

south east water

APR21 Consultation

South East Water response

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South East Water
Rocfort Road
Snodland
Kent
ME6 5AH



Pure knowh₂ow

1. Introduction

This is South East Water's response to the 'Consultation on regulatory reporting for the 2020-21 reporting year: This document includes responses to the 22 questions outlined in the aforementioned consultation.

For any queries, please contact Oliver Martin: [REDACTED]

2. SEW Response

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

A1: See Appendix A for the detailed responses.

We would request that changes and additional data requirements for the APRs should ideally be issued before the start of the period that the data applies to. As a minimum, the changes should be circulated at least 6 months in advance of the submission date, or they risk reducing the effectiveness of assurance processes and the robustness of the submissions.

Likewise where lines are added to an existing table, we would ask that they are included at the bottom of the table, as otherwise this has an impact on our assurance processes and the comparisons against previous years as we use the table and line numbers for reference and communication. Not only does it take a considerable amount of time to update the references in all the documentation, but it gets confusing when for example data owners were used to referring to 4Q.6-8 as 'Total connected properties' and this changes to 4Q.7-9. We acknowledge that the Bon codes remain the same, but these are too unwieldy to be easy to remember.

We would also request that the updated RAG documents and excel data tables are released well in advance of the 1st April. Extracts of the reporting requirements and the data tables are provided to our data owners and form the basis of our assurance tracking. Changes to the RAGs and data tables once our APR process has started, adds considerable reworking and hence additional the risk to the quality of the submission. We appreciate that some last minute changes may be unavoidable, but we ask that these are kept to a minimum.

It would be helpful if the APR data table cells were pre populated with links, for all the cells that Ofwat expect to match other cells in the APR tables, but where there may be a reason that they won't, they should be retained as input cells, so that the companies can override the formula if required.

2.2 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?

A2: We believe 3A and 3B enable comparative performance to be identified. However, for mains repairs, it may be useful to split reactive and proactive repairs to demonstrate impact of proactive leakage activities on the overall number.

We would welcome better alignment with the PR19 Business Plan to enable comparisons to be more readily undertaken. Comparison to Business plan table data is logical. However granular detail may not be easily available and we would caution dropping any of any APR figures that do not directly tie with the focus of the PR19 business plan, as they may be required to support the focus of PR24.

We would also request that the focus of PR24 be considered and any additional data that will be required is captured in the APR tables as soon as possible.

2.3 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.

A3: Consistency between wholesale and retail reporting would be useful.

2.4 Q4: Are there any practical presentational issues we should consider eg do any tables have too many lines to publish easily? Do you have any preference for landscape versus portrait format?

A4: Where possible tables should be suitable for viewing on screen without the need for scrolling, for example we fully support the proposal to break up table 4P. However, where related data needs to be reviewed together, it should be retained on the one table, for example table 3A. Due to the number of columns within tables 3A, 3B and 4B these tables may prove difficult to report coherently on an A4 page. Currently as per the proposed RAG 3.12, table 4B is not required to be included within the APR.

2.5 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?

A5: We currently make full use of all the time up to the 15 July, so an earlier date could risk the quality of the submission. This is already an extremely busy time for our External Assurance Partners and Auditors, who audit a number of other companies and trying to condense their activity into an even smaller time period will be very challenging and again could affect the quality of our submission. If the submission date is brought forward it would make our requests on timing in 2.1 even more important.

There also needs to be sufficient time for the Board to be able to adequately scrutinise and sign off the vast amount of data and information that is required to be published.

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

A6: Yes, we agree as completing the model is just a replication of the ODI data from the table.

2.7 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?

A7: Of these, two are relevant to water companies, Low Pressure and Unplanned maintenance.

We support companies reporting performance on asset health measures if we can be confident they are appropriate indicators, and they have robust reporting methodologies that can be consistently applied so that comparisons between companies are meaningful.

This is the case for low pressure, which has been monitored and reported performance over multiple AMPs. We therefore agree that companies should report performance for low pressure.

This is not the case for unplanned maintenance, which we have not reported on previously. We are unclear as to how this metric would work to be an appropriate indicator of Asset Health and not risk driving unhelpful/unwanted consequences. We are uncertain whether the methodology would be able to be applied consistently across the companies.

Asset health should be considered within the context of that assets' criticality for delivering the defined service. A well designed system will have built-in redundancy, and will allow for a level of asset failures, without impacting performance. Unplanned maintenance, such as a timely repair or replacement, is an effective management strategy in these situations but would be detrimental to this type of metric. A large amount of unplanned maintenance may be entirely appropriate based on how your systems are designed to perform. If you have sufficient redundancy, a "poor" performance in this metric may still lead to no customer impact. Whereas another company may have good performance due to lots of proactive maintenance, but if there is no redundancy in their systems, they could still suffer much worse customer impact.

We are also unclear on how this metric fits in with Ofwat's current initiative on Asset Health, which may propose other metrics as better measures on Asset Health.

We are currently looking at the reporting for this metric, which could be summarised as:
Completed unplanned activities on MEICA assets / total number of MEICA assets

Each company will use different systems, processes and different asset classifications to provide the data for this calculation, and therefore there may be some significant variation in how this metric is applied. Notwithstanding earlier points, more consistent application of this measure will need to be in place before the metric is robust enough for comparative performance to be undertaken and we suggest that this is reviewed in detail and tested by an industry group.

2.8 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.

A8: We agree that the proposed changes achieve the appropriate level of detail. SEW already capture this data required for the updated table 2N in line with the Levels of service NAV Metric update.

We have a query on 2N.3 Connections are served by incumbents, as this line requests the numbers of connections and not the number of properties, should this be bulk supplies only or the number of plots served by the bulk supply?

2.9 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?

A9: By picking up the value in 2K.3 the reconciliation of infrastructure charges currently includes discounts applied to revenue as a result of water efficiency fittings.

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

A10: While we would always welcome guidance from Ofwat, as part of the 'Light touch' regulation and the principles of the Company monitoring framework, we would consider that the companies are best placed to ascertain the appropriate level of and specific assurance required for discrete areas.

We feel that the guidance on financial assurance and data assurance already in place are adequate.

While we agree with the purpose of the proposed change, we have not identified opportunities to rationalise the requirements relating specifically to assurance (as opposed to requirements relating to specific statements).

The consultation does not directly address how the contents of the APR would change and it would be useful to have additional clarity on what is intended, considering that the contents of the APR is governed both by the RAGs and information notices. This is especially the case for example of the data assurance summary which is referred to in information notices.

Is the intention that the new signed statement from the board on assurance will replace the data assurance summary? We assume that the new signed board statement may include information similar to that included in the current data assurance summary but also

reflecting changes adopted by the board in relation to assurance (and no longer referring to the CMF).

Is our understanding correct that this change will not affect the requirement for a risk and compliance statement, other than in requiring boards to include in their statement on assurance explanations on the assurance they put in place to make the risk and compliance statements?

2.11 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?

A11: We would welcome this proposal as it aligns with our own internal approach. We would suggest that population numbers could also be collected in this table.

With the increasing complexity around the nHH and new connections we would welcome an industry working group to review what data is practical to collect and what the most appropriate definitions should be to ensure companies are reporting the most useful data and on a consistent basis.

2.12 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?

A12: Not applicable for SEW

2.13 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?

A13: SEW are more reliant on bulk supply imports rather than exports – as such the responsibility for the provision of more granular detail would fall upon the companies providing the import. We are aware that some of the existing bulk supply contracts are long-standing and therefore providing granular detail may be difficult.

2.14 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?

A14: We would encourage Ofwat to clarify whether the figures reporting in this table are purely Social Tariff and Water Sure or if it should be differentiated.

2.15 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?

A15: Not applicable for SEW

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

A16: Not applicable for SEW

2.17 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?

A17: We agree and will factor this to any bids for the Ofwat fund and input to the joint innovation strategy.

2.18 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?

A18: Not applicable for SEW

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

A19: No significant comments

2.20 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?

A20: SEW are already committed to a reducing their GHG impact recognised through their ODI to reduce net annual operational greenhouse gas emissions measured in kilograms carbon dioxide equivalent per million litres of water put into supply. An obligation of this requirement is to ensure all data relating to operational greenhouse gas emissions is compliant to with the international reporting standards.

SEW are supportive with regard to reporting as part of the APR, and are unlikely to incur significant impact given the current reporting commitment. Reporting as an industry is currently undertaken using the carbon accounting workbook (CAW) supported by UKWIR. We are keen to maintain this working relationship which has led to a consistent and robust form of reporting – hence any proposals from Ofwat we would recommend to be continued to be channelled through this relationship and use of this tool.

SEW are already committed to a reducing their GHG impact recognised through their ODI to reduce net annual operational greenhouse gas emissions measured in kilograms carbon dioxide equivalent per million litres of water put into supply. An obligation of this requirement is to ensure all data relating to operational greenhouse gas emissions is compliant to with the international reporting standards.

Before concluding any changes the interactions between the following aspects may need to be considered:

- Relevant aspects and assumptions in companies adaptation reports (and water resources management plans);
- Sector initiatives on net zero;
- The TCFD recommendations (based on the expectation that all listed companies and large asset owners will disclose in line with the Financial Stability Board's task force on climate-related financial disclosures recommendations by 2022);
- Reporting requirements in annual reports.

2.21 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?**

A21: We are clear that the protection of both our own environment, and environment we have influence upon, is key to ensuring a long-term sustainable source of quality water. Underlying this responsibility we have a business commitment to introduce natural capital accounting for SEW for the 2020-25 period. Natural capital accounting will quantify a value for our key natural assets/ecosystem services, and ensure this is a considered impact to future investment solutions.

We would therefore support Ofwat to encourage the use of natural capital accounting in the industry to ensure future investment plans are submitted on an equal playing field which includes a monetarised consideration of natural capital accounting. We are currently working with external advisors to develop our own route map to integrating natural capital accounting. Our initial review of natural capital accounting has concluded that there is no single definition standard to adhere to, i.e. there are many variations on a theme. Subsequently we feel this is therefore an area of reporting which could lead to multiple interpretations and levels of standards adopted, and as such reporting at the broad level of natural capital accounting could be misleading. We would therefore caution against inclusion of nature based reporting at the current time and instead allow a period of review and industry consultation to reach a consistent view.

We agree with proposal but it needs to be much broader. The examples provided are quite narrow and focused more on discharges.

There should be free text for the type of nature based pilots being explored and delivered - this is an evolving area so important to keep broad at this stage. This would cover areas such as: biodiversity net gain (and wider benefits this provides to other ecosystem services); improvements to soil health (and benefits to other ecosystem services); solutions piloted to improve both raw water quality and quantity; work implemented to tackle invasive non native species; and adaptive management techniques piloted to provide environmental resilience in catchments.

It is difficult to establish baseline at this stage, as this is a new and evolving area - case studies, water quality data and natural capital accounting may be methods of establishing the worth of such schemes.

2.22 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?

A22: We agree that item 1 seems a reasonable request, we assume this would be the same information we already provide to Ofwat as part of the tariff basket.

Although we bill for wastewater on behalf of other companies, we would only be expecting to report on our water only bills for this household bills section, so item 2 would not apply to us.

For item 3 we would want to understand what Ofwat is trying to get from this information, to be able to comment on how appropriate this is.

Appendix A – detailed responses to question 1

Table	Line	Issue
1F	9	The line definition of 1F.9, states the calculation should be cost of debt unadjusted for hedging instruments less 1F.11, should this not be cost of debt less 1F.10?
2A		Can you please confirm if this therefore requires that the values reported in wholesale should not be based on principle use and should instead be fully allocated across the price control units?
2B		Pension deficit recovery payments have been reported as cash expenditure previously
2C	18, 21	The line definition for 2C.18 seems to be incorrect, potentially should state the value is the sum of lines 2C.8, 2C.12 and 2C.17 Similarly line definition for 2C.21 appears to be incorrect, potentially should state the value is the sum of lines 2C.18 to 2C.20?
2C	25, 26, 28, 29	Line 2C.25 should reference to line 2C.24 and not 2C.23. Line 2C.26 should be the sum of line 2C.24 less 2C.25 not 2C.23 less 2C.24. Line 2C.28 should reference line 2C.27 not 2C.26. Line 2C.29 should be the sum of line 2C.27 less 2C.28 not 2C.26 less 2C.27?
2G	All	In section 4.15.1 of RAG 3.12 when you state that "where the appointee has exited all non-household market activities then tables 2G and 2H should be left blank. Companies should make a narrative statement to this effect and disclose the corresponding wholesale revenue." Can you please clarify what constitutes "all non-household market activities"?
2M	2, 3	The calculation stated for line 2M.2 appears to be incorrect, correct calculation should be the sum of lines 2E.3, 2E.16 and 2E.28. Similarly the line definition of 2M.3 shows the calculation is linked to table 2I which appears incorrect, should this not simply be the sum of lines 2M.1 and 2M.2?
4C	2, 16	Line definition for 4C.2 appears to incorrectly reference 4L.53 should instead link with 4L.54. Line definition for 4C.16 appears to incorrectly reference 4L.21 and 4L.53, should instead link with 4D.22 and 4L.54.
4H	2, 19, 20, 22, 29	Line definitions for 4H.2 and 4H.3 both refer to line 4C.5, however these should refer to 4C.22. Line 4H.19 refers to 4H.12 but this should refer to 4H.14. Line 4H.20 refers to 4H.17 but this should refer to 4H.19. Line 4H.22 refers to line 4H.19 but should refer to line 4H.21. Lastly line 4H.29 refers to lines 4H.21 to 4H.26 but should refer to lines 4H.23 to 4H.28.
4J	27-31	Line definition for lines 4J.27 to 4J.31 references to 4J.2654 this should be 4J.26

Appendix B – detailed responses to RAG changes

RAG	Change	Issue
RAG 1	The APR will now be split into 9 sections which follow broadly the structure used in the PR19 business plans.	New section design separates the tables more coherently. Where values link solely to other figures reported within the APR they should be formulated and not manual input cells. Looking at the consultation pro-forma tables there appears to be a number of manual input cells which can be formularised in order to reduce manual intervention.
RAG 1	The current cost accounting disclosures are no longer required.	Agree with the removal of the current cost accounting table 4G
RAG 1	We have clarified our guidance	DPC to be removed from APR as part of the differences

	on grants and contributions and have departed from UKGAAP for leases and DPC for regulatory reporting purposes.	between Stats and Reg reporting column.
RAG 3	We have deleted the exemption to publish table 3S and tables 4J - 4W. Instead, we state that Table 4B (Analysis of debt) is not required to be included as part of the APR but must still be prepared in accordance with these RAGs and submitted to Ofwat.	We publish tables 3S (3E now) and 4J to 4W as cost assessment tables. Are we now expected to include them in the annual regulatory accounts?
RAG 3	<ul style="list-style-type: none"> · a statement on executive pay and performance – replaces s35A requirement) · a statement explaining the variance on infrastructure network reinforcement charges. · a statement on the innovation competition 	Statement explaining the reconciliation of network reinforcement charges has been included since the introduction of table 2K

Contact Us

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

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