

CYNGOR DEFNYDDWYR CONSUMER COUNCIL FOR



**The Consumer Council for Water's
response to
Ofwat's consultation on Regulatory
Reporting for the 2018-19 reporting year**

February 2019

1 Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to comment on Ofwat's consultation on regulatory reporting for the 2018-19 reporting year. This document sets out CCWater's response.
- 1.3 Overall we support Ofwat's proposed amendments to the annual reporting requirements for 2018-19. We also support the intention to align, where appropriate and possible, the annual performance report requirements with the business plan data table requirements. This will provide consistency with the proposed costs in plans and final determinations and allow for better comparisons between costs allowed and actual costs.

2. Annual Performance Report Consultation 2018-19

- 2.1 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?
 - 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 welcome and agree with the scope of the table. It will improve the transparency and clarity about the financial returns to the company's equity holders. In particular, it will shed light on differences between companies notional and actual capital structures.

However, we feel that this will not be readily understood by the average customer. As such it will be important for companies to explain, in simple terms, why returns differ between notional and actual structure.

In this regard it will be important that companies comply with the guidance to explain, via commentary, the data so that it helps with the understanding and interpretation of the information. As you indicated in your Monitoring Financial Resilience Report for 2017-18, some companies failed to provide commentaries in this year's annual performance reports.

Clearly the comparability of companies' financial flows information depends on the consistency with which companies have interpreted the line definitions. Ofwat needs to be assured of this consistency to make comparisons worthwhile.

Some companies have indicated that they will reduce gearing in the 2020-25 period. Going forward this means that the divergence between actual and notional shareholder returns reduces. It will be important to review the inclusion of this table (regulatory burden relative to the insight it provides) should companies' gearing levels converge to Ofwat's notional level in the future.

2.2 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 financial flows reporting?

Do any of the line item definitions require further explanation?

We have no role in regulating this issue, so we cannot comment on what data is best to be included. However, in our general experience, there needs to be clarity about any definitions that might be used in the commentary, to avoid the risk of inconsistency between companies in how they report the data.

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

Ofwat propose to change the references to 'rewards' and 'penalties' in Tables 3A and 4C to outperformance payments and underperformance payments respectively. We think that there could be scope for confusion as the term 'payment' could be inferred as a transaction from the customer to the company i.e. that customers will pay for both under and outperformance. We feel that the current wording better reflects the implications of out-/underperformance.

Additionally, we agree that it makes sense to include the reasons for movement in base RoRE in Table 4H as proposed (lines 21-26).

2.4 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 do not have any specific comments for on question.

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

We consider that companies will be better placed to answer this question.

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

We acknowledge that the proposed changes are designed to provide clarification in order to align reporting with developments in water resources planning requirements more generally and reflect potential future strategies. As more innovative responses to the challenges of balancing supply and demand emerge, we would expect that reporting definitions evolve.

3. Summary

- 3.1 Overall we support Ofwat's proposed amendments to the annual reporting requirements for 2018-19. We also support the intention to align, where appropriate and possible, the annual performance report requirements with the business plan data table requirements. This will provide consistency with the proposed costs in plans and final determinations and allow for better comparisons between costs allowed and actual costs.

Please direct any queries to:

Hannah Bradley
Senior Policy Manager