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Regulatory Reporting Consultation Response
Ofwat
Centre City Tower
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21 August 2020

Dear Sir / Madam

Re: Consultation on regulatory reporting for the 2020-21 reporting year

Thank you for the opportunity to comment on the proposed changes to the reporting requirements for the 2020-21 Annual Performance Report (APR).

Our response includes comments on the questions raised within the consultation document including some issues with specific tables (see Appendix 1) on which we would welcome clarification within the finalised Regulatory Accounting Guidelines.

As noted in previous correspondence, we believe that there remains considerable scope for companies to interpret reporting requirements for certain performance measures in a variety of ways. Comparative performance is a key component of price reviews, therefore robust and consistent data is essential. The APR remains the best vehicle for addressing this issue and, it is essential that Ofwat prioritises independent horizontal audits as part of its AMP7 programme. We would urge Ofwat to work with companies to make progress on this issue for next year's APR.

There are a number of areas where we feel that further benefit would be achieved by the industry participating in facilitated working groups. This would help ensure that the information in the final tables is meaningful and will improve transparency. We would be keen to participate in any such working groups, particularly in the following areas:

Question	Table/Section	Line(s)	Description
1	3B	4	Internal sewer flooding – company reactively identified (i.e. neighbouring properties)
		20	Number of spot repairs or relining undertaken on sewer and not included in reported sewer collapses
1	6D	All	Demand management – Metering and leakage activities
12	4U	23	Total volume of network storage
20	4		Greenhouse Gas Emission Reporting
22	4		Household Bills

We would be happy to discuss any of our comments further if required.

Yours faithfully



Eleri Rees
Strategy and Regulation Director

Appendix 1 Response to APR consultation questions

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

We have provided feedback below where we consider it would be beneficial for additional guidance or clarification to be included in the final Regulatory Accounting Guidelines (RAGs) to ensure clarity and therefore improve consistency of information provided by water companies.

Table	Line	Issue
2M	14-16	<p>Revenue Reconciliation</p> <p>This table compares the revenue recovered with the revenue in the determination for the wholesale revenue controls. The wholesale revenue determination is outlined in “Notification of the PR19 Final Determination of Price Controls” letter. As outlined in the Reconciliation Rulebook consultation a revised “K” factor is determined through the in-period determination for in-period ODI performance. The licence also allows for adjustments to the allowed revenue due to previous under or over-recovery of revenue as calculated in the RFI.</p> <p>The table compares the revenue recovered to the revenue assumed in the determination. The table currently makes an adjustment for Grants and Contributions and the income offset calculated by the developer services revenue adjustment (DSRA) model. Whilst the revenue assumed at determination can be changed annually through the annual determination of K, the DSRA model is an end-of period model and therefore will not be included in the “revenue determination” until PR24. We therefore believe that the DSRA should not be included for the comparison between the revenue recovered and the revenue assumed in the determination.</p> <p>This approach will ensure that there is consistency between the APR and the RFI adjustment model, and that reporting is clear for stakeholders. The developer services revenue adjustments could be included in a separate ‘shadow’ reported table. Any commentary required to explain the difference in the revenue recovered will cover differences due to differences in grants and contributions and other factors.</p>
3B	4	<p>Internal sewer flooding - company reactively identified (i.e. neighbouring properties)</p> <p>During the drafting of the guidance for reporting internal flooding, it was agreed that there was an expectation that water companies would check neighbouring properties for flooding and report any identified. Whilst it was agreed not to adopt a uniform methodology, this is an area where further guidance is needed to ensure consistent reporting across the industry.</p>
3B	20	<p>Number of spot repairs or relining undertaken on sewer and not included in reported sewer collapses</p> <p>This is an area where further guidance is needed to ensure consistent reporting across the industry.</p>
4A	1 to 22	<p>Water bulk supply information</p> <p>The definition in RAG 4.08 states that treated and untreated bulk supplies should be included. It is assumed that this still applies to RAG 4.09 but it would be useful to specify if both treated and untreated bulk supplies are to be included.</p>

Table	Line	Issue
4C		<p>Impact of price control performance to date on RCV</p> <p>We believe the table should include a line for 2019-20 Transition expenditure to be incorporated within the PR19 Shadow RCV and Cost Sharing Mechanism. This should be reported as a separate line for transparency.</p>
4C	4	<p>Variance due to timing of expenditure</p> <p>Table 4C reports the impact of price control performance to-date on the RCV. The APR table includes line 4C.4- 'Variance due to timing of expenditure'. This data is important in the RoRE calculation; however, we believe the inclusion of this line in the APR creates an inconsistency between APR reporting and the cost sharing model in the PR19 Reconciliation Rulebook consultation. The timing of the expenditure is important within the model due to the time value of adjustment factor. We believe this line should be excluded from the calculation of the shadow RCV and should be included in a relevant place in the APR for the RoRE calculation.</p>
4C	20	<p>RCV element of totex over/underspend</p> <p>The table aims to calculate the shadow RCV from the FD determined RCV and adjustments for over/under spends and ODI adjustments. The PR19 cost sharing model in the PR19 reconciliation rulebook calculates the RCV adjustment which includes an adjustment for the time value of money. The RCV adjustment calculated from the APR table will not be consistent with the cost sharing model. We believe that adjustment for totex, business rates and abstraction charges over/under spend should be referenced to the cost sharing model. This follows the approach taken for the 2019-20 APR which works well.</p>
4F and 4G		<p>Major project expenditure</p> <p>The definition states that this relates to major projects during the year (directly attributable costs only).</p> <p>Clarification is needed on what constitutes a "major project". Does "directly attributable" mean that no overheads are to be included?</p>
4L and 4M		<p>Expenditure by purpose</p> <p>Please confirm what exactly constitutes onsite and off-site costs, and if possible, provide some examples for clarification.</p>
5A and 6A	24 to 27 6 to 10	<p>Raw water abstraction and transports - imports and exports</p> <p>Our interpretation of these lines is that if we export water to another water company and also transport this any distance, we would report in both 5A lines 26 and 27 and 6A lines 9 and 10. Similarly with the imported figures. In addition, we have assumed that the definition of third party includes water companies/suppliers and not customers who receive a non-potable supply of water. Further clarity is needed to confirm that our understanding is correct.</p>
6A and 6B	59 to 62 47 to 50	<p>Water treatment and treated water - imports and exports</p> <p>These lines report the treated water imports and exports. Clarification is needed on the definition of 'point'. For example, is this a site or an import/export meter? Also, we have assumed that the definition of third party includes water companies/suppliers and not customers who receive a supply of treated water. In addition for 6B lines 47 to 50, we have assumed that these lines include water imported/exported after our treatment works, if water was imported/exported at the treatment works before being treated it would be reported in APR table 6A lines 60 to 63. Further clarification is needed to confirm that our understanding is correct.</p>

Table	Line	Issue
6C	19 & 20	<p>Improvement to supply – demand balance</p> <p>We feel it would be beneficial if more guidance/definition could be provided on these lines to ensure consistency of reporting across all water companies. For example, is this baseline activity or if an option is selected as part of the WRMP final planning scenario? We are not sure of the value of these metrics being reported as the annual activity has to be reported in table 6D as both leakage and PCC are measures.</p> <p>In addition, the definition for line 19 mentions excluding any costs incurred by the retail business unit, however, this line is reporting non-financial data, does this need to be removed?</p>
6C	21	<p>2020-25 internal interconnectors</p> <p>It would be beneficial if more guidance/definition could be provided on this line to ensure consistency of reporting across all water companies.</p>
6D	All lines	<p>Demand management – Metering and leakage activities</p> <p>It would be beneficial if more guidance/definition could be provided on these lines to ensure consistency of reporting across all water companies. The assessment of volumes being asked for will be based on some level of estimation. For example, in order to get an accurate assessment on the metering demand saving lines, a before and after installation study would be required, otherwise it would be a theoretical volume applied to the number of meters installed. Given that this will be based on a degree of estimation, there could be significant variation in reported data due to differences in estimation methods.</p> <p>Some specific comments are:</p> <ol style="list-style-type: none"> 1. Should combined/average Per capita consumption (PCC) and annual leakage in MI/d also be included? 2. Table is looking at activity costs and volumes for different demand management activities – should this include water efficiency activity as a demand management activity as this affects PCC as well as metering? 3. Should the PCC metrics be the annual change or a % reduction from baseline consistent with table 3A/3B? 4. Lines 11 to 15. These values will have to be modelled or estimated as they can't be measured directly in each meter installation instance. This is likely to cause variation in approach between companies.
7B	4 to 8	<p>Large sewage treatment works consents</p> <p>Should the definition include reference to Natural Resources Wales as well as the Environment Agency?</p>
7C	11	<p>Sewer age profile (constructed post 2021)</p> <p>This line reports the length of sewer age profile post 2021. Should the guidance state post 2001?</p>
9A	9 to 12	<p>Actual expenditure on innovation projects funded through the innovation competition</p> <p>Additional clarity is needed on how any funding used to support proposals for innovation competition fund (which may be required for any proposal to be considered) is dealt with in the returns. It has been mentioned about 10% of funding for any proposal to be directly from companies and 90% from the innovation competition fund.</p>

Table	Line	Issue
N/A	N/A	Bioresources revenue reconciliation model The Bioresources revenue reconciliation model in the PR19 Reconciliation Rulebook requires “Profit from bioresources trading”. The source of this data is the company regulatory reporting. It is unclear in the APR where this is reported.
RAG 4.09	Appendix 1	In Appendix 1 (Income categorisation) in the table on page 2, the section on Rechargeable works is included in “Income governed by price control” does this need to be amended? If not please can further guidance be provided.

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?

We believe that the tables allow a comparison to the PR19 business plan tables and have no suggestions for improvement at this time.

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.

We agree with your proposal that the volume transferred to sludge liquor should be based on a formula to ensure consistency of reporting. We suggest it would be beneficial for this to be discussed at the Bioresources workshops.

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 have no preference on how each table should be presented but suggest each is formatted either landscape or portrait to best suit the contents of the table. We also suggest some tables may benefit from having the functionality to freeze panes as this will aid completion.

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?

The existing timeline is tight, we have reviewed our processes and consider the first week in July could be achievable. This would allow us time to complete the finance tables, following audited accounts, and the accounts to be updated and for Board to review and provide their sign off/ assurance.

However, we are dependent on other Regulators publishing their data before we are able to complete some APR tables. This year’s APR was published on 10 July following the Drinking Water Inspector publishing the ERI and CRI figures this year on 9 July.

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

The ODI performance model is a useful model to calculate the ODI underperformance and outperformance. We agree that it would be useful to include the model in the APR whilst allowing it to retain its flexibility for those measures that do not easily work in the model.

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 are comfortable with reporting the lines currently included in table 3E and the information being shared publicly.

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.

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 the proposed approach.

The introduction of table 2N should enable us to make clear the differences between physical connections that are undertaken and the resultant number of new properties. This should allow a detailed understanding of the relationship between the levels of work undertaken by Welsh Water and SLPs.

That said, we feel that some clarifications are required to ensure that the data provided is consistent:

1. Confirmation of whether the data in 2N lines 1 and 2 is inclusive of connections undertaken by an SLP or not.
2. Confirmation of the correct way to record a connection (2N.1 and 2N.2) which will supply both residential and business properties. This is a particular concern for sewer connections where, as many connections are to facilitate the connection of an adopted network to the company's existing infrastructure it is possible that on a large development there will be a mix of residential and business properties.

Regarding tables 4L and 4M we would wish to highlight the difference in charging rules between companies operating wholly or mainly in Wales from those operating wholly or mainly in England. For the former, the expectation is that all costs incurred in delivering the entirety of a requisition scheme comprise the scheme cost and would then be converted into either a commuted sum payment or an agreed 12-year guaranteed income.

As such this table presents issues for Welsh companies. The definitions of line 4L.2 and 4L.8 state that the figures recorded "should be the same categories of expenditure that was used to calculate requisition charges." As outlined above, this will therefore include the total cost of the requisition; inclusive of on and offsite mains laying, network reinforcement, design costs third party costs etc.

We would also point out that the infrastructure network reinforcement costs for both Tables 4L and 4M will not be the same as those to determine the infrastructure charge as this is still set by the terms of Welsh Water's license.

Q9. We currently calculate the reconciliation 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 are calculated differently in Wales and therefore we have no views on this at this time.

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

We propose there is scope to rationalise the numbers of areas where Ofwat ask for specific assurance with an all-encompassing Board assurance statement.

For the Annual Performance Report 2019/20 our Board has provided five assurance statements namely:

1. Annual Performance Report
2. Risk and Compliance Statement
3. Ring Fencing Certificate
4. Company Direction Performance
5. PR19 Blind Year Reconciliation of PR14 Incentive Mechanisms

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 agree it would be useful that all information on property and customers numbers, including voids, are reported in a single table. The current proposal is an improvement on the previous AMP but this will not give a full list of ‘billable’ properties. There are some inconsistencies between the water and waste tables, one splits voids between residential and commercial the other doesn’t, a single table would help overcome this. In addition, it would be beneficial for waste table 7E to split voids between retail and commercial, as you have lost HH voids out of the old June Return table 4a.

Finally, we also think it would be useful to report to total number of connected properties split into Household and Non-Household at the 31 March. This used to be reported in the old June Return table 4 and is useful data, for example it is used for CCWater reporting to report the number of complaints per 10,000 connections.

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?

Our reported figure for Table 4U Line 23 is based on calculated volumes of our sewer network only (excluding manholes). We do not currently have volume data for storage tanks, or sufficient data to enable an accurate estimation.

The calculation of volume from digitised sewers should be standard across the industry, although a review of methodologies to calculate volume of non-digitised transferred sewers may be useful.

In order to improve consistency of reporting on this measure, we would suggest that the inclusion of on-line and off-line storage tanks is removed.

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?

We are concerned about including more granular information on bulk supplies revenues as the cost information is considered commercially sensitive.

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?

In the recent information request for Residential retail social tariffs, Ofwat confirmed that they will consider if it is appropriate to collect similar information as part of the Annual Performance Report (APR) reporting in the future. The development of the tables for that submission was far from straight forward and we would suggest that a clear rationale for collecting any APR data should be established before designing the data requirements for this table. Although, to be clear, we fully support more transparent reporting in this important area.

Q15. We currently have a source 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 a direct reuse as when the effluent does not return to the environment or to the water resource 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 do not currently have any direct or indirect effluent reuse schemes but would agree with the definition above to distinguish between these two types of scheme.

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

We feel it would be beneficial if more guidance could be provided on table 8C so that we are clear on what the new requirements are. We would suggest that a clear rationale for collecting any further data to support the Bioresources market should be established before designing the data requirement. Although, we fully support more transparent reporting in this important area.

Q17. We are introducing a new table 9A for the reporting of issues relating to the innovation competition. This is to collect 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 RAG3.12 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?

Table 9A on innovation funding looks sensible. In the section entitled “Expenditure on innovation projects funded by shareholders” it would aid transparency and consistency if the definition made it clear that this refers only to the ‘shareholder’ contribution to projects otherwise funded through the innovation competition, rather than wider innovation expenditure.

Q18. We propose new reporting requirements for small companies:

- 1) Customer-focussed performance summary,
- 2) Per capita consumption (PCC),
- 3) Leakage; and
- 4) Financial security.

What are your views on these proposals?

As we are not a small company, we do not have a strong view on the proposals at this time. However, we do feel that it would be sensible to ensure that format and definitions are consistent with those that apply for larger companies, so that customers and other stakeholders can make comparisons.

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

As the bilateral entry adjustment only applies to a company whose areas are wholly or mainly in England we have not commented on this question.

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 endorse both Welsh Government and Ofwat’s supporting the sector in reducing its impact on climate change whether through mitigation or adaptation initiatives and investments.

Operational emissions:

Annual gross and net operational emissions are already calculated within the Carbon Accounting Workbook, which is the industry’s standard methodology to calculate operational carbon.

It should be noted that there are many emission reporting requirements that the industry responds to (e.g. Streamlined Energy and Carbon Reporting (SECR), Discover Water). These initiatives often use slightly different boundaries and scopes to generate the reported metrics and require the base data to be manipulated to generate the final reported number.

Our preferred option would be to utilise the water industry Carbon Accounting Workbook as the preferred reporting basis and use industry standard metrics within the APR process, which are aligned with the requirements with the Streamlined Energy and Carbon Reporting.

We would support splitting emissions by source (e.g. fossil fuel combustion, grid electricity) as this is already undertaken within the Carbon Accounting Workbook and has been previously reported to Ofwat as part of June Return, table 42.

Embedded emissions:

Significant collaborative work will be required between Ofwat and the Industry to produce a robust definition of embedded emissions (including capital carbon) and what is included within the reporting scope. This would be needed to ensure that UK carbon emissions aren't double counted, in particular, if the metric is amalgamated with the operational carbon footprint, to calculate an overall carbon footprint.

Certain embedded (Scope 3) emissions occur within the regulated business boundary of water companies that are currently not consistently reported across the Industry. The old June Return, table 42 guidance stipulated which activities to report and which were out of scope, which created clarity and transparency.

If the scope of emission reporting were to be extended, then this should be balanced by also accounting for sequestration opportunities that water companies have. The latter has a strong link to Q21 of this consultation, around Nature Based Solutions and could also drive the right investment decisions and activities in that area.

It would be our recommendation to identify in close cooperation with the Water UK net zero workstream, the top five embedded carbon emission sources (including Capital Carbon) and start reporting on these in AMP7, to limit the complexity and start driving the right behaviours.

Capital Carbon:

The most significant embedded emissions for the water companies will be likely associated with their capital delivery programme, also known as Capital Carbon.

A definition of embedded carbon associated with the delivery of the regulated capital delivery programme would need to be agreed. This definition would need to balance completeness and data availability. It can be acknowledged that this definition/scope could be expanded in AMP8 to give both Water Companies and the Supply Chain time to put processes in place to gather the relevant data.

Reporting capital emissions against a normalising factor as per other metrics would also seem essential. This should make comparisons between companies and between years more informative and help to account for programme peaks and troughs.

In summary this move to improve reporting around greenhouse gas emissions is welcomed provided the requirements are collaboratively agreed, tightly defined and designed to drive the right behaviours both for the industry and all our Regulators and national policy makers in Government so as to ensure we are not tasked with investment programmes which act against our zero carbon aspirations.

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?

We very much welcome these proposals, specifically Ofwat's support of nature-based and catchment type solutions. Such solutions directly complement and support our Welsh Water 2050 strategy. They are also supported by our customers and the environmental NGO community here. In addition, the Wellbeing of Future Generations and Environment (Wales) Acts both clearly set out the need to put sustainable development at the heart of decision-making in Wales. This legislation makes it clear that we should be targeting solutions which offer best overall value, taking account of environmental, social, and economic capital, whether in an urban or rural setting.

Nature-based solutions often are not least cost in the narrow sense and or can take more than 5 years to deliver outcomes. For such solutions to become mainstream, we would need to measure and value a broader set of criteria, well beyond cost and customer service. Such an approach would involve some form of natural capital assessment, on which Ofwat, UKWIR and others are already collaborating. We agree that 'nature based solutions' should include all those mentioned by Ofwat in the consultation document, and also include those in the urban context such as Sustainable Urban Drainage Systems.

Once we have agreed how best to adopt Natural Capital or similar accounting systems, we should move as a sector to establish baselines at least for natural capital. These initially need to be kept simple, as there is a very real risk that they could become over complicated, slowing down implementation. Some companies may also want to baseline social and economic capital which should be welcomed.

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 agree with the intention to improve the transparency of the average household bill figures published by companies and better understand the impact of water and wastewater bills on different customer groups. The proposals are quite high level and, as with the design of many of the tables and definitions for regulatory reporting, "the devil's in the detail". We suggest that you set up a practitioners working group to ensure that the information in the final tables is meaningful and will improve transparency. We would participate in such a group.