

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

22nd February 2019

Dear Ofwat

Re: Consultation on annual performance report 2018-19

Overall, the changes proposed are essentially a tidy up with the addition of two (we appreciate that there are four, but as a WOC, we are only affected by two) new tables which have been well trailed and discussed around the industry:

1. The financial flow table is one way of looking at the financial structure of the industry and of companies, and is a legitimate analysis.
2. We agree that the table (1K) reconciling infrastructure charges and network reinforcement expenditure in the medium term is a positive step that will increase the transparency of the industry.

Please find the answers to the individual consultation questions in Appendix 1 below.

Yours sincerely



Tim Charlesworth
Head of Economic Regulation
Affinity Water

Appendix 1 – specific questions

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?

This table contains information collected by Ofwat last year, and the addition of table 1F is therefore a formalisation of existing practice to which we have no objection.

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?

No

Do any of the line item definitions require further explanation?

No

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?

Yes, this seems like a sensible approach to the subject, which will allow companies to demonstrate that the infrastructure charges that they collect. We have taken steps internally to tighten up the definition of 'network reinforcement expenditure' to ensure that it is accurately reported going forward.

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?

No

Do any of the line item definitions require further explanation?

No

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

There are none which cause us major concern. The only issue which we would like to bring Ofwat's attention to is the use of MPC (Maximum Production Capacity) in table 4P, lines 103-110. Whilst we understand the logic of this change, we think that measures of water capacity vary considerably across the industry, and that there is a risk that Ofwat draw misleading conclusions from data where differences are purely the result of differences in measurement methodologies. Although we are only commenting on one item, we have filled in your appendix as requested and attach it as appendix 2.

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).

We think that you have captured the main issues.

We remain concerned about the way that companies are recharging for the use of joint assets. We are aware of anecdotal evidence that WASCs are effectively subsidising water services by under charging for the use of joint assets. This is not a matter that we can investigate, but we think Ofwat should consider further investigations in this area.

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

We agree with this proposal. If we are to understand the costs of this legislation, then it is necessary to record all the costs, not just the permitting costs.

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 don't have any of these assets, so we have no strong views, but the requirement seems reasonable.

Appendix 2 – Proforma for response to question 3

Table	Line	Issue
4P	103-110	Whilst we understand the logic of this change, we think that measures of water capacity vary considerably across the industry, and that there is a risk that Ofwat draw misleading conclusions from data where differences are purely the result of different measurement methodologies.