Regulatory reporting for the 2020-21 reporting year

Consultation Response

August 2020

Introduction

Thank you for the opportunity to respond to your consultation on the evolution of the Annual Performance Report (APR) for the 2020-21 reporting year. We welcome the fact that Ofwat is taking the opportunity to consider the necessary scope of the reports and is incorporating a number of disparate data submissions in to one place in the APR.

We note that the proposals represent a step change in the level of regulatory reporting via the APR, bringing the size of the report close to that of the June Return[1] which was abolished in 2011 in order to reduce the regulatory burden on companies. While the revised requirements undoubtedly represent an increase in the regulatory reporting burden, nonetheless we support the consolidation of reporting in one place and the re-establishment of a core set of comparative data that can be used to inform decisions both in-period and at the next price review. We know from experience that ensuring data is genuinely comparable can take a number of years. It is therefore important to establish this comparative dataset well ahead of the PR24 business plan submissions to enable robust comparisons to be made between companies.

Notwithstanding the importance of developing a consistent set of regulatory data, the quantity of data collected should not be allowed to grow incrementally each year and the opportunity to remove data where it is no longer needed should be kept under constant review. There are a number of areas in the proposed tables where we think the opportunity to remove data has been missed. For example, even though most companies no longer have a non-household retail business, there remain data lines relating to non-households (for example in Table 2H). In finalising the data requirements we would urge Ofwat to ensure that all lines are useful and necessary.

We set out our responses to each of the consultation questions below, with detailed comments on the tables and table definitions provided under question 1.

[1] In terms of the number of tables, the 2011 June Return contained 67 tables, compared with 58 in the proposed APR

Response to consultation questions

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

Table	Line	Issue
1F	1	We believe that the base (FD) return should be identical for each of these columns, with variations due to actual performance and/or capital structure reported in subsequent table lines. It is, therefore, unclear why separate guidance for each column is necessary.
1F	2-3	The financial flows (and RORE) metrics are both designed to capture 'in-period' the impact of actual performance. The impact on returns, relating to AMP6 out-/under-performance (e.g. SIM, ODIs), was incorporated into the AMP6 Financial Flows reporting tables. Therefore inclusion of this line will result in the performance relating to a single regulatory period, being reflected as an adjustment to base returns for two regulatory periods. It is unclear why this line, as a starting adjustment to base returns, is included.
1F	9	The definition for this line reads: 'The cost of debt (unadjusted for hedging instruments) Less Line 1F.11'. We believe the deduction should reference Line 1F.10.
1F	9, 10	Given the prominent 'no adjustment should be made for corporation tax' instruction for other adjusting lines, we believe it would be useful to include the same direction for lines 9 and 10 – especially given the change in treatment from the AMP6 period.
1F	9, 10	The guidance states that 'the Fisher equation should be used in calculations, where appropriate'. Given that use of the Fisher equation was specifically prohibited from 1F calculations during AMP6 reporting, we believe it would provide greater clarity if the conversion from nominal interest rates to implied real interest rates (for comparison to the allowed cost of debt in the published FD) included specific reference to application of the Fisher equation. This will help prevent a perpetuation of simple subtraction of inflation (as required during AMP6), and ensure consistency with the approach adopted in the RORE metric.
1F	11, 19	The guidance for line 1F.11 reads: 'The sum of lines 1F.5 to line 1F.10 plus line 1F.3'. We believe that this should not include the reference to line 1F.3 (adjusted return on regulatory equity). This would fit in more clearly with the 'block' of lines 1F.5 to 1F.10 titled 'Financing', and would be consistent with the approach adopted for line 1F.18 ' Operational Performance Total'. The change outlined above would require the guidance for line 1F.19 to be updated to include the returns from line 1F.3.
1F	14, 15	We note the guidance that 'For 2020-21 the reported value will be zero'. We would welcome indicative guidance on whether, and/or at what point, C-MEX and D-Mex will be reportable in the Financial Flows table 1F.
1F	22	The line guidance currently reads: 'The sum of line 1F.19 plus line 1F.20.', and therefore omits the returns impact of 'Voluntary Sharing Arrangements' (1F.21). The guidance should be amended to read: 'The sum of lines 1F.19 to line 1F.21'.

1F	24	We recognise the intent of this line, allowing companies to calculate a deduction to the gross dividend for dividends relating to circular/round-trip dividend arrangements on intercompany interest payments. Companies with similar, yet slightly differing, round-trip arrangements are currently required to diverge from this strict definition, in order to accurately populate this line in the spirit in which it is intended. We would welcome more flexibility on this line definition – for example 'dividends paid relating to intercompany interest'.
2A	7-10	We would expect the net value of these rows to be nil, however values can only be input in the Retail column. Excluding the other columns would make the operating profit numbers at the bottom of the table incorrect.
2A	12	This line is not new, but it is not clear what the purpose of reporting is or how it relates to monitoring against the final determination.
2B/C 4D/E	All	The only place where depreciation is recharged from the business unit of principle use is Table 2A and then only to Retail (see above). We do not currently include any recharges for this in any other tables. Is this as intended? If so then the recharge rows on 2A for Retail would have to be removed to avoid a double count.
2B, 4D/E	5-6 5-6 5-6	We would need more detailed definitions of the types of cost that should be included within these rows in order to ensure consistency between companies.
2B	14	We suggest that the row title could be clearer. For example: "Grants and contributions – relating to operating expenditure"
2B	37	We suggest the row title could be clearer. For example: "Grants and contributions – relating to capital expenditure"
2C	Columns	It is not clear what the purpose of the disaggregation into customer types is. Reporting on this basis if likely to be heavily dependent on allocations and assumption based and therefore the level of comparability between companies is likely to be limited.
2C	18	RAG 4.09 states that this should be the sum of lines 2C.8 to 2C.11 plus 2C.16. This does not appear correct.
2C	21	RAG 4.09 states that this should be the sum of lines 2C.17 to 2C.19. This does not appear correct.
2C	26	RAG 4.09 states that this should be the sum of lines 2C.23 less 2C.24. This does not appear correct.
2C	29	RAG 4.09 states that this should be the sum of lines 2C.26 less 2C.27. This does not appear correct.
2E	7	RAG 4.09 states that this should be the sum of lines 2E.3 to 2E.7. This does not appear correct.
2G / 2H	Column 2	Retail revenue – this column could be deleted now that all companies except Dwr Cymru have exited the NHH retail market. It is also not clear what the purpose of columns 6-10 are for companies that have exited the NHH retail market.
2I	All	There is currently no guidance on how to account for the four wholesale price controls. We assume we should use the same methodology as for PR19 but this is not explicit.
2I	Many	The row numbers on the proforma spreadsheet do not match those in RAG 4.09. All calculation guidance (e.g. 2I.4 should be the sum of 2I.1 to 2I.3) is therefore incorrect.

2J	All	The definitions in RAG 4.09 seem to still be referring to the old table 4D and 4E references. We suggest that these need to be updated with proper definitions for each of these rows. We believe that 2J.4 should match 4L.4 and 2J.9 should match 4M.2
2L	-	No column is provided for bioresources. Where assets have been allocated to bioresources price control as part of the RCV separation how should their sale be recorded?
2M	2	RAG 4.09 states that this should be the sum of lines 2E.8 and 2E.19. This does not appear correct.
2M	3	RAG 4.09 states that this should be the sum of lines 2I.19 and 2I.20. This does not appear correct.
2N	All	Given that sections 1 and 2 are assured by our financial auditors it seems inappropriate to include this non-financial table within section 2. We would propose that this table should be included within section 4 of the report.
2O	All	We suggest that from a set of accounts and logical flow basis that this would fit better after table 2D. (They could be called 2D(i) and 2D(ii) to avoid wholesale renumbering.)
3A	-	It would be helpful to split between price controls as well as between water and wastewater. We would suggest a separate block for each price control, split between common and bespoke PCs.
3C	1	The line title “Annual customer satisfaction score for the customer services survey" does not align to the RAG definition "The name of the abstraction site. This can be anonymised if it is necessary for national security reasons."
3C	5	The line title “Confirmation of communication channels offered" does not align to the RAG definition "Total household complaints."
3C	6-8	RAG 4.09 provides a definition for these lines but they do not appear in the draft table.
3D	4-5	These values appear to be linked to Table 2E. If that is the case they should be calculated cells rather than input to avoid the risk of inconsistencies.
4A	-	We would suggest that this table is restricted to large bulk supplies. Inclusion of all NAV bulk supplies would result in a table that may be unwieldy. Operating costs for individual NAVs are not currently recorded, with charges being based on regionally averaged tariffs rather than the specific costs of supply. Table data will only be indicative, as revenues recorded in the year will be based on estimation/accrual and will therefore differ to the final amount billed. In addition the opex costs will similarly include accrual estimates and be subject to finalisation once actual costs are known for final billing.
4C	12/13	Separation of totex variances between efficiency and timing introduces an element of subjectivity to this table. We would suggest that commentary is required on this aspect rather than including it in the table (especially as it does not appear to impact the calculation of the shadow RCV).
4D-4E	17-18	We note that the infrastructure/non-infrastructure split of capital expenditure has been removed. Is this intended? If not, it would seem better to add two new lines for Growth infrastructure and Growth non-infrastructure.

4D-4E	15-18	It has been a long time since any guidance on apportionment for maintenance/enhancement combined schemes was provided. We predominantly use volumetric for pipes and tanks and flow rate for mechanical assets per the old June Return Table 32 guidance. Confirmation that this is still the required approach would be helpful.
4F / 4G	-	It is not clear to us whether a separate table is required for each major project or just a separate row. This could be made more explicit.
4H	5	We welcome the clear link to the Financial Flows table, but note that the cross-referencing to 1F line items appears out of alignment. We also propose that the detailed guidance for the sub-entries (1-5) building up the overall RORE entry for reporting at line 4H.5 should be included at lines 4H.23 to 4H.28, with guidance for line 4H.5 limited to overall context and approach covering all components (e.g. price base, application of Fisher method, arithmetic average), and an instruction to report the figure reported at line 4H.29
4H	12-13	If dividends are nil (as we expect they may be) what should be reported in these lines?
4H	26	Referring back to line definitions at 4H.5. It is unclear why the ODI adjustment includes the instruction that 'no adjustment should be made for corporation tax'. This appears inconsistent with the 'post-tax' nature of the RORE metric. Further, if there is a genuine requirement to leave ODI impacts unadjusted for corporation tax in RORE, does this imply a requirement to gross up the ODI entry in Financial Flows (1F), given that RORE is a post-tax metric but Financial Flows holds corporation tax as a separate line item and treats all other items pre-tax?
4H	27	The inclusion of additional (similar but slightly different) guidance, in addition to that included at 4H.5 appears unnecessary – although note our overall observation (per 4H.5) that the detailed instructions appears to sit more naturally in guidance for rows 4H.23 to 4H.28. It is also unclear why the guidance includes the instruction 'Any adjustment for tax should be calculated in a manner consistent with the calculation in 4H.5.' At 4H.5 there is a clear instruction that financing out / under performance should be 'adjusted for corporation tax at the headline rate', so the additional guidance appears unnecessary and potentially confusing to users.
4H	29	The guidance reads 'Sum of 4H.21 to 4H.26. Equal to 4H.5.' This appears to be out of alignment and should read 'Sum of 4H.23 to 4H.28. Equal to 4H.5.'
4J – 4K	All	There is a large amount of repetition between these tables and 4D and 4E. We suggest simplifying by only having the atypical section with some form of reference to show which other row has been adjusted following the removal of the atypical item.

4L/M	All	We note there is some information available in tables 4L and 4M listing specific project drivers that could be treated as opex or capex. We would particularly like clarification of whether it is the intention to capture just item 1 below or both items 1 and 2: 1. the initial "investment cost" of specific projects. 2. new/incremental operating costs, as a result of commissioning an enhancement or growth scheme once it has completed. If the intention is to include new/incremental costs then these are normally likely to impact a number of rows in the table (e.g. power, rates and other) and so the treatment of them would need to be understood for the first year after commissioning and then subsequent years. In addition, the analysis of any additional operating costs arising from delivery of a capital scheme is likely to involve a significant element of subjectivity, given the need to analyse costs in detail pre- and post-scheme implementation.
4L – 4M	All	Is the intention to compress the cumulative values in a single column? Given that data needs to be held at accounting separation level to complete the report year columns it is not clear what the benefit of removing these columns is.
4N – 4O	1 – 3	In common with most companies, the majority of this work has been outsourced and so we do not currently collect the data required in order to fill in these rows accurately.
6C	23	We were surprised to see Mean Zonal Compliance still included in the table, as this will be superseded by the DWI's CRI metric in AMP7.
7C	11	We are not clear what is required in this cell. It would appear to require data on sewers installed or refurbished after 31 December 2020, but the significance of this date is not clear.
7C	21	We think this should be a calculated cell as per the RAG guidance.
8C	1 – 4	All of our sludge treatment centres are on co-located sites with wastewater treatment works, all with a single electricity meter. We currently estimate sludge power costs based on the power ratings of all assets on site. Were we to estimate heat and biogas this would require further assumptions on top of the assumptions we have already made, meaning the data in this table would be highly subjective. We would therefore question the usefulness of providing this level of disaggregation of data. The absence of line item definitions in the draft RAG 4.09 exacerbates the challenge. Given the likely difficulties in reporting in a consistent way, we would question the usefulness of this data. If it is to be required we would need guidance for completion as early as possible to allow proper consideration prior to the year-end.
9A		It is not clear whether expenditure and revenues should be reported on an annual or cumulative basis. If the latter then it is important to have consistent guidance on the approach to indexation.

2. 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?

Yes. It is clear that the segmental income tables need to be expanded to allow reporting of revenues – as well as costs - against each of the new price controls. New Table 2M clearly captures the greater complexity of the new price controls and the factors that can change the allowed revenue. In light of the recent licence change proposals to allow correction of unambiguous errors in the final determination and for an adjustment in respect of the blind year totex true-up an additional line is probably required to capture ‘Other allowed adjustments to revenue’.

It is not clear why Table 3A (performance commitments) is not split by price control but only between water and wastewater.

Elements of Table 3B are very helpful. For example clearly laying out the baseline for the leakage and PCC common performance commitments which are expressed as a % reduction is useful. Similarly showing the denominators for normalised PCs is likely to be helpful. It is not clear that the much of the remainder of the information in this table is necessary or likely to be useful. Companies should be monitored against the clearly defined outcomes in the final determination which is the purpose of Table 3A. Given the significant increase in data being collected we would suggest a review of the necessity of much of the data included in this new table.

3. 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.

From our analysis of water companies’ methodologies it is clear that there are many differing methods for calculating the cost of liquor treatment. For any form of meaningful comparison to be made more prescriptive guidance will be required. This is an area where all companies have little in the way of good quality data available and is something that is not regularly measured and therefore largely subjective. Collecting better data would clearly have a cost impact, which is likely to outweigh the benefits. In order for Ofwat to fully understand the challenges faced by all companies in the sector we would welcome a separate consultation into this area.

4. 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?

The inclusion of data collection tables into the APR causes significant practical presentation issues. These range from making them aesthetically pleasing in a designed (“glossy”) document, to significant proof reading effort to ensure that all the information has been reported correctly and the difficult layout of those tables with large numbers of rows or columns.

Our preference would be for the APR to contain a subset of the tables, for example sections 1 to 3 plus any required commentary, with the additional tables published in the Ofwat excel template, alongside the APR document. This would reduce the time and effort required to turn the data into a “glossy” publication and also prevent that document from becoming unwieldy and less useful for stakeholders.

Tables worth specific consideration of presentation would be:

- 4J and 4K. There is a large amount of repetition of tables 4D and 4E purely to identify atypical items. An alternative approach would be to just report the atypical values (rows 27 to 32) with some form of cross reference to show which line in the main table is affected.
- 7B. Given the number of works this would probably be better with the works as rows and the information items as columns.

5. 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?

It may be possible to deliver to an earlier date once the new requirements have been embedded. However, we would suggest that this is not done for 2020-21. Shortening the timeline at the same time as introducing a set of new reporting requirements will mean that data quality will inevitably suffer and more errors will be made.

We would suggest that for 2020-21 and 2021-22 no change is made to the reporting date, but consideration is given to an earlier submission once the AMP7 changes have been embedded in company data collection frameworks. As an interim solution, it should be possible to provide the data that is required to calculate the in-period adjustments on a draft basis ahead of the APR publication date.

We are conscious that in the coming years are likely to also have PR24 data submissions to make and the timing of these would need to be taken into careful consideration alongside any of the annual reporting timescales.

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

We are unclear what is meant by embedding the performance model within the table, but we support the intention to ensure that the two are consistent and reducing the chance of there being any discrepancies between the two sets of data.

7. 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 intention to ensure that the data used to inform target setting at PR24 is consistent and this is best achieved by incremental refinement of definitions over successive years. Unless it is intended that all of the asset health measures included in this table are to be common measures for PR24 we do not think it is necessary to collect the data from every company every year. As part of PR19 each company selected the metric that was most relevant to its own circumstances for inclusion within its suite of performance commitments. To then require reporting against all of the measures, including those deemed less relevant to company circumstances, seems unnecessary. We support retention of a table for the testing and refinement of new measures, but it should not be populated before decisions are made on common measures for PR24.

Because any such data will not initially be comparable between companies due to the need for refinement of definitions and standardisation of reporting it would be sensible for this data to be restricted initially.

8. **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 proposed changes which will help provide transparency in the developer market and drive better outcomes for customers. However, we suggest that the new Table 2N should be included within section 4 of the APR, so that it is assured along with our other non-financial tables, rather than in section 2 which is assured by our financial auditors.

9. **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 would support a change to table 2K to remove the requirement to report discounts and to just report the net infrastructure charges.

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

    Within the APR external assurance is currently provided by our financial auditor in relation to sections 1 and 2. Table 1F continues to pose a significant difficulty regarding the level assurance that they can supply and is also somewhat incongruous when included in the section of financial statements. We believe that this table would be better suited to inclusion in section 4 of the APR, alongside table 4H which deals with financial ratios. In that way it could more easily be covered by ‘agreed upon procedure’ assurance as required.

11. **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 that it is sensible to group this data in a single table. This will improve the accessibility of the data for users of the APR and reduce the risk of inconsistency (real or apparent) between data within the APR.

12. 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 that the measure can be interpreted in different ways and therefore there are likely to be differences in reporting between companies.

There are a host of technical questions relating to network storage, which is not generally a well-defined term. For example, we have storage for emergency situations, storage to prevent flooding in storms, storage to reduce CSO spill frequency. And if volume within sewers is to be included (as we have interpreted the metric) should this exclude the volume used in dry weather or perhaps in storms up to a certain return period? What is the total volume of storage in relation to – CSO spill, Foul and Combined, Surface water storage, day to day use of the network?

We would suggest to get better consistency either Ofwat or Water UK could convene a small group of technical experts to review the current reporting across companies and agree a clear set of definitions, based on the intended use of the data and the practicalities of collecting, reporting and assuring the data.

13. 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?

Information on bulk supplies is currently reported as part of the charges return each year. We think it is sensible to incorporate this reporting in the APR. (We assume that the annual bulk supply return will be retired as a result.) Providing information on bulk supply costs is likely to be very challenging and will require detailed clear guidance on the basis of reporting.

With the significant growth in the number of NAV bulk supplies, we would suggest that reporting is restricted to large bulk supplies, above a defined threshold. Our expectation is that we may have in excess of a hundred NAVs in our area by the end of AMP7. If all are included this table would become unwieldy.

14. Social tariffs – we have proposed additional information to table 2F. Is this sufficient to provide a view of company activities in this area? What additional information should we consider adding to this table?

We think the information gives a good overview of the breadth and depth of assistance given to customers. It would be possible to add further details around the types of social tariffs provided, but this could become very complex and may be better catered for by a narrative requirement rather than additional data requirements, given the potential diversity of company approaches.

We would also suggest that the number of customers should be based on a year-end snapshot rather than an average of monthly values. This is consistent with the approach to reporting connected properties elsewhere and significantly simplifies the reporting.

15. 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 currently have any direct or indirect effluent reuse. However, we agree with the definitions in the consultation.

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

We fully support the development of markets where they can add value for customers. However, until there are changes in the legislation governing waste disposal, such that co-digestion of wastes becomes a viable option the size of the bioresources market is likely to remain limited and unlikely to extend beyond trading between the 11 sewerage undertakers. We already publish a significant amount of information on bioresources in the market information platform. It is not clear that gathering more granular data on incumbent companies' bioresources activities is the key to unlocking any potential in this market. We outline in our comments on Table 8A in question 1 above, some of the challenges in providing more disaggregated data that we do not require to run our businesses.

We would not support the collection of more data than is proposed. If the purpose of the data is to stimulate the bioresources market, before the reporting requirements are finalised we would suggest that Ofwat undertake some targeted engagement with potential market participants to understand their information requirements. This should inform the extent and content of the information that is collected.

17. We are introducing a new table 9A for the reporting of issues relating to the innovation competition. This is to collect the information required for the 'PR19 Innovation funding reconciliation model' in a format that will also provide stakeholders with relevant information to monitor how the company is performing against its allocated innovation competition fund price control revenue. We propose in section 3.16 of RAG 3.12 that companies provide commentary on its innovation competition spend. Do the proposed new table, line definitions and commentary requirements capture the required information to support the reconciliation process? What additional information should we consider adding to this table?

The table appears to capture all of the relevant information. What is not clear from the guidance is whether expenditure is intended to be captured on an annual or cumulative basis. We would suggest that it should be cumulative to assist with the reconciliation. In this event there will need to be clear guidance on the approach to indexation of spend and revenues between years.

18. 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 support the proposals. With the increasing number of customers being supplied by small companies – something customers themselves have no choice over - it is right that there should be consistent reporting of key performance metrics so that these customers can see how their water company is performing.

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

Without a better understanding of how bilateral entry might work in practice we find it difficult to comment on the appropriate information to be collected to calculate the adjustment. We expect this is an area which will evolve over the next two years before the market is opened. We would suggest however that the table should be required only in the event that entry has happened in the relevant water resource zone during the reporting year. Where there is no entry, which may be the case for many zones in the early years of the market, the information should not be required.

20. 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 are able to report gross and net operational emissions through using the UKWIR Carbon Accounting Workbook. We can commit to measuring capital (embedded) carbon by 2025 – this is in line with the net zero approach that has been discussed between companies through Water UK.

21. 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 agree with proposals to include nature-based solutions (NBS) in performance reporting. Our Water for Life Business Plan includes 'Catchment First' which is one of five transformational themes. This aims to put catchments at the heart of our decision making and investing is more holistic, nature-based solutions forms part of this. It is worth noting that the Environment Agency's current position on catchment nutrient balancing and catchment permitting states that in order to be eligible for such approaches companies must have a good compliance record demonstrated by consistently achieving 'Industry Leading' or 'Good' performance in the annual Environmental Performance Assessment (EPA). This potentially rules some water companies (including Southern Water) out of progressing certain NBS type approaches at the current time, despite our ambitions.

The types of NBS that could be included are:

- Payment for Ecosystem Services (PES): number of catchments with active PES; number of agreements with farmers; area of land covered by PES agreements.
- Integrated/constructed wetlands: number and size of wetland created; kg/year nutrient (P) removed).
- River restoration: length of river restored.
- Natural flood management and SuDS: number of schemes adopted; volume of surface water removed: contribution to partnership scheme (£ or in kind).
- Catchment nutrient balancing & catchment permitting: kg/year nutrient removed.

Measures initially would need to be related more to outputs (as outcomes require longer term monitoring and evidence). Reporting could potentially be linked to natural capital metrics although these might need to be relatively simple to reflect the maturity of companies' approach to developing natural capital approaches.

Setting of baselines will be different for different types of NBS and would need to be considered on a type-by-type basis. The baseline will be very dependent on the maturity of individual company approaches to NBS.

22. 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 think it is reasonable to provide more information about the spread of bills around the average. This provides a better representation than a single derived average and should be practicable to report.

The proposed approach to reporting customers in arrears needs further consideration to be meaningful. To capture this data on the basis suggested we would need to download and analyse data on all customers payment status from our billing system on a daily basis, which is clearly not practical or proportionate.

We think the intention is to capture whether there is a relationship between bill levels and customers who struggle to pay. The approach suggested would not only be excessively complex, in requiring the capture of any arrears over the course of the year it would also likely be misleading. This is because many customers will technically be in arrears at some point in the year – for example due to a delay in processing a payment or a bank error with a Direct Debit. This would not necessarily indicate difficulties with paying. We suggest reporting should be based on a point in time – for example 31 March each year.

Note that for current customers we could only report the debt outstanding based on the customers current contract for single or dual service, as this information is not held against the debt when it is raised and can only be appended by reference to the current account to which they are associated. Clear guidance would also be required for the treatment of current customers and former customers as a customer who has debt outstanding over 180 days is also likely to have a debt in one of the other categories too. We presume that you would only want to count a customer once based on the age of their oldest debt.