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**24 August 2020**

Dear Robert,

**RE: Regulatory reporting for the 2020-21 reporting year**

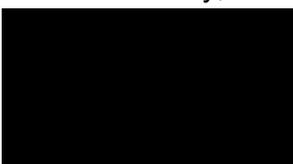
Thank you for providing us with the opportunity to respond to the consultation on regulatory reporting for the 2020-21 reporting year.

Delivering on our AMP7 Performance Commitments is a key area of focus for Affinity Water, and a robust and transparent regulatory reporting framework is essential to demonstrate the transformation of our performance. The Annual Performance Reporting (APR) is a key component of this (to enable meaningful engagement with the regulator and other key stakeholders) and we have provided comments herewith for each of the items included in Ofwat's consultation.

The consultation also covers new requirements for the 2020-25 price review period, and we have provided further detail on some of the key areas in future reporting (for example around asset health, bilateral markets, and greenhouse gas emissions).

I hope you find our comments helpful. Please do not hesitate to contact us should you wish to discuss any of these points further.

Yours sincerely,



Stève Hervouet  
Director of Regulation and Strategy

cc:  
Pauline Walsh, Chief Executive Officer, Affinity Water  
Stuart Ledger, Chief Financial Officer, Affinity Water

1. What are your views on the proposed changes to the APR tables in Appendix 1?

Except where stated below and in the appendices 1 (table/line pro-forma) and 2 (consultation sections), we agree with the definition proposed by Ofwat.

We are, however, concerned with the volume of changes proposed, and that these may not be finalised and confirmed until late 2020, which means a reduced period for preparedness and testing ahead of the FY20/21 APR.

2. Do you think that the tables allow a comparison of performance to the PR19 business plan tables? Are there areas where this could be improved? Are there areas where we should consider deviating from the business plan formats?

We do feel the tables allow a suitable comparison of performance against the PR19 business plan tables.

3. Do you think that the transactions between the price control units, in particular for the sludge liquors which Network+ treats on behalf of Bioresources, are sufficiently transparent? If not, please give examples as to how this could be improved.

We feel that the transactions between the price control units are sufficiently clear. Sludge liquors/Bioresources are not applicable to Affinity Water and we cannot comment on those particular items.

4. Are there any practical presentational issues we should consider e.g. do any tables have too many lines to publish easily? Do you have any preference for landscape versus portrait format?

We welcome Ofwat's suggestion to make tables easier to manage and publish. Our preference for tables is portrait format (we publish our APR within our annual report and financial statements in portrait form).

Extended landscape spreadsheets are difficult to work with, particularly as the Ofwat tables have been 'protected' with disabling of standard Excel features such as 'freeze panes', 'hide columns', etc. Reducing the number of lines in any one table also makes it easier to work with.

5. We are considering moving the 15 July deadline for the APR publication earlier in July so that we can more easily accommodate the in-period determinations. Would it be practical to implement such a change?

We do not support a change to the 15 July deadline, particularly given the significant number of changes in 2020-21 (with a large number of new reporting tables and lines being introduced).

6. Do you agree that we should embed the ODI performance model within the annual performance reporting tables?

We agree that the ODI performance model should be embedded within the APR tables (table 3A).

7. Do you agree that companies should report performance against the PR19 asset health long list on table 3E? If so, should information be restricted to water companies and regulators or made publicly available?

Overall, we support the development of asset health measures in the near future and we have provided further comments below regarding the two specific measures proposed by Ofwat ('unplanned maintenance' and 'properties at risk of receiving low pressure').

- Unplanned maintenance: A similar measure was trialled (and abandoned) after AMP5 and along with other companies, we found the measure was not giving consistent and meaningful results from year to year. We are concerned that in its current form, the performance criteria (unique to each individual company), is likely to cause confusion as stakeholders will inevitably wish to make comparisons between companies.
- Properties at risk of receiving low pressure: This measure was included by Ofwat as a financial performance commitment in our PR19 Final Determination. However, this is a measure of infrastructure capacity to meet demand, rather than a measure of asset health. Indeed, factors that are arguably a measure of asset health such as mains bursts, unplanned maintenance and unplanned outage are excludable events under the measure. Variations in performance between companies is more about data-logger coverage, and variations in an individual company's performance from year to year is likely to be more a question of annual weather conditions.

Significant technological progress has been achieved in recent years (for example around pressure measurement techniques, volume of data and the understanding of pressure issues) and we believe this measure should reflect this (this is currently not the case in Ofwat's proposal).

We believe the 'average time properties experience low pressure' measure developed for Affinity Water as part of AMP7 could be a better measure, as it does not exclude asset failure events (to make it a specific asset health measure it would however need further development to remove the effect of year-on-year variations in weather and demand).

Asset health will be essential in the future and we would be keen on engaging further with Ofwat on this topic.

8. Developer services are open to competition. Most site-specific services are contestable and can be provided by an undertaker (incumbent company or NAV), self-lay provider (SLP) or (primarily in the case of sewers) developers. We are introducing a new table 2N for developer services to measure the level of third-party activity in areas served by incumbent companies. This should enable us to measure that activity in a way that ensures the information is insightful and consistent. It will provide an insight on how competition in developer services is evolving over time. We have also added granularity for our cost information for growth-related expenditure in tables 4L and 4M. We propose a re-definition of our cost lines to capture the main elements of growth activities, and to capture specific on-site and off-site costs separately. We welcome comments and views on our proposed approach.

We would be able to provide information relating to all aspects of table 2N (however it should be noted that the information with regards to NAV connections relies on the return of actual connection volumes, which we seek from NAVs every 6 months).

9. We currently calculate the reconciliation in table 2K using infrastructure charges before any efficiency discounts. We are aware of some views that this should be changed to use infrastructure charges after discounts. What are your views on this?

Where we offer efficiency discounts against infrastructure charges, revenue will be shown net of the discount. Changing the table to reconcile infrastructure charges after discounts to the costs incurred will give a more accurate representation of the company's position. Therefore, we would prefer this to be changed to reconcile the costs to the revenue in line 2K.1.

10. Is there scope to rationalise the number of areas where we ask for specific assurance?

We agree that assurance is essential to ensure that regulatory data and information is accurate and complete, and we agree with Ofwat's proposal to require a statement on 'accuracy and completeness of data and information'.

11. We currently collect information on property and customer numbers, including voids etc, in various places in the APR. We could move all of this information into a single table – what are your views on this? Are there any other useful metrics for property and customer numbers which we should specify?

We would find it helpful for all information on property and customer numbers to be in a single table. Given that per capita consumption is based on 'household' rather than 'residential' properties, it would be helpful to also include in the properties table lines for 'household' and 'non-household' that reflected the requirement for PCC reporting.

12. Table 4U line 23: Total volume of network storage. We are aware that companies have had difficulties completing this item and are concerned that this may mean there could be inconsistencies across the industry. How might this definition be improved to avoid ambiguity and improve consistency of reporting?

We have no comment as this relates to wastewater services.

13. Strategic water resources – we have included more granular information on bulk supplies revenues and volumes in our proposed table 4A in order to promote trading activity. Currently, for cost information, we have a single line for third party costs, of which bulk supplies is a constituent. We asked companies to forecast individual costs for new bulk supplies in their PR19 business plans. Is it practical to disclose granular cost information for bulk supplies?

We would be able to give granular information on volumes and costs for bulk exports and imports and we feel it would be beneficial to disclose this information across the industry.

14. Social tariffs – we have proposed additional information to table 2F. Is this sufficient to provide a view of company activities in this area? What additional information should we consider adding to this table?

We consider that table 2F only reflect part of the work companies may be doing to help vulnerable customers, and we would welcome the requirement to also include the narrative behind the work being completed.

15. We currently have a source type for direct effluent reuse. This is where treated effluent is diverted to network plus price control activities (either via a raw water transport asset, raw water storage asset or to a water treatment works for further treatment and treated water distribution). We define direct reuse as when the effluent does not return to the environment or to the water resources price control activities (abstraction asset before entering the water treatment works). Although we consider indirect effluent reuse as being where an effluent discharge is diverted to a location (environment or water company water resource asset) purely for the purposes of abstraction for treatment and treated water distribution, we do not include this currently in the reporting of costs or sources. Where do you currently report these sources and costs? If we were to introduce an indirect reuse source category do you agree with our definition above?

We have no comment as this relates to wastewater services.

16. In section 8 we have included new data requirements for Bioresources. Should we collect more data to support the Bioresources market?

We have no comment as this relates to wastewater services

17. We are introducing a new table 9A for the reporting of issues relating to the innovation competition. This is to collect the information required for the 'PR19 Innovation funding reconciliation model' in a format that will also provide stakeholders with relevant information to monitor how the company is performing against its allocated innovation competition fund price control revenue. We propose in section 3.16 of RAG 3.12 that companies provide commentary on its innovation competition spend. Do the proposed new table, line definitions and commentary requirements capture the required information to support the reconciliation process? What additional information should we consider adding to this table?

We have reviewed proposed Table 9A and accompanying guidance. The reporting requirements appear satisfactory for the purpose of monitoring collections and expenditures of innovation funds and for the purpose of ensuring expenditures have been made as intended. Therefore, we do not think that any additional information is needed in this table.

18. We propose new reporting requirements for small companies:
- Customer-focused performance summary,
  - Per capita consumption (PCC),
  - Leakage; and,
  - Financial security.

What are your views on these proposals?

We support the view that small companies should be required to report these items.

19. What are your views on how we should collect the information to calculate the bilateral entry adjustment?

We feel the definition for 'bilateral cumulative capacity' is reasonable and appropriate, although we suggest some additional wording:

*'For the purposes of clarity, yield in this case is as defined for the receiving water company'.*

We would prefer the information to be collected in a new table pro forma (rather than by modifying table 5A).

20. We highlight proposals for Greenhouse gas emission reporting in section 4 'Future developments in performance reporting'.

- To what extent do you agree or disagree with these proposals and why?

Could companies publish annual gross and net greenhouse gas emissions (in tCO<sub>2</sub>e) for both water and wastewater? Could this be done for both operational and embedded emissions?

We can provide both annual gross and net emissions (for water). We can do this for operational emissions, but currently not for embedded. We are working towards being able to report embedded emissions, but we will probably not be in a position to do so until end of AMP7 (we understand this is the case for most water companies and this has been highlighted in Water UK response).

We can however provide further breakdown of emissions data, which we need to set our emissions strategy, and the information is already available in the Carbon Accounting Workbook (CAW).

21. We highlight proposals for nature based solutions reporting in section 4 'Future developments in performance reporting'.

- To what extent do you agree or disagree with these proposals and why?
- Which type of nature based solutions do you think should be included in any reporting, and how could they be reported against?
- What work do you think is required to establish relevant baselines?

We have no comment as this relates to wastewater services.

22. We highlight proposals for household bills reporting in section 4 'Household bills'.

- To what extent do you agree or disagree with these proposals and why?
- What additional information on household bills do you think should be included in the APR?

The RAG will need to be clear as to what bills should be included in the calculation to determine 'average bill'. For example, bills that relate only to part of a year (new property or change of customer), leak allowances, ex-gratia allowances, etc would all skew the average downwards.

The final RAG guidance on household bills reporting will need to be very clear. Producing the detailed information suggested in the consultation will be difficult and perhaps costly in terms of getting new system-reports written. We may not be able to embark on this in any meaningful way if queries on meaning/interpretation of the reporting guidance are ongoing at 2020 calendar year end.

We would like clarification whether 'household' in this context means 'mainstream household properties, such as houses, bungalows, and flats' or would include 'other types of property which are ineligible to choose their supplier' i.e. all 'residential' properties.

For debt reporting, we assume Ofwat will be asking Affinity to report only water service bill debt (not Thames and Anglian where we collect on their behalf). We believe a 'greater than one-year age' category would be useful. We would be able to report the number of customers

in arrears of their bill payment at any of twelve billing system period closures in the year, but not at any 'point' during the year.

From the consultation documentation, it would seem Ofwat envisage the information on household bills is to be included in the APR as detailed commentary. We believe it would be tidier, and more consistent between companies, if it were completed in a table pro-forma.

We do feel the additional information in the APR would provide meaningful analysis and allow for benchmarking and peer review and we would support additional disclosures in this area providing the information can be obtained consistently across companies.

## Appendix 1 – Review of the changes to tables

Table	Lines	Issue
1F	2	The line “Actual performance adjustment 2010-15” should be updated to “Actual performance adjustment 2015-20” in the proforma tables, in line with proposed RAG 4.09.
2A	3 and 7-10	The RAGs state it is no longer required to separately disclose recharges between the wholesale price controls, we are only required to disclose the recharges between wholesale and retail. Please can Ofwat confirm if we are still required to make the recharges between wholesale price controls and where to include this information – should it be included in the operating expenditure line or within the depreciation and amortisation lines? This will also impact table 2D, as dependent on where recharges are included, table 2D may not tie through to table 2A, or it may differ from our statutory financial statements.
2C	19	<p>The consultation says there is a new line for third party services opex, however this seems to have always been a requirement? Is there a line missing from proforma tables?</p> <p>Demand side efficiency (lines 24 to 29 in the proforma tables) has additional columns added for customer type but the excel proforma tables imply that only the totals are to be included – please can Ofwat confirm whether this is the case?</p>
2F	1	Is the intention that the number to be entered is the same as for table 6C line 4 ‘residential properties billed for unmeasured water’? If it intended to be the same, we suggest the same terminology as in table 6C be used. If it is intended to have a different meaning, the meaning should be made clear in the line guidance.
2F	4	Same comment as for line 1 above.
2N	1-4	‘Connections’ is an ambiguous term, sometimes taken to mean ‘communication pipes’ and sometimes as ‘connected properties’. Is the intention here to report the number of communication pipes laid or the number of properties connected through those communication pipes? If it is the number of communication pipes, how should we treat a communication pipe that is a single ferrule connection to the main but then splits at the boundary to a number of individual meters?
2N	5-6	At what point would we count a ‘property added to the network’? Should it be at the time the communication pipe is laid (when the building plot may be no more than a marked out area), when the new building becomes a recognisably habitable property, or when the new property is brought into charge? These three points in time could well straddle more than one report year.
2N	12	As in 2N lines 5-6 above, at which point would we count ‘a new property served by the incumbent’.
4C	7	The customer share of totex over/underspend should be calculated based on line 4C.3 – not just on the variance due to efficiencies. Additionally, the element of the totex over/underspend impacting the RCV should be calculated based on the customer share and use a ratio of (1 – PAYG).

4H	5	RORE calculation references lines in table 1F but the line references do not align. Additionally, in previous years, RORE was calculated using the company share of out/underperformance on retail costs however now guidelines say this should just be total out/underperformance of retail costs. Please can Ofwat confirm this is correct?
5A and 6A	25 and others	The term '3 <sup>rd</sup> parties' is used in a number of lines but its meaning in this context is not defined. We assume it is meant to include, but not limited to, other wholesalers i.e. other WaSCs and WoCs. We think it would be helpful if this were clarified in the RAG.
6D	4 and 5	This is a new table requirement. Currently, we do not track separately the split of the cost of residential and business meters renewed but we track in total. We will need to apportion these costs for the period that the information is unavailable.
6D	8	This line is not defined clearly. We assume it is intended to capture optant and selective meters installed at business premises and to exclude also meters installed on new connections as well as meter renewals. This should be clarified in the line guidance.
6D	11-14	The RAG provides no guidance on calculating the supply-demand benefit through meter installations. We assume it would be up to each company to define their own methodology for calculating this. It would be helpful if the RAG confirmed this.

## Appendix 2 – Comments on other areas in the consultation

Section of the consultation	Comments
2.2 - Impact of additional price control units	Please can Ofwat provide guidance on how to allocate revenue to the Water Resources price control to ensure all companies are reporting consistently
2.3 - Major project reporting	No issues with the requirements
2.4 - Outcomes, performance commitments and outcome delivery incentive data	No further comments than those addressed in consultation query 6 above
2.5 - RAG 3 clarifications and updates	Noted the additional narrative reporting requirements included in RAG 3.  Section 4.11.4 references the requirement to include narrative with table 4Y, however this table is not in the proforma tables. Is this a requirement of table 6D, which is on leakage and metering?
2.6 – RAG 4 clarifications and corrections	No issues noted to the changes to the tables, other than those reported in Appendix 1 of this document
2.7 - Executive pay and performance	The vast majority of these additional disclosures are included in our Remuneration Report in our Annual Report and Financial Statements as we report under Listed Company Rules but we will ensure all are also disclosed in the APR
2.8 - Board statement on accuracy and completeness of data and information	No further comments other than those made in consultation query 10
2.9 - Diversions	No issues noted with the proposed changes to tables
2.10 - Impact of Retail non-household exit	No issues noted
2.11 - Transparency of financial flows and debt	No issues noted with the proposals other than those noted in Appendix 1. Table 4B will be provided separately to Ofwat
2.12 - Water trading	See our response to consultation query 13 above
2.13 - Cost assessment data	See our responses to consultation queries 11, 12 and 13 above
2.14 - Small company information requirements	See our response to consultation query 18 above
3 - IFRS16 Leases	We will report under IFRS 16 in the APR with the exception of Direct Procurement Contracts.  For Direct Procurement Contracts, we recognise that these will be treated as assets and liabilities under IFRS 16 but then must be adjusted for to exclude the impact of accounting for these contracts in this way in the APR, and any costs and revenues associated with these contracts must be excluded. We agree with the proposal to adjust for this in table 1A but this will also impact other tables in the APR and therefore a separate column to pull the information out of other tables in section 1 of the APR would be useful.
4 - Future developments in performance reporting	See responses to consultation queries 19, 20, 21 and 22 above. No further comments