

Consultation on regulatory reporting for the 2020-21 reporting year **Response from Northumbrian Water Limited**

Overview

We recognise the importance of annual reporting as a means through which regulators, customers and stakeholders can hold us to account for our performance and our progress towards delivering the commitments set out in our business plan. We welcome the opportunity to respond to this consultation and set out our answers to the consultation questions below.

We note that, once again, additional data requirements have been added and comment on these on a case by case basis in the remainder of this document. While some of these additions are beneficial when viewed in isolation, the net effect is to further increase the scale and complexity of the reporting framework. This is consistent with our concerns regarding increasing regulatory complexity which we shared during the PR19 price review. As a result the proposed scale of the annual reporting framework has now reached the levels that were in place for the June Return in the period up to 2010, at which point the 2011 Gray Review recommended reducing the regulatory burden. We are not convinced that further complexity improves transparency for customers and stakeholders. In our response to question 1 we make a small number of constructive suggestions for simplification, however do feel that a broader review in this regard would be beneficial.

Some of the new requirements relate to data which we are not currently capturing, particularly in relation to bioresources (see response to question 16). Given that at the point of responding to this consultation we are already in excess of four months into the 2020/21 reporting year, should the consultation conclude that all the draft data requirements are appropriate, then it is likely we will need to rely on a significant degree of estimation and extrapolation to fulfil a number of these requirements, certainly for 2020/21.

Because of the increasing scale and complexity of the reporting framework, we do not support either bringing forward the APR publication date or the proposed new Board statement on accuracy and completeness of data and information.

Our Board takes assurance of the APR and supporting data very seriously. We have a robust assurance framework and publish a comprehensive Data Assurance Summary each year. Bringing forward the reporting date at the same time as increasing the scale and complexity of the reporting would put this robust assurance approach at risk.

The Board maintains oversight of the reporting process and is confident that the assurance framework is appropriate and allows stakeholders to have confidence in the data provided. However, we acknowledge that some data is difficult to collect or may be based on modelled data so cannot be classified as 100% accurate. It would not therefore be appropriate to expect the Board to state that all data is “accurate and complete”. The wording of a Board statement should aim to reflect the robust assurance processes and provide confidence to stakeholders that the

data is materially reliable rather than accurate. We provide a fuller response on this matter under question 10.

Q1 *Comments on changes to APR tables*

Table	Line	Issue
1F		We suggest that Ofwat considers the duplication between the financial flows table and the RORE calculations. There are effectively two measures of regulatory returns in place which invites confusion for third parties over which should be used to measure returns. We recommend that Ofwat replaces the financial flows table with an expanded RORE analysis into a separate table, showing all the components of the calculation (many of which are currently taken from the financial flows table). At present, line 4H.5 has multiple calculations hidden within a single result, which is not helpful for transparency purposes.
2A		The reporting of principal user recharges is confusing. RAG4 states that “It is assumed in this table that principal user recharges are included in the costs disclosed for each price control”. However, principal use recharges represent depreciation and we suggest that they should be identified transparently and separately to actual operating costs on all relevant tables.
2B/4C 4D/4E		The payment of revenue collected from customers into the innovation competition fund was outside of wholesale totex in the FD. We suggest that this cost should be identified on a separate line in tables 2B, 4D and 4E. It is also unclear where this should be reported in table 4C as it does not form part of FD wholesale totex. Note, this is different to costs reported in 9A.12 which relate to spend on projects funded by the innovation competition.
3A		We suggest that a column should be added to show the performance commitment level for the reporting year, which would allow a clear comparison to be made of actual performance against performance commitment target. We also require a second row for our leakage performance commitment, as we report separately for our Essex & Suffolk and Northumbrian operating regions.
3B	15	Risk of severe restrictions in a drought: We request clarification of which methodology we should adopt to calculate this metric: WRMP19 or WRMP24?
3B	20	Sewer Collapses: We request further guidance on the wording of the metric. The data table indicates the “number of spot repairs or relining undertaken on sewers and not included in reported sewer collapses”. We wish to seek confirmation that the use of the term “spot repairs” is the same as “patch repairs” which are not considered in the common performance commitment definition.

4B		This is a significant additional data requirement which has previously been required as part of the price review process rather than every year. We propose that this table is removed from the APR and only reinstated when required for PR24.
4J/4K	All	Tables 4J and 4K duplicate data that is already in Tables 4D and 4E. Additional lines could be added at the bottom of Tables 4D and 4E to report atypical items as required. This would allow two large tables to be removed.
4L/4M		Cumulative expenditure on schemes completed in the report year: This data columns require significant work to complete. However, we are unaware of Ofwat using this data in PR19, as all the PR19 Cost Assessment models simply use expenditure in the year for each year. We request that this column is removed.
7C	11	We are seeking confirmation of the date in line 7C.11, "Sewer age profile (constructed post 2021). Previously data tables have referred to 2001.

Q2 Comparison of performance to the PR19 business plan

We have no comment on this question.

Q3 Transactions between price control units

We have no comment on this question.

Q4 Presentational issues

We have no comment on this question.

Q5 Change of APR publication to earlier in July

We do not support bringing forward the date for APR publication. Our view reflects the scale and complexity of reporting, the additional reporting requirements set out in this consultation and our stringent data assurance processes which require multiple stages of review and audit through to approval by the Board.

Q6 ODI performance model

We agree that the performance data published in table 3A should be consistent with the ODI performance model. It is not clear what is meant by embedding the model in the APR tables.

Q7 Table 3E PR19 asset health long list

We support the concept of shadow reporting as a means of enabling newly defined performance metrics to be reported against on a trial basis while consistent and compliant reporting is established. The continued use of table 3S/3E seems an appropriate vehicle for this purpose.

We also support an increased focus on asset health. However a requirement for companies to shadow report against the 'PR19 asset health long list' in the first instance appears arbitrary. (Note the hyperlink in the consultation gives a different list to that in the draft table 3E). In our view a more logical first step would be to work with the industry to establish more effective asset health metrics. Only subsequently would it be appropriate to use shadow reporting as a means to establish consistent and compliant reporting.

When shadow reporting does once again become a requirement, sufficient time needs to be allowed for companies to establish reporting for any metrics not currently part of their suite of performance commitments.

Q8 Table 2N for developer services and tables 4L and 4M growth-related expenditure

As table 2N comprises non-financial information it should not fall within the scope of the financial auditor's opinion. We propose that it should be moved to section 4 alongside other non-financial tables.

The data in rows 2N.8 and 2N.9 will be supplied by NAVs. Table S2 will also require NAVs to report property data by site. It would be more efficient to collect this data once, in table S2, with an additional column to identify the incumbent company by site.

We note tables 4L and 4 have lines for on and off-site costs and infrastructure network reinforcement. The RAG4 definitions for 4L should clarify whether the costs of a boundary connection would be classed as on-site or off-site. As the costs of boundary connections are always charged directly to Developers, it seems likely that this would be part of on-site costs, but these costs are not avoidable by NAVs, which may suggest that Ofwat would prefer it to be allocated to off-site. We suggest Ofwat adds a note on what the data might be used for might be appropriate, so companies can consider whether the costs would be chargeable to NAVs for example. We also note that there is a strong overlap between off-site costs and infrastructure network reinforcement and it is likely that the majority of off-site costs will be classed as infrastructure network reinforcement as they are recovered through infrastructure charges.

Q9 *Table 2K reconciliation*

We offer discounts on infrastructure charges to incentivise customers to design and build houses to promote lower consumption of water and/or sustainable drainage solutions. We believe that the reconciliation of infrastructure costs to income should be made after the application of these discounts.

The aim of the reconciliation is to ensure that total infrastructure charge receipts match network reinforcement costs over the long run. Total infrastructure charges should be used on a net basis, reflecting the actual income received after applying discounts. Using gross infrastructure charges that don't reflect income actually received would require a subsidy from other customers to reconcile to costs.

Q10 *Assurance*

We do not have any suggestions on rationalising assurance.

Comment on proposed Board statement on accuracy and completeness of data and information:

Our Board take assurance of the APR and supporting data very seriously. We have an assurance framework which assigns an assurance provider based on likelihood and consequence of errors. All of our data has an allocated data provider and peer/manager review, at this point it is reviewed by an assurance provider which is typically our financial auditor for financial data, and either PwC or Internal Audit for our non-financial or performance data. This is a robust framework and is more detailed than the risks, strengths and weaknesses approach of the Company Monitoring Framework but uses similar principles. We publish the outcome of our assurance in a comprehensive Data Assurance Summary each year.

The Board is confident that this approach is appropriate and allows stakeholders to have confidence in the data provided. That being said, we hold our own confidence grades (using the framework that has been used by Ofwat in the past), as we acknowledge that some data is difficult to collect or is based on modelled data (eg. likelihood of flooding in a storm) so cannot be classified as 100% accurate. Where the confidence grade is below B2 we have an action plan in place to improve that data, however, in some cases, it will not be possible to get it to A1, and even a confidence grade of A1 would not mean 100% accurate.

The proposed statement in the consultation appears to be a step backwards to the statement used previously in June Returns. It is asking the Board to state that the data and information is "accurate and complete" which implies 100% accuracy and is therefore unattainable. The wording of a Board statement should aim to reflect the robust assurance processes and provide confidence to stakeholders that the data is materially reliable rather than accurate. If Ofwat did introduce this requirement then it is likely that companies will supplement it with an additional statement setting out their definition of "accurate and complete" in this context.

Q11 Property and customer information

We support the suggestion of combining information regarding property and customer numbers, including voids, into a single table. We have no suggestions for additional metrics in this area.

Q12 Total volume of network storage

We agree that reporting this line item is complex, especially as assumptions need to be made in relation to unmapped assets (particularly for those assets which transferred into water company ownership in 2011) and for relatively new measures where the proportion of validated asset data is low.

Q13 Strategic water resources - bulk supply information

It is not practical to capture costs at a granular level for individual bulk supplies therefore any reporting would require a significant amount of estimation and allocation of costs.

In addition, we have significant concerns over the breaching of commercial confidentiality by publishing the individual costs for bulk supplies. Bulk supplies are commercial contracts between water companies and the costs are not public domain. A requirement to publish costs would undermine commercial negotiations and make water trading more difficult and less attractive for companies. Commercial data of this type would be available to Ofwat for regulatory purposes if required, but putting it into the public domain could conflict with the provisions of existing contracts for example.

If costs are to be used, these need to be clearly defined to resolve questions such as do the costs include the return on the capital invested, how should an uneven profile of maintenance costs be addressed, would depreciation (run off rate or historical cost) apply instead, and would a supply risk premium be considered a cost?

Finally, it should be made clear whether bulk supplies to NAVs should be reported in this table. If so, the NAV charging rules require the charges to be cost reflective, so the costs reported will match the revenue.

Q14 Social tariffs

We have no suggestions for additional information in this area.

Q15 Indirect effluent reuse

Effluent from Langford Recycling plant is returned to the river and we abstract water for the treatment works from a different point on the river. We currently report these costs in Water Resources (river abstraction). We agree with the proposed definition.

Q16 Bioresources data requirements

We do not support the collection of further data for Bioresources.

In relation to the additional requirements set out in table 8C (also with reference to 'Additional bioresources table 3 – Imported Sludge Liquors Treatment – as per email from Connor Ryan dated 24th July), we do not currently capture the proposed data. Indeed in some cases we do not have the necessary instrumentation in place to capture it, and in some instances we are not certain that such instrumentation is readily available. Also, we note that we are now four months into the 2021/21 reporting year for which the consultation suggests this data will be required.

As per feedback given at the recent corresponding Bioresources workshop, we would advise that further industry work is needed to clarify requirements prior to new tables being introduced.

As a minimum, if Ofwat insists on new reporting requirements being introduced for 2020/21 as per the consultation, then further clarity is required on the approach to estimation if direct readings aren't taken, and corresponding expectations on data confidence. Based on the issues described above, we would have to rely upon theoretical extrapolation from a minimal dataset.

Q17 Table 9A innovation competition

We agree that revenues and costs for spend related to innovation projects funded through the innovation competition should be transparently reported.

We do not support the proposal to report on innovation projects funded by shareholders (table 9A rows 17-20). It is very difficult to define what would qualify as an 'innovation project'. We believe that innovation is the process of turning ideas into business value, and that this is about culture and our way of working rather than separate stand-alone projects. It would be extremely difficult to achieve any consistency of reporting of this across the sector.

Q18 Small company reporting requirements

We have no comment on these proposals.

Q19 Bilateral entry adjustment?

Our preference would be a separate new table with just the actual bilateral entry capacity (BCCa) split by water resource zones (WRZs). The data lines and definitions should align with the BEA model.

Q20 Greenhouse gas emission – future reporting

We support transparent and accurate reporting of operational GHG emissions inventories and have committed to the industry-leading target of Net Zero Operational Emissions by 2027/28. Additionally, NWL along with Anglian Water and Yorkshire Water is leading the Public Interest Net Zero commitment.

Our operational emissions are calculated using the UKWIR Carbon Accounting Workbook and externally verified in line with ISO14064-1. The current process using the UKWIR Carbon Accounting Workbook and attaining specialist external verification is fit for purpose and represents best practice.

We recognise the value of the information shared on Discover Water and are working with Water UK and other companies to ensure that data provided through the platform represents the same scope and boundary for every company. We do however note that making comparisons across companies is not necessarily informative – diverse populations, geographies and company sizes can all impact emissions figures.

We do not wholly support proposals relating to embedded (Capital) emissions. Embedded emissions are not directly caused by NWL but occur in our supply chain. As such, collecting accurate and granular data is challenging and would require changes to processes and corporate systems at every stage from procurement through to construction. Therefore reporting embedded emissions is not something that can be implemented quickly.

Through UKWIR, the industry developed, “A framework for accounting for embodied carbon in water industry assets (2012)”, but it has not been fully implemented by all companies. NWL would welcome the opportunity to update this framework in collaboration with Ofwat. We also recognise that frameworks such as PAS2080 may inform the sectors approach to embedded emissions reporting.

Additionally, net embedded emissions are not wholly under the control of NWL. Whilst we agree that we should aim to minimise whole life emissions as far as economically possible, total embedded emissions are closely linked to investment plans which may have conflicting drivers (regulatory or otherwise). The supply chain itself also has a responsibility to offer low emissions solutions, and NWL is committed to collaborating with our supply chain deliver low emissions solutions.

For operational emissions, the existing UKWIR Carbon Accounting process allows the separation of company emissions between water and wastewater services. With respect to embedded emissions, we support introducing formal reporting at a future date, provided that a suitable framework is agreed by the sector. We are committed to working with Ofwat and UKWIR to deliver a framework by summer 2023 which would allow reporting from 2025/26.

We would also highlight that no provision has been made in AMP7 plans to fund the development of a reporting methodology or the implementation of any data capture systems that may be necessary to enable the reporting of embedded emissions.

We would also remind Ofwat that NWL's own, and the wider sector's, net zero commitments are world leading for operational emissions and will make a meaningful contribution to the government's target of net zero by 2050. In the immediate term the focus should be on reducing operational emissions.

In respect of whether there should be a further breakdown of emissions data, for operational emissions the existing UKWIR Carbon Accounting process allows the separation of company emissions between by the main GHGs. However, before introducing further reporting requirements, the benefits should be clearly identified.

Q21 Nature based solutions – future reporting

We are supportive of the development of reporting on nature based solutions (NBS) and would be happy to be involved in a collaboration to develop the reporting approach. We agree that it is important to track and report on the adoption of these solutions, as it will be an element in encouraging their widespread adoption nationally.

We believe NBS reporting should cover solutions that replace hard engineering either fully or in part. This should also cover NBS that are put in to offset the impact of hard engineering. Examples would include catchment management activities and sustainable urban drainage solutions. The information should include the costs and benefits when compared to hard engineering, biodiversity units created and/or natural capital valuation.

There would be some work required to establish relevant baselines which would require understanding existing natural capital. Working with specialists, Eftec, we have compiled our first natural capital account for our southern landholding in Essex, Suffolk and Norfolk. The account combines data on the extent and condition of the natural capital assets in the landholding, the benefits they produce, and the values of those benefits to our business and wider society. It links together data on the biodiversity value of the land (measured through the Defra Biodiversity Metric) and values for a range of other benefits, such as water supply and recreation.

Q22 Household bills and arrears – future reporting

We have significant concerns about the proposals set out in relation to household bills. This reflects both the work involved in analysing and reporting against the very large data sets involved and the complexity of achieving consistent definitions for reporting against this data.

We currently provide information to Ofwat on the calculation of average household bills in the 'average bills template' each year when we publish our charges scheme. We would be happy to publish this information in the APR.

Household billing is a very large, complex and dynamic data set which would make reporting of bills to the proposed level of granularity, by decile, an onerous task. We also have distinct regions in our water business, Essex & Suffolk and Northumbrian, which would distort reporting by decile.

In respect of reporting customers in arrears, we foresee a number of challenges with the suggested measure. Specifically this includes the definition of arrears and the calculation of how many days in arrears a customer is.

We would welcome the opportunity to understand the objectives for the proposed reporting and suggest that it would be beneficial to discuss at industry workshops to help define clear measures that can be reported consistently and efficiently across the sector.

Northumbrian Water

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