Wessex Water
YTL GROUP

Ofwat P&O team

By email

Direct line: [redacted]

Email: [redacted]

Date: 24 August 2020

Dear Ofwat P&O team,

Response to consultation on regulatory reporting for 2020-21

We welcome the opportunity to comment on the proposed changes to the Annual performance report.

We recognise the need to collect data that both enables comparison to the PR19 business plan tables and informs PR24. However, there is a significant (26%) increase in the number of tables proposed, from 46 in the 2019-20 APR to 58. In many cases, the information we are required to report is not 'business as usual' and imposes a significant regulatory burden on companies with an associated cost impact. It would be helpful if there was greater transparency about use of the information requested and the level of granularity required.

There is a lack of detail on the proposals in some areas, for example household bills. And, in some areas the RAGs are not consistent with the tables proposed. We have highlighted these in our response. The consultation suggests that the finalised RAGs for the 2020-21 reporting year will be published in 'late 2020'. The sooner these are published, the better able we will be to provide the information required.

Comparison to business plan tables

In relation to the comparison to the PR19 business plan tables, we think the data should serve two purposes; firstly, a comparison to the PR19 final determination; secondly collection of relevant data to support a more accurate assessment at PR24. If capturing additional data will enable a more accurate assessment at PR24, you should consider deviating from the business plan formats.

Transactions between price controls

We do not think there is currently enough transparency on transactions between price control units. Full transparency of these transactions is essential for the continued development of the water resources and bioresources markets. We are keen to engage further with you to work towards an industry-wide solution.

ODI performance model

We support this change. Embedding the ODI performance model within the annual performance reporting tables will increase the transparency of the expected outperformance or underperformance payments due and would streamline the reporting process.

Infrastructure charges

Overall, our view is that if a discount reduces the proportion of the costs that developers bear, they should be excluded. If discounts are offered where costs would also be reduced, these should not be considered as discounts and should be renamed.

Board assurance statement

Our board takes full ownership of the submission and publication of accurate and complete information. We have no issue with the requirement to include a Board statement on accuracy and completeness of data and information in the APR.

Small company requirements

We are very supportive of the additional information requested and would suggest that even more information is collected. We would also want to ensure that all NAVs, regardless of size, submit this information annually. Additional information here will aid us in setting future NAV tariffs and help understand and monitor the benefit that customers are seeing through this market.

Household bills

The consultation proposes that we provide 'full detail' of the calculation of the average household bill, setting out each of the inputs. Further clarity is needed on what 'full detail' means. In addition, it is proposed that we report the number of customers in arrears of their bill payment at any point during the year. This is by far the most complicated of the requirements proposed on household bills and should be removed or significantly simplified.

I hope you find our comments helpful. Please see our detailed response to the individual questions below.

Kind regards

[redacted]

Matt Greenfield

Director of Economic Regulation

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

Please see comments below.

Table	Line	Comment
1F	9	As detailed in our response to Question 2, some reconciliations (input pressure on labour and cost of debt) currently appear to be excluded. It is essential that these are included to fully understand the value delivered through performance. The guidance for line 1F.9 should reference the unadjusted figure less 1F.10 rather 1F.11
2F		As detailed in our response to Question 14, the guidance in RAG 4.09 does not seem to be up to date.
2I	12/13	Lost developer income is recognised as revenue so won't match how we report appointee revenue without adjustments. RAG 4.09 does not match the table. There is no reference to foul / surface / highway splits. The difference between 2I.12 and 2I.13 is not clear.
2K		A rolling 5-year reconciliation does not work. Any variance in year 1 will drop out in year 6 and will require an adjustment.
2M		References to tables 2E and 2I in the guidance are incorrect
2N		Please see response to Question 8
3A		We note that the order of the performance commitments has changed, with groupings introduced to split the PCs into common and bespoke, financial and non-financial, and water/retail and wastewater. We do not think this re-grouping is beneficial. We communicate our performance to stakeholders based around outcome areas. We would therefore prefer to report PCs grouped in outcome areas as before, rather than the revised format proposed. This would align with our wider communications. We note that line numbers are excluded. We would like these to be included. They are an effective way to pinpoint exact elements of tables across the APR. In previous versions of the table, columns I, K and M had dropdowns to ensure consistent completion. If specific wording is needed, we suggest these dropdowns are reintroduced.
3B		We understand and support the principle of having the relevant standardising numbers included within the APR reporting.

		However, a number of the values used in standardising are already reported elsewhere in the tables (e.g. all the final metrics will be in table 3A). Currently, we would have to manually enter the same number in multiple tables. Where this is the case, the values between relevant tables should be linked so that they are only entered once in a master line and pulled through to other relevant tables, such as table 3B. This will help reduce the risk of error occurring and the administrative burden. We would suggest that cells A45, A50 and A55 are updated to specify whether it is PSR reach, attempted or actual contact that is being reported on as this is not made clear.
4D, E, L & M	Various	For growth and enhancement opex in tables 4D,E,L,M please can you clarify if this the first year effect only rather than the repeated opex cost in future years i.e. the first year is new opex and after 12 months it will become base opex and no longer reported as enhancement/growth opex. Please clarify if changes in business rates resulting from capital investment should be included in these lines. 4L & 4M Lines 7 to 12. It is not clear why granularity and totals for growth opex are to be reported when there was no allowance for this in the PR19 Final Determination (FD19). FD19 only has an allowance for base opex and enhancement opex. 4L Line 3 – Clarification is needed on what type of expenditure should be captured as “other on-site” costs. 4L Line 5 / 4M Line 3 – Clarification is needed on what type of expenditure should be captured as “other off-site” costs. For example, does this include diversions? This does not appear to be consistent with the detail asked for in table 2N. 4L Column ‘Cumulative expenditure on schemes completed in the report year’ is no longer split out by price control. Is this intended; this is not listed as a change from previous years in the consultation document.
4F & 4G		The consultation includes the proposal to define the following areas as 'major projects': - Projects listed as DPC projects in PR19 final determinations *Delivering customer value in large projects* - Projects listed as potentially suitable for DPC in PR19 final determinations *Delivering customer value in large projects* - North East London resilience enhancement programme - London water network improvement enhancement allowance - Strategic water resource projects; and - Havant Thicket winter storage reservoir

		It is proposed that the costs for such schemes are reported in tables 4F and 4G. Our understanding is that the costs for strategic water resource projects will also to be reported in table 4L. Strategic water resource projects are the only type of major project scheme we would report in tables 4F and 4G. Please clarify if companies that do not have DPC projects or other major projects will be required to complete tables 4F and 4G.
4H		Please see response to Question 2.
4N and 4O	2	Clarification is needed on what is defined as a project - a single job or the number of permits. Some capital schemes have multiple permits.
6C		Please see response to Question 11. We would support the reporting of property and customer numbers in a single table.
6D	1, 5 and 18	Lines 6D.1 to 6D.5: it will require significant data changes at source to capture financials in order to compile this data. We estimated it will take 3 years before we are able report data with a high degree of confidence. Line 6D.18 – Mains replacement Clarification is needed on which types of work costs are to be reported. i.e. do we include costs for all reactive and proactive mains replacement?
7E		See response to Q11 – we would support the reporting of property and customer numbers in a single table. We note the current definitions of void properties in tables 6C and 7E are different (total/average) i.e. Table 6C: Void properties - The **total number** of residential / business properties connected to the water distribution system at the end of the report year which are connected but not necessarily billed. Table 7E void properties - **Average number** of properties (residential and business) within the undertaker's area which are connected to the sewerage system but do not receive a charge as there are no occupants.
9A		Please see response to Question 17.
Various		Transitional expenditure was previously reported in table 4B. This table has now been removed and we cannot see any other reference to transitional expenditure in the RAGs. We are required to be report this as expenditure in 2020-21 and would expect guidance for this to be included.

Q2 Do you think that the tables allow a comparison of performance to the PR19 business plan tables? Are there areas where this could be improved? Are there areas where we should consider deviating from the business plan formats?

We think the data should serve two purposes; firstly, a comparison to the PR19 final determination; secondly collection of relevant data to support a more accurate assessment at PR24. If capturing additional data will enable a more accurate assessment at PR24, you should consider deviating from the business plan formats.

We have considered this question over four areas:

- Financials
- Expenditure
- Outcomes and performance commitments
- Other explanatory variables

1. Financials

The impact of all the reconciliation adjustments need to be included in the RoRE analysis and table 1F. This is essential to fully understand the value delivered through performance. There seem to be some reconciliation adjustments that are not included, namely the input pressure on labour and the cost of debt.

When calculating the credit rating ratios in table 4H, additional information should be captured that aligns these calculations with the methodologies set out by the rating agencies. Specifically, interest cover defined as Moody's would calculate it, should be included – This is as per 4H.16, but also reducing the adjusted FFO by excess fast money.

2. Expenditure

Capturing costs against the same categories as those modelled in the cost assessment at PR19 is essential. This enables us to see how those models performed and inform the creation of better models in the future.

We fully support the additional information requested around the expenditure that was transferred into botex. There were concerns around these models at the final determination and capturing this information separately will aid better modelling at PR24.

We also fully support collecting more data on enhancement opex. This will again ensure a much better cost assessment exercise at PR24.

We would also propose that the costs of delivering service improvements are captured (even if considered within base expenditure). Currently, the econometric approach does not take the levels of service offered into account, instead interpreting any residuals as different levels of efficiency. Capturing this data separately now will aid in understanding the impact of differing levels of service on efficient costs.

Finally, flexibility needs to be allowed to capture expenditure on new drivers. This will ensure clean data sets for cost assessment modelling at PR24 and reduce the need for subjective transfers of costs in some cases.

3. Outcomes and performance commitments

The table 3A currently proposed does not include targets. This is key to understanding how we are doing against the FD.

4. Other explanatory variables

The key with these variables is to ensure that we are collecting the most relevant data to inform the cost assessment exercise at PR24. We would suggest capturing additional data around density within the APR to aid transparency of how density will be included in future cost assessment. We would propose the same metrics as those used at PR19.

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 do not think there is currently enough transparency on transactions between price control units. Full transparency of these transactions is essential for the continued development of the water resources and bio-resource markets. Understanding specifically what transactions (such as returned liquor treatment charging, energy, shared assets) are taking place and for how much will be essential for new market entrants to understand the market and the opportunities that are there. Clearly, outlining the specific transactions also helps ensure and monitor that there are no inadvertent cross subsidies and that there is a level playing field for all parties.

As discussed at the bioresources working group, we have specific concerns on sludge liquor charging; there is a large variation in how this is done across the industry with very little transparency on how charges are calculated in many instances. We do not currently have a solution. However, we are keen to engage further to work towards an industry wide solution.

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?

Table 3A has too many lines to publish easily on a single page and, due to the size of the table, we prefer landscape format.

It would be helpful if the tables could be set to print with the headings repeating on each new page. For example, when going to print table 3A in the file shared for this consultation, the column titles only appear on the first page. This makes it difficult to review over several pages. This has proved problematic when presenting information to third parties such as our Customer Challenge Group (the Wessex Water Partnership) and CCW.

If drop-downs are needed e.g. in table 3A, please can these be included as a list embedded within the table itself rather than across the whole set of tables. We disaggregate the tables for completion. In the current format, such lists do not work once tables are disaggregated.

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?

It would be practical to implement such a change. But, this would make the timetable for the submission challenging, particularly given the proposed increase in the volume of information we are required to report. There is a 26% increase in the number of tables proposed, from 46 in the 2019-20 APR to 58.

Given the changes proposed for this year, we suggest any change in the deadline is introduced after the 2020-21 APR. In recent years, we have submitted and published our APR in advance of the deadline. We will continue to publish earlier where practicable.

More generally, it would be helpful if there was greater transparency about use of the information requested and the level of granularity required. In many cases, the information we are required to report is not ‘business as usual’ and imposes a significant regulatory burden on companies with an associated cost impact.

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

In general, we would support this change. However, without seeing the proposed table, we cannot categorically commit to this opinion.

Embedding the ODI performance model within the annual performance reporting tables will increase the transparency of the expected out or underperformance payments due and would streamline the reporting process.

This change would create a lot of overlap with table 3A that would need to be rationalised. We think that all the PC inputs should sit in one place and not be split over the model and table 3A. A solution to this would be to add a column to table 3a that covered the target in year, and then to link this and the in-year performance to the model (non-standard payments may also need to be linked). This would avoid any duplicated inputs and reduce the burden on completing the tables. We do not think it would be necessary to include the non-standard ODI forms each year.

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 understand the principle to start collating information on possible future metrics to gain a better understanding of future possible common performance commitments/regulatory reporting drivers. However, to our knowledge there has been no conversation as to why these five metrics have been selected beyond the fact that they are on the long list and not reported commonly externally to a regulator by all companies.

In our PR19 business plan (section 4 of supporting document 3.1 – Performance commitment overview), we set out clearly the reasons for not selecting the remaining asset health metrics on the long list. We refer you to this document for further information. In summary, the metrics are either not supported by customers, measure the wrong thing, or drive adverse behaviours.

We would want to understand the drivers behind these and what their reporting is expected to achieve in the long term. If this is the creation of five additional common performance commitments, this would take the number of common measures to 20 (50 in total for us) if no existing measures were dropped. This adds a further reporting burden on companies.

Whilst we understand the (albeit high-level) status of red, amber and green on the lines at the moment, we have concerns that if, over time, these and the associated line definitions require upgrading to a revised, more detailed green status, the administrative burden of the APR will increase.

We question whether some of these metrics are truly filling gaps in data, for example:

- Low pressure is already reported to Discover Water, although we recognise this reporting is not to a regulator.
- Blockages are already factored into sewer flooding and pollutions as they are frequently the cause of incidents. Our pollution incident reduction plan details how blockages are a primary cause of pollution incidents; an extract of the data is included below for context.

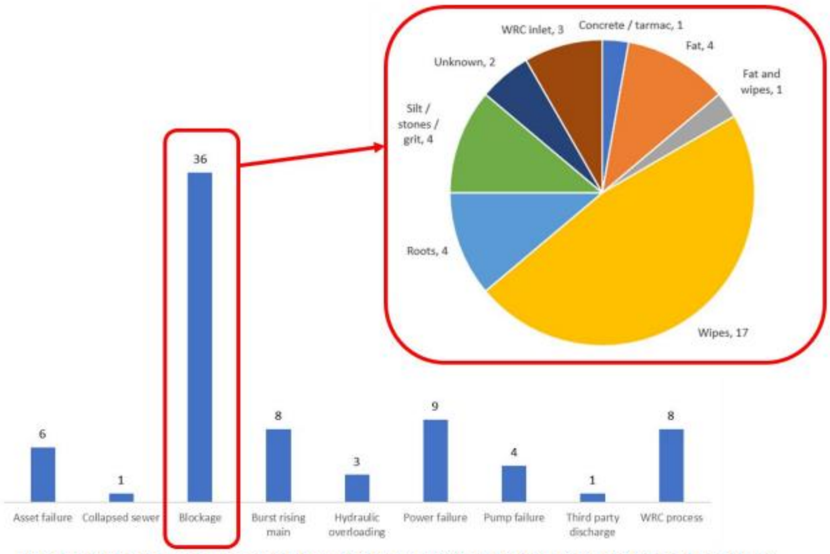

Figure 3: Root cause analysis for Cat 1-3 pollution incidents in 2019 and detail of blockage causes

For the unplanned maintenance measures, we are unsure whether these are appropriate measures for companies to be compared on as operational strategies may vary. There is no universal definition of the right outcome. For example, run to fail may be deemed to be the most effective means of operating some assets, whilst others may have more planned maintenance. Differing strategies across companies would skew these numbers and mean comparison and target setting is ineffective. We believe outcome related measures, such as reducing the risk of sewer flooding or environmental performance associated metrics are more appropriate and allow companies to operate as they see fit.

The reporting also has the potential to be skewed by proactive company activity. For example, we have in recent years placed an increased focus on asset monitoring, such as through energy use or pump performance curves. Reacting to a drop in asset performance before its planned maintenance cycle may fall under unplanned maintenance, and yet is a proactive positive action by the company to improve our business operation.

There may also be challenges in reporting this number over time – our operational job data is split between asset level information and site level telemetry alarm jobs. This latter group would be particularly challenging to report on and may require system and process investment to be able to accurately split out specific asset jobs against wider site visits.

If these measures are reported against, we would support the information being made publicly available from the start to aid transparency.

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.

The table might be more useful in gauging the number of discrete connection activities by recording water and wastewater connection operations separately and we would question whether further granularity between water and wastewater services would be helpful, specifically:

- Where Bristol Water and Bournemouth Water provide clean water services in the areas we cover for wastewater services, we could only report the number of waste connections made.
- Where a NAV operated within our area, they might be taking a bulk water supply from us, Bristol Water or Bournemouth Water. Clarification is needed on which connection we would report in such cases.

We rely on NAVs reporting their number of connections to us to in order to bill them for infrastructure charges. Therefore, we are completely reliant on them to advise us of the pace of development in their area. There could be an issue with the timing of that information becoming available and the reporting timelines for the APR submission.

We suggest this table should be moved to section 4 of the APR, so it is not subject to audit opinion by a financial auditor.

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?

Where the discount arises from the income offset to maintain the balance of charges, it would be incorrect to calculate the reconciliation of costs and income after this discount. If this were done, developers would end up bearing 100% of the costs and would not receive any discount.

In other cases, this would depend if they are true discounts or not. For example, we offer reduced infrastructure charges where a developer commits to less surface water entering our system, either through surface water separation or the use of sustainable urban drainage. In such cases, we see a reduction in the offsite reinforcement costs required. But, these are not a discount from a baseline. We do not believe these are true discounts and they should not be labelled as such.

It is unclear if other companies would label such reduced charges as discounts. In our view, discounts should not be included in the reconciliation if they also reduce the costs to the company. However, where discounts are offered to support more environmental protection that do not impact the cost, they should be included.

Overall, our view is that if a discount reduces the proportion of the costs developers bear, they should be excluded. If discounts are offered where costs would also be reduced, these should not be considered as discounts and should be renamed.

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

Our board takes full ownership of the submission and publication of accurate and complete information. We have no issue with the requirement to include a Board statement on accuracy and completeness of data and information in the APR.

As highlighted in the consultation, there are several places where companies and/or their boards are required to provide Ofwat with assurance. We welcome the opportunity to rationalise these where possible.

Our preference is to report against all information assurance requirements in one place. For the 2019-20 APR we were required to include a Risk and compliance statement and a Data assurance summary. These could be incorporated into the Board statement. The scope of this statement could also include the assurance of the Long-term viability statement and other areas if required. The exception to this would be assurance requirements that are part of our licence, such as for the Ring-fencing certificate. These should be separate from the Board statement.

Finally, it would be helpful if all requirements were detailed in one place, for example on your website. There are currently two areas on your website that relate to information quality / information assurance:

1. Information quality https://www.ofwat.gov.uk/regulated-companies/company-obligations/information-quality/)
2. Information and assurance https://www.ofwat.gov.uk/regulated-companies/company-obligations/information-and-assurance/

These should be updated to reflect current requirements.

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 fully support this. Including all customer figures in one table, with unrelated lines moved to other tables, is logical and helps streamline the completion process.

We believe that this is the opportune place to collect any metrics on density / sparsity of the companies. We would suggest the metrics that were considered for inclusion in the PR19 cost assessment models are used. Publication of this data here will increase the transparency of data used for future cost assessment.

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?

The current definition for this item is shown below:

4U.23	Total volume of network storage	Total of all storage facilities across company network. Total volume of network storage should include the volume enclosed by the length of pipework reported in Table 4R Lines 21 and 22 plus the usable volume of on-line and off-line storage tanks below the level of overflow weirs. The volume of manholes should be excluded.

Potential suggestions to improve consistency of reporting are:

1. **Assumptions for unknown data:** We don't know the diameter of all sewers, for example those that are unmapped s105a sewers. In such cases, we assume a diameter (150mm) based on engineering judgement. More guidance on how to account for such assets would help improve consistency of reporting

2. **Usable volume:** Our calculation assumes that the pipes are empty, to provide the volume of network storage. We do not factor in the impact of dry and wet weather on storage capacity and the reduction in 'storage' available. The guidance should clarify whether or not the impact of dry weather flow and rainfall should be factored into the volume. Note, this would be complicated to calculate, and clear guidance would be required on how to calculate the storage headroom.

3. **Assets included:** The majority of our storage capacity is in sewers. We note the definition excludes manholes. Clarification should be provided on whether or include wet well storage at pumping stations.

Q13 Strategic water resources – we have included more granular information on bulk supplies revenues and volumes in our proposed table 4A in order to promote trading activity. Currently, for cost information, we have a single line for third party costs, of which bulk supplies is a constituent. We asked companies to forecast individual costs for new bulk supplies in their PR19 business plans. Is it practical to disclose granular cost information for bulk supplies?

We do not believe that disclosing granular cost information for bulk supplies would reveal any information of value. In fact, it would disclose commercial agreements between parties that we feel should not be in the public domain. If they were in the public domain future negotiations would be hindered, with new entrants demanding rates that have previously been agreed and potentially refusing the new tariff structures.

We do support collecting this information at a total level to ensure the correct treatment of both the costs and the revenues when setting subsequent price limits.

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?

Firstly, we note that the guidance in RAG4.09 does not seem consistent with the pro forma spreadsheet, specifically the guidance for column 6. So, our answers here are caveated based on the formal definitions that come out.

If the intention is that the revenue the company forgoes is used to fund the social tariff, we believe this is enough and that further information would not be helpful.

We agree the cross subsidy with CCW each year through our vulnerability advisory panel. There is therefore no need to formularise it here.

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?

Currently, we have no direct effluent reuse for water treatment activity and so do not report these sources and costs.

For indirect effluent refuse, it is important to clearly define what should be included. Consideration needs to be given to the following:

1. **Distance between discharge and abstraction:** Indirect effluent reuse could be applied to any river abstraction, no matter how far downstream of an effluent discharge.
2. **Intentional/Unintentional**: Whether the discharge is purely for the purpose of later abstraction or that this just happens to occur, this is still indirect effluent reuse. Therefore, in introducing a category of indirect effluent reuse, it will be important to distinguish between effluent discharges that are intentional (for later abstraction) or unintentional.
3. **Links between companies:** It will also be important to recognise that one company's effluent discharge could be another company's indirect effluent reuse.

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

We do not believe the bioresources market needs more data. However, we believe it needs a change in environmental regulation to facilitate rather than hinder co-digestion which would then open up the broader anaerobic digestion market rather than the current arrangements that reduce the market to intra-water and sewerage companies (WaSCs) only.

In addition, consideration could also be given to a standard approach for liquor treatment charging from Network+ to Bioresources elements of WaSCs as this might be a barrier to intra-WaSC trading as it has the potential to vary pricing considerably.

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?

Given that the innovation competition process still has several areas that are to be defined, it is not yet clear that the table will reflect the process. Until such time that the process is finalised, we cannot comment further. We would expect further consultation on this in due course.

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 are very supportive of the additional information requested and would suggest that even more information is collected. We would also want to ensure that all NAVs, regardless of size submit this information annually.

Additional information here will aid us in setting future NAV tariffs and help understand and monitor the benefit that customers are seeing through this market.

To these ends we:
- Fully support collecting leakage information to feed back into future NAV tariffs
- Would propose additional service metrics for wastewater (such as pollution incidents and sewer flooding) to monitor the quality of service customers are receiving
- Would propose to collect site specific financials. This will aid in future NAV tariffs and capture the benefits that all customer groups will receive.
- Would propose capturing capital maintenance costs to monitor and ensure that NAVs are focused on asset health

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

The current table 4P (proposed table 5A) collects data at a company level. In the consultation you suggest two options for collecting data at a water resource zone (WRZ) level:

1. modifying the APR table 5A (formerly APR table 4P); or

2. by creating a new table pro forma that would allow for line 5A.28 (formerly line 4P.8) to be further disaggregated at the WRZ levels.

Our view is that there should be a separate proforma for this data so that it can be disaggregated at the WRZ level. This would be more transparent as many companies may not have or need a 3rd party supply within all zones.

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 agree broadly with the proposals set out, namely

- a strengthened approach to climate change mitigation and adaptation,
- monitoring greenhouse gas emissions and progress in a consistent way
- recognising existing work e.g. Discover Water, net zero activity
- inclusion of greenhouse gas emissions in the APRs
- joint working between Ofwat and the water companies.

At Wessex Water, we have reported on our greenhouse gas emissions for more than twenty years. This practice has become more formalised and able to both inform decision making and respond to growing stakeholder interests. Consistent methods of greenhouse gas emissions monitoring and reporting have helped, and we agree that this data should be included in APRs.

However, as well as being consistent across companies, any additional reporting should not add to the regulatory burden. Therefore, any further reporting should build on and use current data and, as much as possible, use the same rules as current reporting. All water companies capture annual operational GHG emissions (whether or not they are included in the APR). This is informing the 'net zero carbon by 2030' commitment. Overall, we believe that reporting against the net zero carbon commitment will need to be on the basis of net emissions (rather than gross emissions).

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?

Operational emissions
Annual operational GHG emission accounting is well established through the UKWIR Carbon Accounting Workbook (CAW). The CAW provides the opportunity to break operational emissions down into gross and net emissions, for water and wastewater, by source and by type of greenhouse gas if required.

Embedded emissions
Currently, embedded carbon emissions are outside of the scope of the net zero carbon commitment. Industry standard reporting is yet to be put in place for embedded emissions and will require significant work. Wessex Water are not yet in a position to be able to provide accurate reporting on embedded GHG emissions for the 2020-21 reporting year. Nonetheless, we agree it is important to begin reporting these emissions to inform future targets as we move towards holistic climate change mitigation.

We feel strongly that an industry approach to, and methodology for, reporting embedded carbon is necessary. Measurement and reporting of embedded emissions should be approached in a consistent manner; an industry approach that is equivalent to the operational CAW would be ideal. If companies take separate pathways to measuring these emissions the result could be duplicated efforts producing numbers that lack comparability. We would therefore appreciate more guidance on requirements for embedded emissions reporting e.g. with respect to reporting boundaries and the use of existing data sources.

We are currently in the process of adopting an embodied carbon estimation tool that would enable some level of reporting in 2020-21, albeit without a high confidence grade at present.

Q21 We highlight proposals for nature based solutions reporting in section 4 'Future developments in performance reporting'.
• To what extent do you agree or disagree with these proposals and why?
• Which type of nature based solutions do you think should be included in any reporting, and how could they be reported against?
• What work do you think is required to establish relevant baselines?

We welcome the proposals for companies to report on nature-based solutions, as well as recognition that these approaches can come in a variety of methods.

Water companies are uniquely placed to develop a leadership role in the uptake of nature-based solutions, and in particular in developing markets for payments for ecosystem services. These approaches can often have multiple environmental benefits (biodiversity, soil health, carbon and water quality), and often be cheaper for customers. It is therefore important that Ofwat does what it can to encourage these approaches, and reporting on them annually will help to monitor their uptake.

For payment for ecosystem services schemes, it is important to include total hectarage of land under management. But it is also important to recognise work to maximise the natural capital benefits which are brought about by working in partnership with third parties. This can be done by monitoring multiple benefits such as:

- The carbon benefits of interventions would help to incentivise companies to maximise these benefits
- The total impact on water quality through these approaches, in terms of tonnage removal of phosphorus, nitrogen and pesticides.

Interventions should be split broadly into the following categories:

- Work on land belonging to the water company, including wetlands and other biodiversity offsetting
- Interventions on farmed land
- Land taken out of production (arable reversion, woodland).

Each of these different types of interventions will have very different environmental outcomes and should therefore be monitored separately.

In relation to natural capital accounting for these measures, there is currently no agreed standard on how to assess value or, more importantly, change in value. This will emerge during this AMP period as companies develop their approaches to natural capital accounting. We would therefore consider there is no value at the moment in reporting on natural capital value of nature-based solutions, as they will not be comparable across different water companies. This is also true for developing baselines, which would require standardisation before they can be reported on in a meaningful way.

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?

The full detail of the calculation of the average household bill, setting out each of the inputs, calculation steps and outputs, presented separately for water, wastewater and combined bills

Further clarity is needed in terms of what 'full detail' means and what would be expected in terms of 'inputs, calculation steps and outputs' to ensure consistency across the companies. A prescriptive template would help to ensure consistency.

Providing this information separately for metered and unmetered customers would be advisable as the basis of calculation is different for these two groups of customers.

Whilst this additional layer of transparency would work well to compare 'standard' bills across different companies, the transparency may be compromised where customers on non-standard tariffs such as social policy schemes are included. Watersure in particular is different from other tariffs due to the capped value, and so this ideally needs to be excluded or shown separately.

The statistical deciles of the household bills, presented separately for water, wastewater and combined bills, and each of these categories also separately for measured, unmeasured and all customers

The sheer volume of bills would make this analysis more complicated as software such as Excel would not be suitable. This could be overcome but the approach to performing the analysis would need some further thought.

In order for this to be meaningful, inputs which can influence the size of the bill need to be factored into the analysis. Specifically:

1. **Duration of the bill** – this will vary between 12 months for unmetered bills, typically 6 months for metered bills and then shorter time periods where bills have been raised for events such as customer moves
2. **Tariff –** the analysis is more meaningful if it provides the distribution of customers on standard tariffs as that then provides insight in terms on the variability of RVs and consumption levels. We would recommend against including customers on social policy schemes as these vary by company and will erode the consistency of the data being submitted. There would however be the option of repeating the analysis specifically for those customers on social policy schemes
3. **Property type –** whilst most non-Retail properties are houses, there are still exceptions such as troughs, landlord supplies, standpipes, etc. Excluding these types of 'property' would again make the analysis more comparable

The number of customers in arrears of their bill payment at any point during the year, presented for all customers and also separately for each of the categories defined in point 2 above, grouped into bands by the number of days in arrears, comprising less than 30 days, 31 to 90 days, 91 to 180 days and more than 180 days.

This requirement is by far the most complicated of the three being proposed. Whilst each of the requirements when considered on an individual basis could be achieved, merging them together does create complexity and increases the risk that companies will not be consistent in their approach.

Potential challenges/queries to consider:

1. A standardised definition of arrears would be required as the interpretation could be different across the companies (e.g. is it the date the first reminder is issued, 30 days after the bill date, etc)
2. Determining whether a customer is in arrears on the 31st March is more straightforward than whether they were in arrears at any point during the year
3. Clarity is required around the arrears bandings as a customer could be in arrears on 1st April and so considered in-scope, but no longer in arrears by 31st March the following year (i.e. they could have a £nil balance)
4. The analysis is required at customer level but also includes bill level detail. Would the aged bandings be specific to each bill or would the age of the oldest bill be used to determine the correct banding?
5. As the decile analysis in 4.2.3 is at bill level, it is conceivable that a customer with multiple bills that are in arrears could appear in different deciles depending on each of the bill values. It is not clear how this would be incorporated into the analysis

Our recommendation would be to either remove this requirement or to significantly simplify it.