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Please ask for **Helen Orton**
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Dear Ofwat,

Portsmouth Water – Response to Ofwat Consultation on Regulatory Reporting 2020/21

Thank you for the opportunity to review and comment upon the above consultation published in June 2020.

We agree with you that it is important to constantly review how we provide information to all stakeholders. Clearly PR19 has seen many developments and given the importance of reporting against assumptions and targets implicit in the Final Determination, the content of the APR needs to evolve.

We have responded to all 22 questions in the Consultation. For Q1, which relates to revisions in the APR tables themselves, we have prepared a table as requested, included as Appendix A.

If you have any questions on the detail in our response, please contact me.

Yours faithfully,

[REDACTED]

HELEN ORTON
Finance and Regulation Director

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

We have provided detailed comments and questions for most of the tables in Appendix A at the back of this document.

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?

Generally we support the tables proposed and can see how comparisons with the PR19 Business Plan tables can be undertaken. We suggest that Ofwat should be very clear what any comparison is against to ensure full transparency for all stakeholders. Typically it is against the Final Determination (December 2019), not the original Company Business Plan (September 2018).

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 have no specific comment on this issue, given that it relates to wastewater in particular.

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?

As a general rule we would suggest fewer rows on any table rather than more, even if this means more tables. In our experience as the number of rows increase transparency and “understandability” of the data tend to fall.

Generally we support the format being portrait. We believe this is easier for the reader. There are, however, some specific tables which lend themselves to landscape format, Table 3A for example.

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 governance process needs to be considered carefully before making any decision on submission dates for the APR.

In our situation the APR is prepared following the statutory audit, and therefore is limited by the time it takes to prepare and audit the statutory accounts. In addition the APR is signed off at the June Board, which is the last Thursday in the month. Papers are sent out one week in advance, which means auditors in particular have a tight timetable already (for example they have until week three in June to complete their assurance work opinion, but this cannot be started until the year end statutory audit has been completed – to run these activities would increase complexity and cost of the financial assurance work). Similar observations can be made for the technical assurers in relation to the already tight timescales.

In addition, there is often follow up work required by the Board before sign off. If the deadline is brought forward to say 1 July – there is very limited time to respond to Directors’ feedback and to allow both assurance providers sufficient time to execute their work and, most importantly, the Board to scrutinise and challenge the data and audit results.

Consideration should also be given to where we are in the Price Review process. In Business Plan years our small team undertakes the APR and then moves into the Business Plan. This last point supports an earlier submission date, however if the purpose is to more easily accommodate the subsequent in period determinations we would observe that there is an expectation that subsequent to the blind year adjustment, the determinations will relate to ODIs performance which is relatively straight forwards and well understood by stakeholders.

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

We support the development of Table 3A to differentiate between financial and non-financial ODIs and the links to the ODI performance model. We support embedding the ODI performance model within the APR.

We note the requirement to report on supplementary information on performance commitments rather than sub-performance measures in Table 3B.

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 support the principle of continuing shadow reporting for both PR19 and potential PR24 measures.

In selecting our bespoke PR19 Asset Health measures we had a much longer list than that provided in this consultation in Table 3E, which has two measures, properties at Risk of Low Pressure and unplanned maintenance for above ground assets. Further we chose to report the number of properties at risk of low pressure as an explicit ODI.

Perhaps Ofwat could review the list provided in Table 3E and confirm or otherwise.

We consider there is little value in sharing the status of each of the sub -components of any performance measure more widely than the regulators.

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 our proposed approach.

We support the development of a specific table providing stakeholders with information on the developer market. We also welcome the specific guidance relating to on and off site growth costs.

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?

We have no strong view either way.

Typically water efficiency discounts are given by water companies to recognise that the developer has installed proven water efficiency features in any new property. Any company sponsored scheme will presumably have been factored into either the Company Business Plan or its Water Resources Management Plan.

Companies should report on relative to any assumption in their Business Plan / Final Determination.

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

We believe our Board takes ownership of all data we place in the public domain, and agree that is scope to rationalise the number of areas where specific assurance is given.

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 support a specific single table for properties, with clarity on non-household properties in particular. We suggest you could also differentiate between year average and year end.

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 agree there is inconsistency of reporting of this issue. We suggest a small working group formed by companies, potentially led by Ofwat would resolve this quickly. That said, we are not sure how this is used in the economic regulatory regime.

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?

Yes we believe it is practical to determine the cost of each bulk supply. Indeed we need to provide Ofwat with the costs of any bulk supply when we apply for water trading incentives.

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?

The recent consultation on Social Tariffs developed a sensible table against which we can monitor the issue and quantify how much the Social Tariff costs all other customers. We would suggest using that table as the template.

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 do not have (or plan to have) any effluent reuse schemes. The definition appears reasonable.

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

We have no comment on this table.

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?

We are comfortable with the information being asked for in the table.

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 would suggest Ofwat could consider collecting average bill information, as highlighted in Q22 below and should consider all of the information be given by site as opposed to Company as a whole, given NAVs operate in many regions.

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

We would suggest at this stage the data is collected as part of Table 5A. We are fortunate in that we have only one resource zone. Further, we have no examples of any planned entry.

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?

We support the publication of GHG emissions at a company and industry level. We have an explicit ODI which will allow stakeholders to monitor our progress.

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?

As a water only company we will continue to publish the gross and net GHG emissions for the water we supply. We suggest that accurately capturing embedded carbon is a challenge.

We would revert to the industry experts on this matter and understand there is already a group established looking at this request.

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?

We support the reporting of any Natural Based Solutions as an efficient way of capturing what each company is undertaking and allow best practice to be shared.

• Which type of nature based solutions do you think should be included in any reporting, and how could they be reported against?

We have a small number of initiatives related to catchment management which would be worthy of reporting here. These include our capital grant scheme, which will enhance biodiversity and our payment for eco-services programme.

• What work do you think is required to establish relevant baselines?

Whilst it would be feasible to determine a base line for each company in turn, we do not see that an industry baseline is achievable.

We say this because every company faces different issues and therefore what is appropriate in Company A may not work in Company B, given the difference in geography.

Further, approaches to such issues are developing rapidly and there is a risk that any benchmarking may in turn stifle innovation.

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?

We have the following comments on the three proposals in turn:-

1. Household Bills

Whilst we are happy to support providing detail on the calculation of the household bill, we are not sure what data Ofwat expect in terms of inputs, calculations and outputs. Much of this is already provide before the start of the year when we publish our tariffs and associated assurance statement.

Further there will be a significant time lag between when this information is derived and reported in the APR. For example the 2020/21 APR will captured this data in July 2021, whereas we will have published our tariffs and assurance statement in January 2020. Further Ofwat do currently require us to submit a bill spreadsheet at that time.

Finally we are assuming this information relates to the ex-ante assumptions underpinning our published charges. If Ofwat require an ex-post explanation of what has actually been billed more analysis will be required.

2. Deciles of household bills

This can also be provided but it should be noted that as part of the tariff setting process we currently look at over 30 classes of customer to understand the bill impact of any change in tariff. We are not precisely sure what Ofwat are seeking to understand from this additional analysis.

3. Customers in arrears

We are uncomfortable with including collection performance with household bills in the APR.

The inference is that poor collection performance impacts household bills, which it does not in the short term.

Further, our billing year starts on 1 July not 1 April, which will not allow sensible comparisons to be made with other companies. There are many reasons why collection performance will vary between companies including the level of the bill and the mix of measured / unmeasured households. The June Return Table 6A was provided to Ofwat in commercial confidence up to 2010 but it is unclear how Ofwat used the data.

If Ofwat want to understand this issue better – it would be worthy of a dedicated working group.

• *What additional information on household bills do you think should be included in the APR?*

None – see above.

Appendix A - Question 1

Table	Line	Issue
1F	2	This line is labelled in the data table as 'Actual performance adjustment 2010-15' – this should be 2015-20. However, this table records ODI rewards/penalties accrued in each year, so this adjustment is inconsistent with the rest of the table. The ODI's for 2019/20 (end of period amounts) have already been included in this table for that year.
1F	6	Gearing benefits sharing – is this on an accruals basis?
1F	14	C-Mex out/under performance – are these adjustments calculated on an accruals basis, the same as ODI's? We won't know our relative company position until the APR's are all published, so each year will be an estimate. Should we then do a prior year correction in the cumulative calculations?
1F	15	D-Mex out/under performance – are these adjustments calculated on an accruals basis, the same as ODI's? We won't know our relative company position until the APR's are all published, so each year will be an estimate. Should we then do a prior year correction in the cumulative calculations?
2A	7 - 10	Recharges to Retail – can you confirm where these recharges are included in the Wholesale price controls? If they are included in Operating expenditure, then this would imply that they are also included in Totex. The APR consultation document says that the recharges should be in the lines that they relate to, so this implies that depreciation recharges should be in the Wholesale depreciation lines and therefore not in Totex. Is this correct?
2B	9	Other operating expenditure - Does this line include non-depreciation recharges to Retail? See 2A above. Commentary is required on Totex, and the comparison of actual vs allowed totex. Should a variance table be required in the commentary, showing operating and capital costs with the variance to the FD?
2B	14	RAG 4.09 - the line definition for 2B.14 states the following: 'The sum of 2B.12 and 2B.20 equals lines 2E.7 for water resources, 2E.14 for water network plus, and 2E.28 for wastewater network plus respectively.' The references 2B.12 and 2B.20 should be 2B.14 and 2B.22 – is this correct? This would mean that all grants and contributions relating to Water Resources are included in Totex, but only price control grants and contributions relating to Network+ are included in Totex.
2C	13 - 17	We welcome the inclusion of recharges in this table, as it is now consistent with 2A.
2E	1	We are concerned that Diversions are included in the price control grants and contributions at all, due to their unpredictable and often uncontrollable nature. This volatility is then passed onto household and non-household customers via the Revenue Forecast Incentive Mechanism. We propose that only the <u>profit</u> from each diversion be included in the wholesale price control true-up. Costs associated with third party activity are excluded from the Totex mechanism, so there will be no double-up in this respect.
2E	15	We note that the Income offset discounts applied to grants and contributions for water network plus should be entered as a positive number and the link to table 2M as part of the revenue reconciliation.
3A		We support the development of Table 3A to differentiate between financial and non-financial ODIs and the links to the ODI performance model. We support embedding the ODI performance model within the APR.
3B		We note the requirement to report on supplementary information on performance commitments rather than sub-performance measures.
3C and 3D		We agree replacing the AIM Table 3C is appropriate, as we will now report it Table 3A. We also agree that Table 3D is now redundant as, as we no longer report SIM.

		We agree that replacing 3C and 3D respectively performance with C-Mex and D-Mex is sensible.
3E		We support the principle of continuing shadow reporting for both PR19 and potential PR24 measures. In selecting our bespoke PR19 Asset Health measures we had a much longer list than that provided in this consultation in Table 3E. Further we chose to report the number of properties at risk of low pressure as an explicit ODI. Perhaps Ofwat could review the list provided in Table 3E and confirm or otherwise. We consider there is little value in sharing the status of each of the sub - components of any performance measure more widely than the regulators.
4B		Analysis of Debt – we welcome the inclusion of this table in the APR. This is similar to Table App 20 from the Business Plan, and will ensure that the correct calculations are used in the summary table 1E (Net debt analysis). We think that the output from this table should link into 1E in the Excel version of the data tables.
4C		Impact of performance on RCV – we welcome the change in this table to be consistent with the reconciliation models for PR19. If the methodology for these change, then this table should be updated accordingly. We note the omission of the deduction of Grants and Contributions from the final total has been addressed already.
4F		Major project expenditure by purpose – do we sub-divide the major project into these categories? Also, Havant Thicket has its own price control, so we need a dummy control column in this table.
4H	10	We note that if the company is rated by more than one credit rating agency then only the lowest rating needs to be included. We would like to understand Ofwat’s thinking here on why it is only the lowest?
4L		RAG 3.12 (section 4.10) suggests that commentary is required for the costs in this table – what level of detail should we include? Commentary is required on the details of expenditure on long-term improvements to the supply-demand balance, including a report on progress and deliverables in this area. Is this level of detail required for other enhancement expenditure, such as resilience?
4P		RAG 3.12 (section 4.11.3) asks for commentary on leakage – is this referring to the wrong table? Table 4P relates to Diversions. RAG 3.12 (section 4.11.4) relates to Table 4Y, which does not exist.
5A and B		We support the development of Table 5B to locate the costs with the performance data shown on 5A.
6A and B		We support the development of Table 6B to locate the costs with the performance data shown on 6A.
6C		We support the development of an explicit table for properties similar to Table 6C. Clarity on NHH properties / Business properties would be welcomed. We suggest this table could also include populations. We would also suggest differentiating between year average and year end.
6D		We note and support the new table to collect metering and leakage information. We do not intuitively understand some of the data required, for example the Supply Demand benefit of new residential or business meters, measured in MI/d. Further refinement / definition of the leakage categorisation may also be of value.
9A	9 - 12	Innovation competition – For the avoidance of doubt, can you confirm that the original innovation fund revenue, allocated to companies in the FD, does not cover any costs in the allowed Totex? In the final Ofwat model, these innovation costs were included over and above Totex.