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13 August 2020

Dear Ofwat,

Consultation on regulatory reporting for the 2020/21 reporting year

A balance needs to be struck between the burden of regulatory reporting to Ofwat and clear communications on performance for customers and stakeholders. The latter can be achieved and led by companies (such as through initiatives such as the Bristol Water interactive performance graphic[1] and the Discover Water website), as long as there is sufficient high quality data collected by Ofwat. Collecting additional data beyond a level reasonably required for regulation risks a higher cost to companies and customers of the regulatory process, which results in a focus on the regulator's requirements for reporting rather than on communicating performance and ultimately more data on the sector. This, in our view, could lead to less understanding of the sectors' objectives and achievements. This was a clear message to Ofwat and the sector from the David Gray review in 2011, which saw a shift to reducing the regulatory reporting burden, the move to a framework based on outcomes defined through ongoing customer engagement and a principles rather than rules based approach to economic regulation.

We are therefore concerned that at numerous times throughout the consultation changes have been proposed to reporting requirements without sufficient indication as to why the change has been made, or a clear justification for increasing the reporting burden that sets out the costs and benefits. As a minimum we would have expected recognition of the trade-offs with reference to Ofwat's wider strategy and vision for the sector, rather than assuming that more is better. It is still a general requirement of good practice for regulators to consider the burden of regulation, and to consider when imposing new requirements, and to directly consider what can be reduced particularly when increasing the reporting burden.

We note Ofwat's statement on page 9 that "*one of the three goals set out in our strategy is to transform water company performance. A key part of achieving this is through the publication of information about how the companies are performing.*" Whilst we are supportive of Ofwat's strategic goal to increase its focus on company purpose and performance, we do not agree that this goal is met through the consultation. Our view is that there may be greater opportunities to cut the complexity and burden of regulation by focusing on specific purpose and performance areas, in order to help our customers' and stakeholders' understanding of these areas, but the insistence on granular and wide-ranging data collection overlooks this opportunity. There is a case for targeted engagement and intervention with individual companies, and then evidence for changing data

[1] The latest version can be found on our website

collection may be present. There may already be sufficient evidence for some of the increase in reporting outside of that necessary to monitor company performance against PR19, but if this is the case it was not in our view presented in the consultation.

We make this observation because data collected can be expected to result in regulatory intervention and action (otherwise why collect it?). As a relatively small water company, we have noticed a significant increase in activity recently, for instance with c10 consultations or requests for information all due over a period from now until the first week of September,

We would therefore like to draw your attention to some of our overall concerns over the consultation proposals:

- The granularity required to fulfil the regulatory report for 2020/21 has substantially increased the regulatory burden. Whilst we support transparency (particularly on performance reporting in order to assist our customers' understanding of our annual performance), we suggest a process is followed to evaluate where the benefit of transparency outweighs the burden placed on companies and the usefulness of some of the data being requested. For instance, will it reduce the frequency of ad-hoc requests and consultations recently seen, such as for social tariff data with an assurance request that was not aligned with the APR reporting timetable? As Ofwat's forward programme 2020/21 reflects on the need to reduce regulatory burdens, we would ask whether this consultation fulfils Ofwat's commitment within the forward programme to "ensure that regulatory burdens are kept to a minimum while ensuring companies deliver the best outcomes for customers"?
- We note that the volume of tables required has increased from 32 tables in 2019/20 to a proposed 42 tables in 2020/21 (applicable to a water only company). Whilst we recognise that in some areas additional information is required to allow comparison against PR19, and to inform PR24, there is other information that has been reported in the APR during 2015-20 which may no longer have a purpose. In particular, a number of potential cost drivers have been reported to allow examination of whether they were significant for cost modelling. Where these have not been found to be relevant for cost modelling or other data such as cost adjustment claims then consideration should be given to removing these from the APR. Data lines that have been superseded, for example the requirement to keep reporting on Mean Zonal Compliance, also remain.
- Whilst we recognise that 2020 has been an exceptional year (due to the impact of COVID-19), introducing new requirements for 2020/21 after the regulatory reporting year has started, we would suggest, has a disproportionate impact and for some of the proposals cannot be expected to result in high quality data. For any data that is a new reporting requirement, rather than a change in tables, then at least 6 months' minimum notice before the start of the reporting year should be given to allow for efficient systems changes necessary for the reporting line. Where data is not included in past reporting or in PR19 tables, this should be the rule that is followed (one which Ofwat has historically recognised).
- Some of the tables would benefit from further consultation, in particular the new 3E, 4A and 9A data tables. Our reservations behind the introduction of these tables are explained in our answers to the consultation questions, but one consideration is the lack of time given to companies in order to make the internal changes that are necessary in order to be able to report on the proposed tables. Our preference is that, at least for 2020/21, the approach to these tables is reconsidered.
- There are many aspects of the proposals, in particular Q19-22, for additional future reporting (the timeframe for which is not specified) as well as the expansion of data of the APR tables that are not signalled as part of PR19 or justified in terms of either cost benefit or a clear

public interest test (having considered the regulatory burden) in this consultation. We would urge that the final RAG/APR proposals specifically address this challenge in advance of seeking formal approval for changes to the RAGs, as it is relevant to our view of what is in the public interest when accepting them as a whole.

- Whilst we note the updated line definitions for tables 5A, 6A and 6B that were published after the consultation was announced, we still have concerns around the number of errors/ omissions in the tables, which are summarised in our response to Q1 and in appendix 1.

We continue to support the provision of the Annual Performance Report; we view the reporting requirements as complementary to other work we do to inform our customers and stakeholders about our operational and financial performance. We have carefully considered the changes proposed and our detailed responses to the consultation questions can be found overleaf.

Given our concerns above, we do not think it is practical or reasonable to bring forward the date of submission for annual reporting from 15 July to earlier in July. If Ofwat were reducing the reporting burden, we would have more sympathy. However, Ofwat will risk poorer data quality with less time for assurance given the change in proposals, particularly after the reporting period has commenced. In addition, there is not enough detail put forward by Ofwat for this change given that a far greater burden of submission was made by companies in July 2020 for PR19 final reconciliation adjustments, to the narrower focus of in-period ODIs. We suggest Ofwat should review this for future years in the light of experience, rather than assuming that even more data should be reported by companies to Ofwat in less time.

Despite the concerns we set out above, we support the revised approach to Board assurance Ofwat set out in the consultation. In line with our previous consultation responses on performance and reporting, as well as lessons learned from PR19, we would encourage Ofwat to offer more strategic Board level discussion with companies on their plans and performance, reducing reliance on Board assurance and regulatory reporting without dialogue. We hope that Ofwat can reflect this within their reporting expectations so there is transparency for stakeholders that the regulatory process includes such dialogue and challenge, rather than being overly data and process driven in practice. This will boost the relevance of stakeholder challenge (including the ongoing scrutiny role of Customer Challenge Groups). We note that this is something that Ofwat now achieve for Wales, but we see no reason why such company and stakeholder engagement cannot be re-established throughout the water sector.

We await confirmation of the finalised RAGs for the 2020/21 reporting year in late 2020. In the meantime, please do not hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours faithfully,

[redacted]

Iain McGuffog

Director of Strategy and Regulation

Q1 What are your views on the proposed changes to the APR tables in Appendix 1?

As per the template in appendix 2 of the consultation document we have provided our comments in response to Q1 in the table below.

Table	Line	Issue
2B	2B.5	We do not agree that collecting enhancement operating expenditure is meaningful. There will need to be a clear definition of what is to be included in this line and on what basis, which we could not find in the consultation. Presumably it relates to enhancement expenditure since 1 April 2020?
2F	All	We recognise the desire to increase transparency over social tariff provision and funding. However, we do not feel that the proposed table 2F is the best way to capture this. We suggest that a version of table 1A as provided within the recent social tariff submission is a more appropriate format. In particular this shows the customer cross-subsidy element of social tariff funding, which for Bristol Water and we believe for most other companies, is the more significant aspect. Please see our response to Q22.
3A	All	We would suggest that inclusion of some sub-totals for the financial values of ODI payments by category would improve transparency, in particular if the proposed inclusion of the ODI performance model is not adopted. We would also suggest that the table would be more useful if it shows the target for the year in question, in column 5, rather than the performance level for the previous reporting year.
3B	Block E and F1-F3	There is some inconsistency in this table over whether unit rates are specifically referred to or not. Including the units in these lines will assist in accurate submissions.
3B	Block I	The redesign of this data table is appropriate for providing supplementary information for the common performance commitments; however we question the usefulness of including bespoke performance commitments which are, by their very nature, particular to each water company and therefore will not have relevant standardised data to report on. Whilst we support Ofwat's strategic goal to transform water companies' performance, there is a balance to be struck between reporting on outcomes and reporting on the inputs and outputs that contribute to these outcomes. Is the purpose of these data lines to focus on the means of delivering what really matters to our customers or on reporting more granular detail as an end in itself? At best this block has the potential to duplicate reporting requirements in other data tables and at worst, could be seen to be an unnecessary reporting burden.
3C	All	A unit column should be added to this table
3C	3C.1	The guidance for this line in RAG 4.09 states "the name of the abstraction site. This can be anonymised if it is necessary for national security reasons." The text is likely to be left over from 3C in AMP6 (which applied to AIM sites).
3C	3C.4	This line appears to be out of date - it includes NPS which is no longer part of the C-MeX framework, and although Ofwat suggested in the C-MeX guidance that it would be recorded, that does not mean that it is clear to

		stakeholders to report it as part of C-MeX. Instead we think the perception survey should be included, but the headings in the APR should be consistent in any case with the final C-MeX approach.
3C	3C.5-8	The lines in RAG 4.09 do not correspond with those proposed in table 3C.
3D	All	A unit column should be added to this table
3E	All	Please see our response to Q7 and appendix 2.
4A	All	The increased granularity of reporting requested in this table is similar to that which companies provide within the annual bulk supplies register submission. We do not believe the requirement for including this information has been justified. It represents duplication and an unwarranted increase in the regulatory burden as it is already available to Ofwat. We also note that the table proposes to collect operating costs and revenues for exports. The operating costs associated with each supply are not easily separable from other operating costs and would require substantial elements of accounting allocation. We are unclear as to the value this increase in reporting complexity provides and suggest that if this table is to be included then it should only be necessary to identify the revenue for each export. Similarly for imports, we would expect the definition of operating costs to only include the cost of purchase of the water, rather than any other associated costs borne by the company.
4B	All	We disagree with the increased regulatory burden should this data be collected on an annual basis. As has been established previously, this data should be collected once, as part of the Price Review process, and not on an annual basis. The statement in the consultation on page 47 that “this table is identical to our ‘App20’ business plan table” is not strictly true as the additional instrument level data is not a forecast in the business plan. The reporting requirements currently in place should continue, due to the additional regulatory burden required for preparing and auditing the more granular level data. If the new requirements remain, we would urge that Ofwat reduces another reporting requirement accordingly, in line with the principle of reducing administrative burdens. We understand that Ofwat intend this table to be outside of the APR publication. We would therefore suggest that non-APR data should be listed at the end of a table section or as a separate section for each of use.
4C	All	The amendments to this table appear to attempt to replicate the PR24 totex reconciliation model, but do not do so in a way that would precisely reflect the outcome. For example, there is the complication of other aspects of adjustments that are not included (such as the Developer Services Incentive Mechanism, strategic water resource schemes etc.). We are unclear as to why such information would be required within the APR when it will be provided for PR24 submissions, which we anticipate will be from 2023 onwards, and therefore do not agree that this increase in the regulatory burden is required. We suggest removing this table for 2020/21, in order to ease the regulatory reporting burden.
4D	All	We are not convinced there has been any value in reporting this table; we

		would suggest it could be rationalised.
4L	All	We do not agree that the additional analysis on growth expenditure that includes splits between new connections and new mains is necessary. For many developments in particular where there are SLPs and the distinction will not be easy to calculate or record in source systems, as the costs are based on design of the whole development and overheads dominate. We suggest retaining the existing classification. In any case, as prior notice has not been given to this split in accounting systems there will be a material cost of analysis (albeit this may be limited by a low level of activity due to Covid-19).
4N	4N.2 (linked to 4N.1)	The number of projects incurring costs associated with the Traffic Management Act is very difficult to define. The guidance in RAG 4.09 is drafted as “the number of projects for which the costs that have been reported in 4N.1 have been incurred” but this is too broad and open to interpretation. Does the guidance actually mean, for example, the number of permits (i.e. individual jobs)? A project could be defined in any way (e.g. a large mains rehabilitation project of 100km), or an individual service connection to a property. We would suggest that this data is not necessary to collect or proportionate on this basis.
6A	6A.60-63	We do not see the need for this additional requirement in addition to the bulk supply information already collected.
6B	6B.47-50	We do not see the need for this additional requirement in addition to the bulk supply information already collected.
6C	6C.22	The lines in RAG 4.09 do not correspond with those proposed in table 6C. It looks as though the definition for line 6C.22 in table 6C has not been included in RAG 4.09.
6C	6C.23	By 6C.23 we are referring to Mean Zonal Compliance (MZC). We were surprised to see this included in this table. CRI is the DWI’s preferred drinking water quality measure, which has replaced MZC. We suggest that this line therefore be removed.
6C.24	6C.24	By 6C.24 we are referring to Compliance Risk Index (CRI). As CRI is now reported on in 3A.1 this cell is a duplication and should be removed.
6D	All	This table has substantially increased in terms of reporting requirements, compared to what is required in the former tables 4A and 4Q. This increase in reporting requirements is in terms of collecting cost and activity levels at a much lower level than currently. The consultation does not appear to justify this increase in reporting requirement to the information currently in table 4Q and therefore should be limited to the existing information which has proved sufficient to date. Cost and Ml/d reporting at this granular level is not proportionate in our view. In any case, not having sufficient notice of requiring this information (in particular as it is not collected in this way during PR19), means there will be a significant additional cost of back-collecting such information.
9A	All	Please see our response to Q17.

Q2 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?

The tables are generally appropriate against PR19 requirements, although we would suggest it is more important that the tables are comparable to the Final Determination rather than to the Business Plan submission. We would not expect a full reconciliation to be undertaken between the plan forecasts and outturn data, particularly where it is not relevant to company performance.

We would observe though that far more information and reporting requirements are being included, which we do not believe have been justified in the consultation. As these requirements do not clearly align to PR19, we would ask that an impact assessment and appraisal that justifies any additional data should be included in a further consultation, for transparency, as to what the justification is for additional data beyond the basis on which PR19 plans and determinations have been set.

Q3 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.

As a water only company, this question is not applicable to us.

Q4 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 note from a practical perspective it is generally easier to use a larger number of tables with fewer rows, and this is also easier to incorporate into published versions. We suggest each table should fit legibly onto a single side of A4.

Q5 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 disagree. We do note that the additional time requested would provide a greater period for calculation of in-period adjustments, but this would come at the expense of time available to companies for assurance and approval of the submission. Given the increase in the proposed number of tables and associated impact on our collection and assurance processes we do not consider that this is achievable. Given that Ofwat have, in our view, increased the regulatory burden with these proposals, within the financial year to which this reporting relates, we see no prospect that the reporting date could be brought forward from 15 July. We would be prepared to consider this further once the additional burdens that have not been justified in this consultation have been rationalised. An early submission date will not be possible for 2020/21 in particular, because we will have an additional auditing cost and regulatory burden. We estimate an increase of at least £50k (a 75% increase on 2019/20).

Q6 Do you agree that we should embed the ODI performance model within the annual performance reporting tables?

We support this proposal, however we would ask that Ofwat publishes an updated version in advance of next year's reporting requirements in order for companies to test the results for their applicable ODI framework.

Q7 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?

We disagree. Reporting should be limited to those measures that the individual company has included at PR19. Any further information that is being considered for PR24 (and it is not necessarily these measures as Ofwat are due to consider with the industry new long-term resilience and asset health measures) should be considered under a shadow reporting process. Ofwat need to limit the regulatory burden and reduce the cost of regulation to be consistent with the level of efficiency challenge Ofwat have imposed on the industry.

On a related point, we note that in 3E the unit for unplanned maintenance – non-infrastructure (water) is stated as “number per year”, which seems to contradict the standardised definition referred to in the PR19 methodology.[2] The final definition published by Ofwat states that it should be “reported as total unplanned non-infrastructure maintenance jobs as a proportion of all non-infrastructure assets.” Clarity of which unit (number or proportion) would be needed and if it is the former than the standardised definition would need updating. If the two measures that apply to water only companies were to be introduced, then we would like to highlight a practical consideration as to why reporting on unplanned maintenance – non-infrastructure (water) as a proportion of all non-infrastructure assets is not as straightforward as it seems (and is probably an indication as to why no company proposed reporting on this performance commitment in this format in their PR19 business plans). Appendix 2 provides a full explanation.

Likewise, if these measures are intended to complement PR24, RAG 3.12 as currently proposed would need amending again as paragraph 2.1.4 no longer states (as the previous published version did) that “the following pro-formas are not required to be included as part of the APR but must still be prepared in accordance with these RAGs; table 3S”. Table 3E would therefore need to be included in this paragraph.

In addition, the guidance in RAG 4.09 states that “the intention of the red, amber, and green rating and commentary for shadow reporting is to provide transparency on the degree to which a company has been able to implement the reporting guidance for shadow reporting.” We note in RAG 3.12 in section 4.13.1 that this is again repeated. Unlike the common performance measures previously reported on in this table (in table 3S in the 2015-20 reporting period) the metrics listed in 3E as proposed do not have objective compliance checklists stated in their standardised definitions.[3] In order therefore to comply with RAG 3.12 and with column C in this table (the column entitled “Component/ sub-component red/amber/ green rating”) the standardised definitions would need updating.

Q8 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.

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[2] Appendix 2: Delivering outcomes for customers

[3] Outcomes definitions – PR19

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 agree with table 2N as this is consistent with the operation of DSRA. We disagree with the additional growth cost data in table 4L because this is an increase in data collection which is inconsistent with PR19 and is not necessary for the purposes stated in the consultation. We make specific comments for table 4L in response to Q1.

Q9 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?

Infrastructure charges should be reconciled as they are now, before any efficiency adjustments, which should be dealt with separately and as a reconciling item.

Q10 Is there scope to rationalise the number of areas where we ask for specific assurance?

We consider that a strong approach to assurance of regulatory information is important to retain the trust and confidence of all stakeholders in the process. We are supportive of Ofwat's move away from a focus on prescribed publications and data monitoring; we welcome the statement on page 17 of the consultation that the approach being proposed "*would from 2020-21 reporting onwards, replace the interim requirements set out in IN19/04*". We are also supportive of Ofwat's comment on page 16 of the consultation that "*companies should provide a statement, signed by, or on behalf of, their boards, stating that the data and information which the company has provided to Ofwat in the reporting year and/or which they have published in their role as water and/or sewerage undertaker is accurate and complete and setting out any exceptions to this.*" We would however ask that "accurate and complete" be replaced with "reliable" as measurement always has an materiality to accuracy, and cannot be reliable if incomplete.

Other elements where specific board assurance is requested are necessarily driven by the licence - in particular ring-fencing certificates. We note that there will be a reduction in the regulatory burden from not requiring the targeted assurance elements under the Company Monitoring Framework, which are being replaced by company defined ways in how assurance plans that inform Board APR, accounts and other year-end statements can be made. We support this approach. We are pleased Ofwat have recognised that companies can either include these components within the Annual Report/APR suite of documents and cross-refer where appropriate.

We continue to consider how best to communicate reporting and assurance to a wider audience of challenge panels, stakeholders and end customers, and are happy to discuss this further with Ofwat as we think about how to approach the streamlined approach set out in this consultation. As we set out in the covering letter, we think it is just as important for Ofwat to re-establish understanding through company, Board and stakeholder engagement rather than overly relying on data driven regulatory processes.

Q11 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 welcome a single table to pull together the various elements of customer information, including customer meter numbers, property numbers, population and voids.

Q12 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 assume that the reference to table 4U refers to the 4U in the proforma tables for 2018/19 and 2019/20 reporting. As a water only company, this question is not applicable to us.

Q13 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?

This proposal is not practical and is an unnecessary increase in the regulatory burden. This does not apply to new bulk supplies only, which could reduce the burden, but would potentially then provide a disincentive to agree new bulk supplies. We would have less concerns about reporting revenue on bulk supplies if Ofwat rationalised the separate bulk supply reporting that is conducted separately in February of the following year as part of charges information collection.

We note that the cost of exports is also suggested in the table, which is less easily separable from other operating costs, and further clarification is required on which costs should be included in that column, if it is to be required.

Q14 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 do not support an increase in the regulatory burden on social tariffs (such as Ofwat included in the recent additional consultation). No further information should be included as the information shown is sufficient. If Ofwat do want to include additional data on social tariffs, it should be based on Table 1A from the recent social tariff information request. The split between measured/unmeasured customers is no longer necessary, as the form of retail controls does not adjust on this basis for PR19 (this would be the PR14 basis as presented in the draft 2F).

Q15 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 comments as this is not currently relevant to Bristol Water. We believe that if it did apply to us, it may be impractical to distinguish between direct and indirect effluent reuse.

Q16 In section 8 we have included new data requirements for Bioresources. Should we collect more data to support the Bioresources market?

As a water only company, this question is not applicable to us.

Q17 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?

The current table and proposals assume that the separate Ofwat consultation on implementing the innovation arrangements will be maintained. We do not think that the current proposals are coherent, and therefore we find commenting on the current requirements challenging. In particular the approach to royalties and what is described as "shareholder" funding. "Shareholder" funding is not a concept that should appear in regulatory accounts or regulatory reporting and is illogical when considered against the royalties approach. The distinction between the Water Innovation Challenge and main competition, and the element that funds the cost of running the scheme will also need to be considered.

Our preference is to withdraw this table from the RAGs until it can be considered alongside the final form of the innovation competition. There are too many unanswered questions at the moment. However, we are happy to provide a narrative in any case but will be very clear where customers money is being transferred away from our accountability because of the innovation fund, something local stakeholders are already challenging based on the consultation to date. We have raised further questions about the accounting and governance for financial flows for the innovation competition, as Ofwat did not include the revenues as an operating cost in PR19 which affects ratios and over comparisons. This requires further thought in terms of treatment through the RAGs, an issue we raise in our response to the most recent innovation consultation. We would suggest it may be considered as a separate annual incentive mechanism for revenues rather than directly being considered as an operating cost for transferring the revenue to a central fund.

We would also like to reiterate the comments we made in response to the recent innovation competition consultation.[4] Namely that it is clear to us that the innovation competition proposals are unlikely to be sufficiently developed to run a pilot in 2020/21. We would again ask therefore (if this table does remain in this year's APR requirements) that instead of returning funding to customers for innovation projects that have not had bids accepted, as per the draft proposals in the latest APR consultation, that the remaining amount of allowed revenue either be added to the total for 2021/22 or be applied equally over the four remaining years of AMP7.

We also identified in our response to the recent innovation competition consultation our concerns over the guideline minimum company contribution of 10%. Although we do not support it, if the approach outlined in that conclusion is adopted, we would ask Ofwat to add to RAG 4.09 guidance on how this contribution should be reflected in table 9A.

Q18 We propose new reporting requirements for small companies:
a. Customer-focused performance summary,
b. Per capita consumption (PCC),
c. Leakage; and,
d. Financial security.
What are your views on these proposals?

We have no comments as this question is not applicable to us.

Q19 What are your views on how we should collect the information to calculate the bilateral entry adjustment?

We could not follow the consultation proposals as it referred to the former line of 4P.8, which currently relates to water reuse schemes?

We would appreciate worked examples to consider this topic further, as we are uncertain at this stage what the options may be.

Q20 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 tCO2e) for both water and wastewater? Could this be done for both operational and embedded emissions?

We disagree with these proposals as they need further consideration. Direct carbon impacts (operational) are relatively easy to report on a gross basis. Embodied carbon can be calculated for incremental project investments. We suggest that there is further cross-industry work already ongoing to develop the arrangements further, such as the Water UK routemap currently in development to help achieve the Public Interest Commitment on achieving net zero carbon emissions for the sector by 2030. Reporting can then be implemented as part of PR24 (company PR24 business plans should be used to confirm targets for 2030 onwards in this area), given Ofwat did not signal this approach as part of PR19 requirements. The level of cost to meet these reporting

[4] Innovation funding and competition: further consultation on design and implementation

requirements will need to be assessed and, in our view, could not be readily implemented for 2020/21.

Q21 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?**

Our concerns are the same as set out in response to Q20. We disagree that Ofwat should start with reporting in this area ahead of PR24. By not requiring reporting in this area, this will allow companies to develop approaches (which are part of WINEP commitments in our case), rather than this being constrained by regulatory reporting.

Nature base solutions are not new and therefore we question why reporting such as this is required, or what benefits Ofwat sees from this for regulatory reporting? The challenges with nature-based solutions are measurement in non-water sectors. We would also note that we already have performance commitments with ODIs that incorporate nature-based solutions (e.g. our biodiversity index and raw water quality index) and therefore this is a matter for individual companies to explore, reflecting that what nature-based solutions are appropriate will vary with area. The main value of nature-based solutions in addition to meeting water sector regulatory requirements are the wider public value, which includes education and recreation. This requires a "capitals" reporting framework which again is unlikely to have a single appropriate solution nationally (we focus on local frameworks as this makes nature-based solutions happen).

We suggest Ofwat reflects on what companies already do and what their own plans are before considering additional regulatory reporting as a solution without having defined the problem adequately. For example, since 2014/15 our Biodiversity Index approach has demonstrated that we have enthusiasm for the protection and enhancement of the natural environment. We have used the Biodiversity Index metric to demonstrate responsible environmental stewardship. By including the Biodiversity Index in our AMP6 outcomes framework, we have been able to develop a comprehensive appraisal of our environmental assets and are able to provide statistics on the total natural resources which we manage. During AMP7, additional data will be collated in order to provide clarification on the quantity and cost of activity; and how this relates to the increased condition of habitats (and biodiversity value), as well as costs associated with achieving these results.

We would of course welcome the opportunity to offer our work on our Biodiversity Index performance commitment and the methodology used to help establish the relevant baselines. An industry workshop in this area might be beneficial, at which we would be delighted to present our work to date. But we do not support additional annual reporting requirements.

Q22 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?**

We would have no objection to presenting the average household bill per customer, this could be added to table 2F as a calculation of revenue divided by customers.

However, we question the purpose and usefulness of the rest of the information suggested, given the significant additional reporting burden it will create. Whilst overall average bills can be calculated at a high level, analysis by decile would require interrogation of the actual amounts paid by each customer. Due to meter reading cycles and billing patterns these may not align completely with reporting years and may also be distorted by activity in metering of properties, numbers of new and void properties.

We note that the information suggested in point three was reported in the old Table 6A of the June Return, before this request was discontinued by Ofwat, as it was not felt to be useful. The consultation offers no justification as to why Ofwat believes this information has now become useful and relevant, and we suggest that it should not be introduced as a reporting requirement unless or until it can be shown to be necessary.

Appendix 1 - Other comments not applicable to the consultation questions.

We were confused by the statement on page 26 of the consultation document that "[we] have departed from UKGAAP for leases". We think you have aligned regulatory reporting with the requirements of IFRS16. Could you confirm that this is the correct interpretation of the revised RAG 1?

In RAG 1.09 in section 4.5.1 Ofwat may need to clarify that the reference to grants and contributions income does not apply to developer services activities within the definition of Licence Condition B - as we assume it was only grants not specifically included in revenue controls as income that was included in this.

In RAG 1.09 in section 4.8 we support the proposal set out for the treatment of DPC by removing the impact of revenues collected on behalf of a CAP from the regulatory accounts.

In RAG 2.08 in section 2.9 we found the wording updates on developer services to be confusing, particularly the sentence that states "some activities will remain in the wholesale control as any retailer operating in this area would at some point, have to contact a retailer." We assume you mean to say, "have to contact a wholesaler"? We would also suggest adding "Where cost allocation is required to be consistent with how price controls were set, this should as far as possible be based on the actual level of activity as a retailer and wholesaler."

We note that RAG 3.12 sees an extension to narrative requirements in a number of areas. We also note the update that was sent to companies on 4 August stating that Ofwat is likely to require additional narrative disclosure for table 1C to identify cash balances that relate to innovation competition funding. Ofwat has not however provided a clear explanation of justification for the changed requirements. We think these should be justified individually and therefore a further consultation should be carried out as there was no comparison to existing requirements or justification provided for the proposed changes. The principle of the licence and RAGs is that changes should only be made after Ofwat has presented a justification for why information or narrative is specifically required. We think the additional cost and leakage narrative has been poorly defined, for instance, why leakage would be justified separately from the summary of performance in the year (as per narrative disclosures in section 4.1)?

In RAG 3.12 in section 3.1.1, as we anticipate the licence change for ring fencing certificates would be implemented before 2020/21 reporting, we would suggest reversing the footnote and refer primarily to ring-fencing certificates. Companies will have accepted this change by now.

In RAG 3.12 in section 4.1.2 there is a reference to whether “forecasting a reward or penalty in column 3A.6 would be inappropriate for a particular performance commitment.” In the proforma this would be the column entitled “Performance level - actual (current reporting year)”. We therefore think this section should be amended to refer to columns 3A.12-13, which are the columns that require a judgement on cumulative ODIs up to March 2025. In addition, and in line with the PR19 terminology, it would be appropriate to reference outperformance payments and underperformance penalties in this section, rather than “a reward or penalty”.

In RAG 3.12 in section 4.11.3 it states “Table 4P requires companies to report their total annual leakage”. Our assumption is that this should be referring to table 6B (6B.17).

In RAG 3.12 in section 4.11.4 it states “Table 4Y requires companies to provide detail of their smart metering programmes” and in section 4.11.5 it states “we expect companies to include narrative commentary to explain how the metering and leakage figures reported in Table 4Y relate to their business plan and water resources management plan forecasts.” Our assumption is that these should be referring to table 6D.

Appendix 2 - Unplanned maintenance – non-infrastructure (water) as a proportion of all non-infrastructure assets

Table 3E currently includes unplanned maintenance – non-infrastructure (water) as a reporting requirement. The standardised definition, finalised at PR19, requires this metric to be “reported as total unplanned non-infrastructure maintenance jobs as a proportion of all non-infrastructure assets”.[5] We would like to highlight a practical consideration as to why reporting on unplanned maintenance – non-infrastructure (water) as a proportion of all non-infrastructure assets is not as straightforward as it seems.

Non-infrastructure asset data records are created and removed by new assets being installed, replaced or removed. Asset numbers are unique and if an asset is removed, its number is not used again.

The total number of assets is comprised of a sum of two groups:– Operational Assets and Data Cleansed Assets (these are assets that have had their assets number removed due to changes in asset data recording methodology – i.e. Asset grouping – Merging Turbidity Sensor and Transmitter into one individual asset). If that is the case, the asset that has been removed is tagged with “Invalid Asset/Data Cleanse” note within SAP).

Since the adaptation of SAP in 2001 approaches have changed regarding how to classify and store assets. The original philosophy was to record all “equipments” individually, but since the increased adaptation of asset management practices many of the equipments are maintained as part of larger assemblies. As a result, there is no need to manage these assets individually. “Operational” assets are these still recorded and maintained on equipment level. “Data cleansed” assets are these originally data captured as an equipment, but now managed as part of an assembly.

The ability to determine the total proportion of all non-infrastructure assets therefore requires a high degree of subjectivity and there is no guarantee that all companies are reporting in the same way. The standardised definition would therefore need updating to provide clarity over how to determine a proportion of all non-infrastructure assets is calculated. If companies are required to report on this metric then an industry working group to re-evaluate the definition may be the best step forward. However, we disagree with the principle that this additional reporting is required at all.

[5] Unplanned non-infrastructure maintenance