

Consultation on regulatory reporting for the 2018-19 reporting year

Response from Northumbrian Water Limited

Questions relating to 2018/19 reporting

Q1 *Transparency of financial flows - Appendix 1 contains our new table 1F;*

a. *Do you agree with the scope of the proposed information items in the new table?*

We strongly disagree with reporting the cost of debt and hedging instruments separately. Where a swap is entered into at the same time as debt is issued, it forms an integral part of the debt issuance. Separating the two parts of the transaction is misleading as it does not correctly represent the substance of the transaction.

b. *Is there any information missing from this table which you think should be included in order to achieve transparency and consistency for financial flows reporting?*

Do any of the line item definitions require further explanation?

We would like to clarify the units required for reporting the financial values, as the proforma table suggests that the financial values should be reported in £s. We propose that the published APR should be presented in £million, consistent with the other tables in section 1.

Q2 *New connections - Appendix 1 contains our new table 2K;*

a. *Do you agree with the scope of the proposed information items in the new table?*

b. *Is there any information missing from this table which you think should be included in order to achieve transparency and consistency for new connections reporting?*

Do any of the line item definitions require further explanation?

We agree that this table will provide transparency of the link between infrastructure charges and network reinforcement costs over time.

Q3 *What are your views on the proposed changes to the existing tables in Appendix 1?*

We have no specific comments on the changes to Cost Assessment data tables.

However, we would like to propose some amendments to Table 3S, Shadow reporting, specifically in relation to the definition of sewer collapses. We have been working with other companies, facilitated by Water UK, and have identified opportunities to improve the consistency of reporting on this measure. We have attached the shared proposal as an appendix to this consultation response.

Q4 ***What are your views on the issues highlighted in section 3 ‘Future developments in performance reporting’? Are there any other issues which we should consider? We are particularly interested in your views on the impact of additional price control units (section 3.2).***

IFRS 16 – Leasing

We accept the need to explain the impact of IFRS16 for 2019/20, compared to the PR14 price determination. We believe that there should be no need to separately report the impact of IFRS from 2020/21 onwards.

Table 2A – Additional price controls

We agree that revenue should be reported separately for all binding price control units from 2020/21.

In respect of joint use of assets, we believe that the current ‘principal use’ rules are fundamentally flawed. When a significant capex investment is made in a corporate asset (eg. information system or office building), requiring all of the capex to be reported against the price control unit of ‘principal use’, typically the larger of water or wastewater network plus, makes that segment appear less efficient. This is not remedied by the recharge mechanism and it is a misconception to suggest that use of a shared asset represents a transaction under RAG5.

A more appropriate approach would be to allocate the capex costs, and the subsequent depreciation charges, across the relevant price control units in the same way that opex costs of shared support functions are allocated.

Bioresources trading

We are concerned about extending the Annual Performance Report to include the profitability of specific non-regulated activities. We believe that the APR should report on regulated activities only.

Impact of Retail non-household exit

As a simple principle, any company which has exited the non-household retail market should not be carrying out non-household retail activities and therefore should not be reporting any costs against this price control segment from 2020/21.

Income from ‘diversions’ activity

Reporting from 2020/21 should reflect the approach taken at PR19.

Q5 ***What are your views on our preference to require all costs associated with the ‘Traffic management act’ to be reported (section 6)?***

Whilst we appreciate the preference for capturing all costs of complying with the legislation, there is a balance to be struck between completeness and consistency. The permit costs and administration costs are relatively easy to record. However, there is a risk that identifying the additional costs arising from working under the legislation could become quite judgemental.

Q6 *What are your views on our additional asset type descriptions for Water resources which recognise 'desalination' and 'effluent reuse' abstraction assets (section 7)?*

We have no comments to add.

Northumbrian Water

22 February 2019

Appendix - Sewer collapses common performance commitment

All companies have come together, facilitated by Water UK, to share experiences of shadow reporting for 2017-18 of the new sewer collapse measure, and have identified opportunities to improve the consistency of reporting through clarifying and in some cases expanding the reporting guidance.

As a result, we, in agreement with all other companies, propose a limited number of revisions to the reporting guidance aimed at providing clarity in reporting. The rationale for these revisions is provided below, and the specific proposed changes are provided in the annex (in track changes).

Rationale for proposed revisions to reporting guidance

The proposed changes relate to clarifications in five areas: the scope of the measure, the definition of customer and environmental impact, which assets that should be included, report timing and exclusions covering proactive status and impact of root ingress.

- **Clarification of the scope of the measure**

Making clearer that the measure is for sewer collapses that have not been identified proactively by the company and cause an impact on service to customers or the environment

- **Clarification of the definition of customer and environmental impact**

Making clearer that 'impact' covers any contact with the company (i.e. an impact on service has caused someone to contact the company), or any unplanned escape of wastewater, that results in the need to replace or repair the pipe to reinstate normal service; this revision aims at providing clarity that an impact to customer and environment should not be limited to a flooding or pollution event.

- **Clarification of assets that should be included**

Making clearer that a reportable sewer collapse also applies to pipe bridges, and failures on the infrastructure network, including inputs into the inlet of treatment works and terminal pumping station rising mains (in accordance with RAG guidance 4.07).

- **Clarification of the report timing**

Making clearer that a sewer collapse should be reported in the reporting year when the service incident was reported to the company and not when the repair was completed.

- **Clarification of exclusions covering proactive status, impact of root ingress**

Making clearer, via an updated flow diagram, the distinction between the proactive and reactive sewer collapse. Additionally, removing two exclusions (fractured assets and minor pipe breaks), providing clarity on how root ingress and patch repairs should be treated, making the wording on exclusions less ambiguous

We, and other companies, would be happy to expand further on the rationale for these changes if that would be helpful.

If the approach set out in this note was supported by Ofwat, and confirmation of this was provided by 22 March 2019 in line with the timeline set out in the consultation, we confirm that we would be able to report on this basis in the early APR submission by 15 May 2019, and resubmit business plan forecasts for 2019-20 to 2024-25 on this basis at the same time.

Annex: Proposed revisions

This annex sets out, in track changes from the published guidance, the proposed changes.

Reporting guidance – Sewer collapses per 1,000km

Objective

This guidance seeks to enable all companies to report on sewer collapses for the defined year with confidence and at a reasonable level of accuracy and with a common approach. Companies shall apply consistent and robust methods and common assumptions. This will facilitate the comparison of performance across companies by customers, regulators and other companies with reasonable confidence.

Key Principles

There are several key assumptions made in the compilation of the guidance:

- Reporting on number of sewer collapses shall be subject to each company's assurance process which is applied to all measures reported annually.
- Companies have a methodology or procedure in place for reporting on sewer collapses
- There is an assumption that there will be continued improvement by all companies in the short and medium term through innovation, new technology, data quality improvements and staff training;
- The measure assumes a clear and simple approach that can be understood by customers and regulators;
- The essential reporting requirements for reporting on sewer collapses are set out in the guidance;
- The focus of the guidance is on annual reporting of number of sewer collapses. It is not intended as a definitive guide to managing the risk of sewer collapses;
- Exclusions are to be kept to a minimum and shall be consistent with the reasonable expectations of an affected customer.

Applying this guidance is likely to mean that comparisons of historical performance between companies, and of individual companies' previous performance, may not necessarily be valid. However, it is anticipated that future individual company year on year trends in performance will be possible.

Measure Definition

Number of sewer collapses per thousand kilometres of all sewers that have not been identified proactively by the company and causing an impact on service to customers or the environment.

This measure seeks to reflect failures, ~~due to structural weakness~~ in the asset, causing any impact on service to customers or the environment that requires replacement or repair to reinstate service, while maintaining incentives for companies to proactively investigate asset quality.

A reportable sewer collapse is considered to be where a ~~structural~~ failure has occurred to the pipe that results in either any contact with the company (i.e. an impact on service has caused someone to contact the company) or any unplanned escape of wastewater and any loss of flow has occurred that results in a service impact to a customer or the environment results in the need to replace or ~~restore~~ repair the pipe to reinstate normal service (as set out in the flow diagram below). The measure intentionally does not refer to the magnitude of the collapse.

This measure includes rising mains, pipe bridges, and failures on the infrastructure network, including inputs into the inlet of treatment works and terminal pumping station rising mains (in accordance with RAG guidance 4.07).

Note this measure should include all public sewer and lateral collapses recorded by the company inclusive of those incidents that have been reported as flooding or pollution failures, if the primary cause of the flooding or pollution was a sewer collapse.

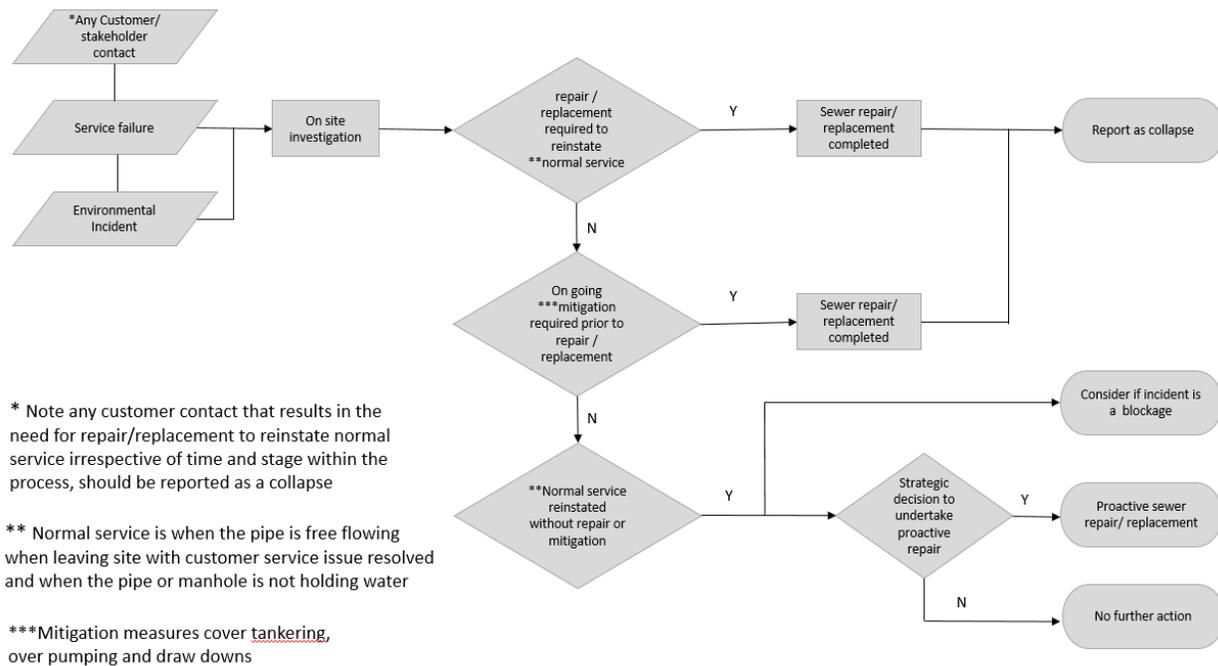
Note multiple incidents on the same length of sewer (manhole to manhole/ valve to valve) will count as a single incident if all work is carried out as part of the same remedial job. This assumes that the locations are in close proximity. This would not be the case if separate locations were more than 25m apart.

For clarity if jetting enables restoration of flow without the need for pipe replacement or repair then the incident is not to be reported as a sewer collapse.

However, if pipe replacement or repair is needed to resolve an issue that has been identified as a result of either a contact with a company or any unplanned escape of wastewater, then it is to be reported as a sewer collapse in the reporting year in which the service impact was reported to the company, not when the replacement or repair took place.

Reporting Process

The process for deriving the number of sewer collapses is given in the diagram below:



A sewer collapse should be reported in the reporting year when the service incident was reported to the company, not when the replacement or repair took place.

A company is required to report against this definition and:

- Disclose where its methodology does not comply with this guidance using the checklist in Annex A;
- Explain the reasons for any non-compliance;
- Set out its plans and programme to comply with the guidance; and
- Disclose any other factors which have an impact on the methodology for reporting outage.

Components

Sewer Length

Companies should separately record the length of sewer that was transferred to their responsibility under the Transfer of Public Sewers Regs 2011.

Exclusions

The following exclusions ~~could~~ apply to the sewer collapse measure definition:

- Proactively identified collapses – Should ~~a collapse~~ the need to replace or repair a pipe ~~pipe that has structurally failed~~ be found as a result of proactive activity (survey or proactive sewer maintenance work) on the network ~~unrelated to the reported reactive activity to restore service then it could~~ should be excluded (see flow diagram above).
- Third party damage – Third party structural damage (including water utility damage) of the sewer is not an indicator of asset health and hence ~~could~~ should be excluded.
- Manhole damage and internal backdrops ~~could~~ should be excluded
- Displaced joints, cracked ~~or fractured~~ pipes, open joints, intruding connections, ~~minor pipe breaks~~ and hard blockages, patch repairs and sewer lining do not reflect sufficiently significant structural failure hence ~~could~~ should be excluded from the measure.
- Root ingress is excluded unless it has resulted in a need for pipe replacement