13 - changing definition to refer to groundwater works	n/a	Y
4P	Total capacity of water reservoirs	Line 15 - insertion of "design/construction" to improve clarity	n/a	Y
4P	Total number of intake and source pumping stations	Line 16 - Clarity over number of sites	n/a	Y
4P	Total number of raw water transfer stations	Line 17 – new line	Y	Y
4P	Total capacity of intake and source pumping stations	Line 18 – revised definition	n/a	Y
4P	Total capacity of raw water transfer pumping stations	Line 19 – new line	Y	Y
4P	Pumping head	Line 21 - Removal of "weighted" to give average pumping head	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
4P	Pumping head	Line 22 - Removal of "weighted" to give average pumping head	n/a	Y
4P	Pumping head	Line 54 - Removal of "weighted" to give average pumping head	n/a	Y
4P	New Line	Line 64 - Total length of non-potable and partially treated main for treatment inserted	Y	Y
4P	Booster pumping stations	Line 65 -revised definition	n/a	Y
4P	Distribution input	Line 68 - insertion of "design/construction" to improve clarity	n/a	Y
4P	Property type	Lines 70-72 Change from "Household" to "Residential" and "Non Household" to "Business"	Y	Y
4P	Distribution losses	Line 74 – text simplified.	n/a	Y
4P	Service reservoirs	Line 80 - insertion of "design/construction" to improve clarity	n/a	Y
4P	Pumping head	Line 90 – reference to "weighted" removed.	n/a	Y
4Q	Property type	"Residential" and "Business" property definition cross referenced to chapter 3.	n/a	Y
4Q	Property type	Lines 1,2,4,7,9,14,17 Change from "Household" to "Residential"	Y	Y
4Q	Property type	Lines 3,5,6,10,13,16 Change from "Non Household" to "Business"	Y	Y
4Q	New Line	Line 8 - Total Connected properties at year end	n/a	Y
4Q	Meter optants	Line 11 - amended to apply to meters requested, change from "Household" to "Residential"	n/a	Y
4Q	Properties	Line 16 - amended to exclude void properties	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
4Q	Properties	Line 17 - amended to exclude void properties	n/a	Y
4Q	Company area measurement	Line 18 - amended company area to be defined in km2	Y	Y
4Q	Communication pipes	Line 19 - changed references to PR14, change protocol and AMP6	n/a	Y
4Q	Changed line orders	Lines 24 to 26 - Order now changed to (24) N+, (25) WR, (26) Wholesale Water. Clarification of definition of energy usage.	Y	Y
4Q	Energy consumption	Line 26 - Now sum of N+ and WR	Y	Y
4Q	Peak factor	Line 27 – Definition corrected and simplified.	n/a	Y
4Q	Leakage	Line 29 – “the sustainable” added and now disclosed as MI/d	Y	Y
4R	Sludge disposal	Line 38 - formula corrected.	n/a	Y
4R	Sludge quantity	Line 40 – inserted ‘total’	n/a	Y
4S	Sewage treatment	Various references updated	n/a	Y
4T	Sludge treatment	Line 9 - The totals for the incumbent and 3rd party service provider columns should sum to 100%	n/a	Y
4T	Sludge disposal	Line 10 - inserted landfill, raw	n/a	Y
4T	Sludge disposal	Line 11 - inserted landfill, partly treated	n/a	Y
4T	Sludge disposal	Line 12 - inserted land restoration / reclamation	n/a	Y
4T	Sludge disposal	Line 13 - inserted recycled to farmland	n/a	Y
4T	Sludge disposal	Line 14 - inserted other (specify)	n/a	Y
4U	Property type	“Residential” and “Business” property definition cross referenced to chapter 3.	n/a	Y

Table	Issue	Description of change	Table changes	Line definition changes
4U	Property type	Lines 1,3,4,5,9 Change from "Household" to "Residential"	Y	Y
4U	Property type	Lines 2,6,7,8,9 Change from "Non Household" to "Business"	Y	Y
4U	Energy usage	Line 13-14 - Clarification of definition of energy usage.	n/a	Y
4U	Population	Line 16 - Insert "Population resident within areas designated under more than one category eg an SSSI within a National Park, should only be counted once"	n/a	Y
4V	Column 4	Renamed "Groundwater, excluding MAR water supply schemes"	Y	n/a
4V	Column 6	Renamed "Aquifer Storage and Recovery (ASR) water supply schemes"	Y	n/a
4V	Negative income	Line 2 - Description cross referenced to 4D.2	n/a	Y
4V	Employment costs	Line 10 - Corrected referencing	n/a	Y
4V	Costs associated with Traffic Management Act	Line 13 - Amended definition	n/a	Y
4V	Statutory water softening	Line 17 – Add reference to legislation	n/a	Y
4W	Negative income	Lines 2 and 10 - Description cross referenced to 4E.2	n/a	Y
4W	Employment costs	Line 18 - Corrected referencing	n/a	Y
4W	Costs associated with Traffic Management Act	Line 21 - Amended definition	n/a	Y
S2	Wastewater	Columns added for wastewater data	Y	Y

