November 2020

Consultation on regulatory reporting for 2020-21 – Responses document

Ofwat

About this document

This document sets out a summary of the feedback received to our consultation on changes to be made to the regulatory accounting guidelines for the purposes of 2020-21 reporting. It also sets out our subsequent responses and final decisions having had regard to that feedback. In the consultation we set out a log containing a comprehensive list of the changes being proposed. Those changes can be seen in A1.1 [for the APR tables] and A2.1 [for RAGs 1-4] in this document. Where we have made further changes that arise from our consideration of the consultation responses, then these revisions are set out in A1.2 and A2.2 in this document.

Executive summary

In June 2020, we published our consultation on regulatory reporting for the 2020-21 reporting year (the consultation), in which we explained that one of the three goals set out in our recent Time to act together: Ofwat's strategy (our strategy) is to transform water company performance. A key part of achieving this is through the publication of companies' annual performance reports (APRs). This helps us, customers and other stakeholders to hold companies to account. It also provides insight that will help us drive improvements in water company performance and to understand the progress that is being made in meeting long-term aspirations. Clear and transparent information will ensure that stakeholders understand how companies are performing, this enables trust and confidence in the sector and allows Ofwat and stakeholders to hold the sector to account.

Our consultation closed on 24 August. We have considered the stakeholder responses to the consultation and we set out our response in this document.

This document contains the following information:

- for each of the 22 consultation questions, a summary of the views made and our response to them;
- a chapter exploring in more detail the themes that were contained in response to question 1 – where we received over 400 observations;
- a chapter which sets out our thinking behind disclosures for greenhouse gas emissions;
- a list of changes to the APR tables including line definitions – split between changes proposed in the consultation and further changes we have made after considering the consultation responses;
- a list of changes to the RAGs (excluding the table changes) – split between changes proposed in the consultation and further changes we have made after considering the consultation responses; and
- a copy of our email requesting further views on our developer services disclosures.

We have listened to concerns about the format and accessibility of the APR document, and limited the size of tables to 35 lines where we can. We have also extensively revised the presentation of the information in the **performance summary** tables 3A-3I. This has meant that the number of tables that large companies must publish has increased from 58 to 64. However RAG3 now allows two more large technical tables to be published outside of the main APR document.

We have also taken into account over 400 points of detail relating to the tables. This has resulted in clarifications being made to line definitions and brought to our attention some data which we no longer need to compare performance to price control assumptions, allowing us to reduce the burden where we can.

The 15 July publication deadline remains appropriate for most of the APR but we have set out why we need information on 1 July relating to **outcome delivery incentives**. This will allow us to deliver our in-period determinations in November rather than December and allow companies more time for an autumn consultation.

Future updates to the Regulatory Accounting Guidelines

There are benefits to maintaining a consistent approach, therefore we will avoid undue changes to our approach. However, there may be exceptional circumstances where changes are appropriate, for example, due to CMA redeterminations in the case of the four companies concerned or if a change due to Covid-19 is warranted.

We are publishing the 2020-21 Regulatory Accounting Guidelines as a set of standalone documents and models; this will mean that updates are easier to make. We will consider how best to reflect any changes to these documents and models as they arise; for example whether to change elements of the Regulatory Accounting Guidelines or produce bespoke, supplementary guidance for specific companies.

Next steps

Companies will be required to publish their 2020-21 APR, and submit their completed Excel table templates by 15 July 2021.

Companies have one month to decide whether to dispute revisions to the RAGs. If a company wishes to dispute any revision it must let us know in writing no later than 30 December 2020.

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1. Consultation questions and responses

We have published the responses to our consultation on regulatory reporting for the 2020-21 reporting year (the consultation) on our website. Below, we summarise responses to the numbered consultation questions and set out the reasons for our decisions with respect to these particular questions.

1.1 Question 1

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

Respondents' views

There were 413 comments made by respondents on the proposed tables.

These were across abroad range of issues such as such as cross references that needed updating or detailed points on definitions which required more clarity. The highest number of responses on individual tables were directed towards tables 1F and 4C concerning financial flows and price control performance.

Due to the majority of tables in the APR being associated with cost information, particularly in sections 4-8, most of the remaining comments were directed towards this area. These were dominated by technical observations.

Our response

We have set out the detailed changes to the consultation version of the tables in A1. Our rationale for doing so is set out in A1 and A2 in this document.

1.2 Question 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?

Respondents' views

We received 14 responses; 11 agreed with the proposals.

There was one suggestion that APR tables should align with the final determination rather than the business plan.

Other responses were of a detailed table specific nature rather than general and so we have dealt with these as part of the responses to question 1.

Our response

We welcome the broad support for our proposed table formats.

We have continued to follow the principle of aligning with the business plan tables where possible so that the historic dataset that we collected can be compared with the data being collected over 2020-25. We have set out the detailed specific changes to the tables in A1.

1.3 Question 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.

Respondents' views

We received 13 responses; two companies considered that there is sufficient transparency already. One company does not support additional information above that suggested. Three companies suggested additional reporting or adjustments to what we had proposed. One company considered that consistency between wholesale and retail reporting would be useful.

Specifically regarding sludge liquors, eight companies recognised that current approaches vary significantly and recognised the benefits of greater standardisation. Seven of these companies thought that further work, consultation or industry engagement would be needed to address this issue. Two companies noted that there was a risk that a more cost-reflective approach could drive inefficient investment. It was also noted by two companies that there could be costs or issues if better measurement was required.

Our response

We welcome the broad recognition that the way in which sludge liquor costs are accounted for can be improved.

We recently commissioned Jacobs to undertake a review of how these costs are accounted for and to propose a standardised methodology that can be used within the RAGs going forward. Subject to consultation, we are proposing to implement the standardised methodology in next year's RAGs, with companies required to shadow report the costs for the remainder of the 2020-25 period when accounting for internal transfers across price controls. We also propose to consult on a requirement for companies to use the standardised methodology when charging for sludge trades with other companies or third parties from reporting year 2021-22 onwards. For the purpose of 2020-21 reporting, we request that companies report an indicative shadow cost as far as they are able to, following the guidelines in RAG 2. This will help to provide all parties with an understanding of the standard approach going forward. This should be reported in table 8C. Companies should report liquor treatment costs based on current methodologies in table 4E, as per previous years. Further detail on our proposals, and our responses to issues raised by companies, can be found in our Reporting of sludge liquor treatment costs document, which we are publishing alongside the RAGs.

1.4 Question 4

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?

Respondents' views

We received 15 responses;

8 responses voiced general support for considering presentation, with most support being for portrait layout that fits easily onto A4. 3 responses stated that some tables should be

published outside of the APR document due to the complexity of some of the tables. Tables 3A and 3B were highlighted in 6 responses as being particularly challenging to publish.

Our response

We will aim for most tables to be presented in a portrait manner with a maximum of 35 lines of data. By following this aim we have looked critically at the tables and where necessary have moved data from the larger tables to new tables which should make the document easier to publish.

1.5 Question 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?

Respondents' views

We received 17 responses;

12 responses stated that it would not be practical to bring forward the reporting date. 2 companies stated that they would be able to publish 1 week earlier than the current deadline. 1 response noted that whilst they could produce the APR earlier than the deadline, the proposed increase in the volume of tables required would make this more difficult and not practicable until at least the 2021-22 reporting year. 2 responses noted that an earlier submission puts increased pressure on the assurance process.

Our response

We acknowledge the responses and recognise that, if we set an earlier submission date, we would need to factor in time for companies carry out their assurance processes before submission.

Having considered the consultation responses, it is clear that we need to strike a reasonable balance between companies' ability to publish their APRs earlier in July and our ability to be able to make in-period determinations of outcome delivery incentives (ODIs) in a compressed timescale. Consequently, our current thinking is that, for the data we require to calculate the financial in-period and end of period ODIs where their performance is measured each year, it is appropriate to move the publication date for tables 3A-3I to earlier in July. The remaining APR submission deadline will continue as 15 July. This is for several reasons:

At PR14, in-period ODIs were introduced for three companies, with final in-period determinations made by 15 December of each year. As part of licence changes for PR19 we agreed to bring forward the date when these final in-period determinations must be made to 15 November for all 17 companies in order to allow them more time to prepare their charges for the following charging year. This has reduced substantially the length of time that we will have to consider relevant data when making the in-period determinations and the amount of time available to companies and other stakeholders for robust consultation on our draft proposals. We consider it is important for appropriate time to be provided for all concerned to ensure the in-period determination process is sufficiently robust. We are conscious that next year's in-period determination process will also be impacted by further consideration of any Covid-19 implications and we also want to allow time for robust consideration of this.

We also note that the publication of annual data outside of the main APR publication is not new, for example some tables specified in the RAGs do not have to be included in the APR, and we appreciate the need for assurance and governance around any submission. The underlying data for some performance commitments that is published by other regulators such as the Environment Agency and Drinking Water Inspectorate may not be available at an earlier submission date, but there may be solutions to this. For example for these limited cases we could update any provisional estimates that companies make with final published numbers, without companies resubmitting information. We plan to discuss further with stakeholders and companies and share our conclusions in the annual company reporting Information Notice in spring 2021.

1.6 Question 6

Do you agree that we should embed the ODI performance model within the annual performance reporting tables?[1]

[1] Question 5 in the consultation text.

Respondents' views

We received 16 responses:

12 responses supported this change, some strongly as it should reduce work for companies in providing submissions. One response was neutral, but noted the need to take care in completing the integration, including that values should only be entered once and that companies should not be required to publish pdfs of the model in their annual performance report. Some of the supportive responses also made this point. One supportive response also requested that a standalone spreadsheet is provided.

2 responses did not understand what was meant by integration, although supported that performance and ODI reporting in the annual reporting tables and in the ODI performance model should be consistent. One response did not agree with integration because it considered different submissions allowed its work to be more effective. They said that by introducing calculations in the APR to what is primarily an input spreadsheet would complicate the data input process.

Our response

As the large majority of responses supported our proposal, we will integrate the ODI performance model and annual performance reporting tables, by which we mean the model will be part of the same spreadsheet as annual performance reporting tables. We have adjusted APR tables so that, where possible, companies only provide information once and calculations are undertaken within the spreadsheet. This will help to reduce company work and ensure information that is submitted is consistent.

As part of the integration, and in line with our response to Q4, we have replaced tables 3A and 3B with new tables that can be published more easily. Companies should not publish further tables in their annual performance report.

We will maintain a standalone ODI performance model which we will publish in the reconciliation rulebook. We will use this if we need to intervene in the annual in-period determination process. Companies should not submit this to Ofwat, but may want to use it for their own internal processes.

1.7 Question 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?[2]

Respondents' views

We received 16 responses:

All responses agreed that if new performance commitments are required for PR24 that these should first be reported in advance. 2 responses fully agreed with the proposal and that information should be published publicly. 9 responses agreed in principle to start reporting, but had concerns with one or more of the measures proposed. 5 responses considered that new metrics should only be reported when there has been discussion and agreement that new performance commitment definitions will be reported for PR24.

Our response

We agree that further discussion is required before companies report shadow reporting information for potential performance commitments in the future. This should include what, if any, further common performance commitment definitions are likely to be necessary for PR24 and, if new performance commitments are required, the specific reporting requirements for companies to comply with. We propose to constitute a working group for this purpose. We will not require any reporting until there has been opportunity to convene and discuss this with the working group.

1.8 Question 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

[2] Question 6 in the consultation text.

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.

Respondents' views

There were 16 responses to this question and one response about issues related to self-lay providers, including table 2N.

There was overall support for the inclusion of the proposed new table 2N on developer services and third-party level of activity. Most water companies suggested that the table is moved to a different section of the APRs, as section 2 is for audited financial data. There were also suggestions to clarify further some of the definitions to avoid inconsistent interpretation of the questions.

Ten out of the 16 responses provided comments on our proposed changes to reporting of growth-related expenditure in tables 4L and 4M. 3 responses welcomed the increased transparency over reporting of developer services activities, while 1 response commented that the split between the new connection and requisition activity is arbitrary, as the cost of the design is based on the whole development where self-lay providers carry out the work. Additional comments related to:

- clarification on the definition of 'other on-site' and 'other off-site' costs;
- moving out expenditure for growth at sewage treatment works and reducing sewer flooding risk, as they do not directly relate to developer activities;
- reflecting the different charging rules that apply to companies operating wholly or mainly in Wales; and
- the disproportionate disaggregation of opex lines.

We consulted further[3] with companies on our final proposal for growth expenditure lines in 4L and 4M, and received 9 additional responses to this.

4 responses agreed with our proposal, while 5 responses asked for further clarifications. 2 responses commented that our revised definition of infrastructure network reinforcement was unclear, while 1 response reiterated that the split between new connection and requisition activity is arbitrary, as the design is based on the whole development.

[3] See appendix A3.

Our response

Response to table 2N

We agree that table 2N will fit better in another section of the APRs and we will introduce this as table 4Q. We have also revised most of the definitions in table 4Q to reflect the feedback in the responses.

Response to growth lines (4L and 4M)

In response to companies' feedback, we have:

- removed the 'other on-site' and 'other-off site' cost lines as it was not clear what costs should be included in them;
- moved the lines directly related to developer services activities to two new tables (4N and 4O), while expenditure lines for growth at sewage treatment works and reducing sewer flooding risk have been kept in table 4M as they relate to broader growth-related activities;
- clarified that expenditure lines should reflect the same categories of expenditure used to calculate the relevant charges for English companies;
- maintained the same split across capex and opex lines, as we consider that it is proportionate to collect opex despite the responses.

We do not agree that the split between new connection and requisition is inappropriate. Companies should be able to allocate expenditure between new connection and requisition activities in order to set cost reflective charges.

We have refined further some of the definitions to clarify what expenditure should be included, and reinstated the previous definition of infrastructure network reinforcement as we consider it is clear to companies what they should report under it.

The refined developer services expenditure lines in tables 4N and 4O lines are part of our preparations for PR24. We will continue to work with the industry on reporting of developer services activities.

1.9 Question 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?

Respondents' views

We received 15 responses;

7 responses supported the change with 4 responses against it.

One response suggested that a discount should only be recognised for amounts that will not be recovered from developers and borne as a cost to the company. They supported the proposal provided that the wording was changed to "The value of the discounts applied to infrastructure charges, which are not recovered from developers and borne as a cost to the company".

Another respondee's view was 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. 2 responses expressed no strong view for the existing or proposed presentation.

Our response

We acknowledge the support for a change to use infrastructure charges net of a discount and have changed our definition to align with this. However we understand the concerns as to how we should define precisely what the nature of the discounts are and will work with the sector to refine this requirement.

1.10 Question 10

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

Respondents' views

There were eight responses directly related to this question. Three other responses were provided; these were not direct responses to the question asked but instead raised specific issues in relation the assurance of certain APR tables. We have nevertheless responded to those issues here.

Four responses either stated that there should not be any rationalisation or could not identify any scope for rationalisation at the moment. One of these responses did, however, suggest that Ofwat could consider the ability of companies to report assurance activities succinctly. One response agreed that there was scope for rationalisation but did not suggest any specific areas where this could take place.

Three responses provided more detailed suggestions for where rationalisation could take place. These responses did not focus on particular areas where we should no longer be asking for assurance, but rather on how that assurance could be presented.

Our response

We are not proposing to rationalise the number of areas where we ask for specific assurance for the 2020-21 reporting year. This is because there were a limited number of responses to this question and from these responses there was not a strong overall suggestion that there is currently scope for rationalisation.

Companies are free to present the specific assurance they are required to provide in the form that they choose. This is reflected in what companies currently do, where, for example, some companies choose to group the statements that their boards are required to provide in one place whereas other companies choose to present these statements separately.

Given the responses we have received, we may carry out further work, taking on board those responses, to assess the scope for rationalising the number of areas where we ask for specific assurance.

In response to the two responses specifically in relation to Table 1F, the Regulatory Accounting Guidelines state that section 1 and 2 of the Annual Performance Report are subject to an audit opinion. Our requirements in this area remain unchanged, and as Table 1F falls within section 1 it is covered by this requirement. Whilst we appreciate the audit of Table 1F does present some challenges, the concerns quoted have not been raised by other companies. They have been able to audit Table 1F in 2018-19 and 2019-20 by using support from third party experts.

One response raised an issue on the approach to getting assurance on the items within certain tables. We will continue to require that the audit opinion covers all of the pro forma tables in sections one and two of the APR. However it is for auditors to decide the approach which they take to assuring individual tables or items within them and this could include using other external assurers as appropriate.

1.11 Question 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?

Respondents' views

We received 16 responses, 14 in favour of combining the tables.

The companies opposed to the combining of this data identified instances where they valued the inclusion of this data adjacent to other data in the existing tables. Another response proposed that all new connection data should be included in table 2N with the remaining data retained in 6C and 7E. There were two suggestions to further breakdown the reporting of void properties.

Our response

The majority of consultation feedback was supportive of moving property and customer numbers, including voids into a single table. We have therefore brought together this data in Table 4R. We have additionally captured year end property figures for water with associated billing and meter status. This information supports our understanding of the progress in delivery of metering programmes and customer movements from unmeasured to measured billing. We presently do not consider it necessary to increase the table size by including a **property and meter** analysis for wastewater.

Table 4R now contains data previously included in 2F, 6C and 7E in the consultation.

We have retained the new connection reporting in Table 2N which has been reallocated as Table 4Q.

1.12 Question 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?

Respondents' views

We received 11 responses;

8 thought that inconsistency was an issue and that a working group would be needed in order to devise a more suitable definition. 2 noted that this was a complex issue. One company suggested removing the requirement.

Our response

On balance we have decided that we do not need this data and so we will remove the requirement.

1.13 Question 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?

Respondents' views

We received 16 responses;

9 responses in favour of the proposal, however 5 of these set out changes that should be made including;

- showing only totals;
- retiring the bulk supply register;
- showing only new trades;
- being clear that the costs were operating expenses; and
- to align generally with the bulk supply register.

7 responses were against the proposal; reasons cited were that:

- such information is commercially sensitive and should not be in the public domain;
- it would be difficult to identify the direct costs of a bulk supply where it was taken from a large, integrated network; and,
- the data may stifle the market as opposed to promote it as if the margins are deemed too low then this would discourage new entrants.

Our response

The RAG consultation set out the context for the reporting requirements from the reconciliation rulebook;

The PR19 water trading incentive framework requires companies to report to us on the breakdown of the costs when submitting claims. The PR19 reconciliation rulebook sets out that the relevant information on qualifying agreements would be collected annually through the annual performance report. It appears that respondents have inferred that the information requirement applies to all bulk supplies.

For the avoidance of doubt, the reporting requirements set out in the RAG consultation were aligned to the reconciliation rulebook approach and therefore expected to be limited to qualifying water trades within the 2015-20 and 2020-25 periods. We accept that it would not be desirable for this level of granularity for other bulk supplies, although it would be in companies' interest to provide some cost information at an aggregated level for all other agreements. We consider that this is a proportionate approach.

We expect water companies to follow the cost-based bulk supply pricing principles set out in Ofwat's guidance. This would require a company to have a reasonable understanding of the direct costs of providing a bulk supply to another water undertaker, particularly given the wider competition law requirements. We do not have compelling evidence that companies are unable to identify the costs associated with qualifying trades.

We acknowledge the concerns regarding the publication of this information. We have already set a precedent with respect to publishing revenue and cost information for qualifying trades evaluated as part of the PR14 reconciliation and will continue to do so for the purposes of transparently setting out the determination of revenue adjustments as part of the PR19 reconciliation.

1.14 Question 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?

Respondents' views

15 companies responded to this question. None of them objected to the proposed additional information on social tariffs. However, the following comments were noted:

- Three companies asked for clarification on whether customers referred to include all customers on concessionary tariffs
- 10 companies either expressed a preference for the template used for the recent social tariffs request for information or supported more transparent reporting of social tariffs to provide additional context around the cross subsidy paid per contributing customer and the cross-subsidy paid by the company
- Four companies would want the opportunity to provide commentary which will highlight completely the work they are doing in this area and the support they are providing to customers
- One company suggested that the customer numbers should be based on a year-end snapshot rather than an average of monthly values
- One company suggested that social tariffs information should only be made available to Ofwat and other companies

- Two companies asked for companies' support to customers through operating costs rather than a reduction in revenue to be recognised and captured

Our response

Government made provision within the Floods and Water Management Act (2010) to enable water companies to introduce social tariff schemes. Defra and the Welsh Government set guidance on the use of social tariffs to which both water companies and Ofwat must have regard.

Social tariffs are schemes that companies offer to limit or reduce bills to some lower-income customers – with the majority of schemes being fully funded through other customers' bills. As part of PR19 business plans, water companies committed to increasing the number of customers on social tariffs to over 1.4 million by 2025.

Collecting social tariff data in the APR is important for providing information on how companies are using them and allow us to compare schemes that companies operate. The approach adopted for the APR is consistent with our previous request for information in May 2020. The data generated will provide Ofwat with an up to date view on the features of different schemes and levels of discounts available, as well as which companies are contributing to scheme funding. Social tariffs are currently being considered as part of CCW's Affordability Review, which reports in spring 2021. The information provided through the APR will therefore offer timely insights into latest arrangements at a time when the Review will be reaching conclusions on the financial support available to water customers in England and Wales.

None of the companies that commented on this proposal objected to the collection of social tariffs data in the APRs. In fact, most companies mentioned that the information we were seeking to collect was limited in scope; they suggested that we should use the template from our recent information request on social tariffs. Other companies asked for clarity on whether the information we were seeking included that for customers on other concessionary tariffs such as WaterSure.

On consideration of the consultation feedback, we have decided to collect the same information we asked for in the social tariffs information request. We agree with the views of the majority of respondents that this will enable additional context to be highlighted around the respective contributions customers and companies were making to finance social tariffs. The information we ask for on customer numbers are intended to be consistent with the definition and split of residential customers in table 4R which collects non-financial information on residential customer numbers and properties.

We have clarified that the information we are seeking relates only to social tariffs as described under section 44 of the Flood and Water Management Act 2010 and matters covered and clarified by the statutory guidance issued by the Secretary of State and the Welsh Government. Commentaries to table 2N should explain the other forms of assistance they provide to improve affordability and accessibility for other vulnerable customers.

1.15 Question 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?

Respondents' views

We received 11 responses:

8 responses supported the proposed definition for indirect reuse;

- one response questioned the need given the likely scale of trades in this area;
- another response would welcome further discussion to understand this complex area.

One response commented that for indirect reuse careful consideration is needed around distance between discharge and abstraction; intent; and cross company interactions whilst another noted it would be impractical to distinguish between types.

One response did not support the proposed definition of indirect reuse as it was too vague and could exclude reuse that is primarily for the purposes of abstraction but where there are ancillary benefits.

Our response

The purposes of the definitions are to recognise the intent behind using the effluent discharge. We consider that the primary purpose should be to abstract, but we recognise that not all discharges will be intended for abstraction.

For this reason we propose to amend the definition to reflect where an effluent discharge is intentionally diverted to a location primarily for the purposes of abstraction for treatment and treated water distribution. For the avoidance of doubt, the intent of the effluent acting as a water resources option should be demonstrable.

We consider that effluent reuse options will become increasingly likely for water only companies in the future.

1.16 Question 16

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

Respondents' views

On 25 June 2020 we held a workshop with water companies and subsequently published updated proposals. Tables 1 and 2 of these proposals concerned energy data and income from renewable energy subsidies. Four companies supported our proposals and three did not because they considered the market did not need more data reporting to develop further.

Table 3 concerns sludge liquors – we discuss our approach to this under question 3.

Table 4 of our updated proposals concerns transport data to do with the distance travelled and the number of trips broken down by type of journey. Three companies supported our proposals. Four companies did not support this additional information being collected, with one proposing an alternative approach.

Our response

We have made changes to the table 1 so that it better captures how companies use and produce energy in relation to their bioresources assets.

Regarding table 2, we have also decided not to ask companies to report the date of expiry for renewable energy incentives that they claim, that we had previously proposed based on these varying between individual assets. Some companies suggested that we collect data on the incentives claimed on each asset individually, however we consider this is disproportionately onerous. Instead, we have added two lines that capture the percentage and total value of incentives that are set to expire within two years of the reporting year.

On 19 October 2020 we announced we would review the bioresources market. As part of that, we are collecting more detailed data to inform our work including transport data. This may supersede our need for additional transport data being reported through the APR. Therefore, we have decided not to require the additional data in table 4 through the APR at this time.

1.17 Question 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?

Respondents' views

The responses to this question included comments which were generally positive and supportive of the new table 9A. Some common points that were raised in responses included:

- suggesting an additional column reporting the cumulative position for the AMP-to-date;
- suggesting that the table allowed for more than three projects to be reported; and
- questioning whether asking if shareholder funding information was necessary? – It could be confusing.

Our response

We have considered the responses and included reporting for the cumulative position, We have also reconfigured the table to allow for more projects.

We consider the information on shareholder funding will be useful given the policy we set out in our August decision document, which states that the financial contribution from shareholders shall come from project participants' borrowing or profits, not through charges to customers.

1.18 Question 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?

Respondents' views

We received 10 responses;

Two small companies provided detailed feedback on our proposals and were broadly supportive of the proposed requirements. They noted that some of the new requirements (such as leakage and per capita consumption) should recognise the nature of the properties served by small companies. This could mean that the reported measures may not be comparable with large companies' performance.

Eight large companies said they supported or did not object to our proposals, noting they would increase transparency to customers, improve data quality and also benefit large companies (e.g. when setting bulk charges for new appointees). Some respondents proposed additional reporting requirements.

Our response

We will go ahead with our consultation proposals, as set out in more detail in the relevant RAG documents. As a result, small companies are to publish their small company returns, provide a customer-focused summary of their annual performance, and provide additional information on per capita consumption, leakage and their financial security arrangements.

We acknowledge that some measures reported by small companies may not be directly comparable with the information currently reported by large companies – nonetheless we consider this data will provide useful insight into the performance of small companies, including the environmental outcomes that are delivered.

We reiterate our expectation that small companies should ensure their annual returns are completed accurately and submitted in a timely manner.

We intend to engage further with relevant stakeholders on how the reporting framework for small companies could evolve, which may include the additional reporting requirements proposed by some respondents, for the 2021-22 reporting year and beyond.

1.19 Question 19

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

Respondents' views

We received 13 responses;

6 responses commented positively, 5 suggesting the data is collected in a separate table with one proposing that the data is collected as part of table 5A. One response opposed the approach citing unnecessary complexity.

One response supported the definition for "Bilateral cumulative capacity" with suggested refinement of the text, another response suggested that information should only be required where entry has occurred.

Other responses asked for greater clarity, worked examples and for further consultation before data was reported in 2022-23.

Our response

We will consider the responses provided in developing the reporting requirements for 2022-23. We are minded to adopt a separate proforma to address water resource zones where entry has occurred.

1.20 Question 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 tCO_2e) for both water and wastewater?**
- **Could this be done for both operational and embedded emissions?**
- **Should there be a further breakdown of this data – for example by source (grid electricity, process emissions, etc) and by type of greenhouse gas?**

Respondents' views

We received 18 responses to this question. Respondents were broadly supportive of Ofwat's proposal to introduce reporting of GHG emissions.

Overall, respondents were supportive of reporting operational emissions, with there being general agreement that operational emissions could be reported annually in tCO_2e, for water and wastewater, net and gross, with only two respondents suggesting reporting net emissions. In relation to timelines for reporting, some expressed the view that the 2020-21 reporting year would be too soon to introduce any new reporting requirements in this area due to the amount of preparation and engagement required to ensure consistent and meaningful reporting is achieved.

In relation to reporting embedded emissions, although most respondents were in principle supportive, there was variation in when respondents thought reporting would be achievable, with many suggesting it would be by 2025. However, it was also clear from the responses that some companies are already monitoring and reporting in this area, with others suggesting a 'high-level' approach was possible. From a more general perspective, some respondents emphasised that reporting requirements in this area should use existing methods where possible to avoid duplication.

Respondents were clear that for progress to be made, collaboration across the industry, including with Ofwat, is required, with collaboration potentially taking place via a working group.

Some respondents also requested further clarity around how 'embedded/capital' emissions are defined.

One respondent specifically noted that they did not support the proposal as further consideration was required due to reporting in this area not necessarily having been included in companies' planning for PR19.

Our response

Company responses to our consultation on GHG emissions reporting clearly show the industry as being broadly supportive of reporting in this area, with reporting on 'operational' emissions currently taking place using the Carbon Accounting Workbook (CAW).

Operational emissions

We have reflected on the concerns of some respondents that reporting in this area might duplicate reporting currently in place. This is not our intention, as our current expectation is that the CAW reporting will be used to provide the great majority of the requested data. However, we do expect to see an evolution in relation to how GHG emissions are reported, particularly in relation to the scope, granularity, and uniformity of data used to demonstrate progress. This will enable us to monitor the industry's progress towards net zero.

Therefore, for the 2020-21 reporting year we invite voluntary reporting of gross and net GHGs (in tCO_2e) for water and wastewater, as applicable. We would like to see companies:

i. Break these emissions down by scope and the three main GHGs (CO2, CH4, N2O) (for scope 1 and 3).
ii. Present data on intensity of emissions (Kg per ML), and intensity per £m of turnover.
iii. Provide data on emissions reductions brought about by the purchase and generation of renewable energy.
iv. Accompany emissions data with a Strengths, Weaknesses, Opportunities, and Threats (SWOT) style explanation.

We recognise that this will be a learning period for the industry, and our current aim is for reporting on operational emissions to become mandatory for the 2021-22 reporting year to allow for learning from a voluntary reporting year.

Embedded emissions

We acknowledge that the reporting on 'embedded' emissions is, in comparison to 'operational' emissions, much less advanced with thinking on this issue being at various stages between companies. However, some in the industry have been monitoring and reporting such emissions for some time. As we set out in further detail in chapter 4 of this document, we think that faster progress on reporting is needed, and that this is achievable with the right focus on it. Therefore, we encourage companies to start voluntarily reporting their embedded GHG emissions for 2020-21.

Those companies who voluntarily report embedded emissions for 2020-21 have the freedom to decide on how and what they can report. However, we expect a clear explanation of each company's approach, and any distinction that is made between such terms as embedded and capital emissions. Depending on the outcome, we will consider whether to propose a similar approach for the 2021-22 reporting year, with our aim being for a form of standardised mandatory reporting to be in place for the 2022-23 reporting year.

Alongside this reporting, we encourage companies to continue to report their emissions transparently on their websites, ensuring that the information is up-to-date and in an accessible and meaningful format

In relation to the reporting of GHG emissions, the RAGs are not exclusively concerned with information relating to PR19 measures, they are also used to obtain appropriate accounting information about the appointed business which may help us in relation to the development of future regulatory measures.

1.21 Question 21

We highlight proposals for nature based solutions (NBS) 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?**

Respondents' views

We received 15 responses to this question. The level of support for the proposals was mixed among respondents.

9 respondents showed support for reporting on NBS in general, however the majority of respondents noted that more work was needed to refine any requirements. A number of issues were identified as needing to be resolved in order for this reporting to be meaningful. These issues included: challenges in establishing any baselines, definitions of 'NBS' used, the potential for limiting innovation by specifying NBS 'types', whether several metrics should be used over a single metric, whether metrics are kept high level, a current lack of industry standards on natural capital valuation, and possible links to PR24.

10 respondents provided examples of metrics and/or measures that could be used to measure NBS. These included: number of schemes (e.g. wetlands), number of agreements with farmers, volume of surface water removed and biodiversity net gain.

One respondent specifically noted that they did not support the introduction of additional reporting requirements. The respondent considered that companies should be allowed to develop their own approaches without being constrained by regulatory reporting. The respondent also considered that the benefits of reporting on NBS had not been identified.

Our response

We have taken into account the issues and concerns highlighted by respondents and as a result consider that incorporating reporting requirements on NBS is not the way forward at this point in time.

We recognise the multiple complexities in trying to implement our proposal on this, and indeed the burden it would impose. We also recognise that in essence NBS are delivery vehicles, and not outcomes in and of themselves; while noting that they will have a very important role to play going forward. There is a concerted effort across the sector to enable greater NBS, and so our intention is to consider how best to understand and demonstrate progress in that regard. We understand from the responses that this intention has broad support, but that a reporting requirement isn't necessarily the right answer at this time. We also recognise that, for example in the ongoing WINEP reform work, there may be opportunity in other places to track developments on the adoption of NBS.

1.22 Question 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?**

Respondents' views

We received 18 responses to this question with a range of views from being outright supportive to sceptical about the feasibility and/or benefits of our proposals.

The responses were broadly supportive of presenting the calculation of average household bills in the APR. Some seek further clarity about the detail of our proposals, while others suggest following the same approach to calculation as currently used in the January tariff submissions.

The level of support for presenting the statistical deciles of bill values and the number of customers in arrears was more limited. Two responses supported our proposals in general, finding them useful and beneficial to customers. Another supported our proposal for reporting the spread of bills around the average, while two others supported our proposal for reporting the number of customers in arrears. One accepts our proposals despite being unclear about their benefits. Another finds our proposals too high-level.

Most question the benefits of our proposals, raise feasibility concerns and/or seek further clarity about the detail of our proposals.

There was a suggestion that customers would benefit from reporting ‘typical’ bills (e.g. a metered customer using 120m3 per annum). Another suggestion was to report household debt by deprivation deciles and/or socio-demographic segments.

It was thought that an industry workshop or a working group would be helpful in developing our proposals.

Our response

We welcome the support for providing more transparency about household bills, as well as the alternative proposals by some respondents. We note the potential limitations of the proposed additional disclosures, as well as the additional complexity and burden this might create for some companies. Based on the responses received, we consider that it is not clear at this point whether the potential benefits of our proposals, or any alternatives proposed by respondents, would outweigh their potential costs and burden to companies.

We are planning to consider our approach to additional disclosures about household bills and debt in more detail and to inform stakeholders about our next steps in due course.

2. Points of detail raised in the responses to question 1

Many of the responses to question 1 were in respect of the tables which were directly related to the questions described in chapter 1 of this document. Where responses were directed to tables not directly connected to questions these have been grouped and dealt with in this chapter.

2.1 Cost assessment

Information on costs forms the majority of the information required for the APR. We have looked again at our proposals following the responses received. There were over 400 points made in response to question 1 in our consultation – over a third of these were directed towards the requirements in the cost assessment tables. Many of these responses set out areas where similar, but not identically specified data had been collected in the PR19 business plan tables. Where inconsistencies between the APR requirements and the business plan data table requirements have been identified we have resolved these where possible. Where we collect non-financial data to support this area we have now grouped the requirements to give a more logical flow in the APR. We have also revised requirements to ensure compatibility with the reconciliation models for 2020-25.

2.2 Developer services - infrastructure charges

We recently introduced a requirement for companies to balance their revenues from infrastructure charges with the costs they are intending to recover over a rolling 5-year cumulative period as far as is reasonably possible. This followed the introduction of our new charging rules[4] for English companies in 2018. Our new rules for English companies included the redefinition and clarification of the services and costs that developers pay for through infrastructure charges. This was to ensure they were fair and to make clear what network reinforcement costs English companies can recover through infrastructure charges.

In the consultation, we asked consultees whether a change should be made to **table 2K Network Infrastructure reinforcements reconciliation** in order to take into account the impact of discounted charges where new properties are equipped with water efficient technology. We have received 15 responses to this question, with 7 in favour of using the discounted charges, 4 against and 2 with no preference. A further 2 responses thought that the definition of a discount and its purpose needed to be made more clear. After considering these views we have made the change to the calculation. There were some requests for

[4] The Welsh Government has powers to implement changes to the governance of the water sector in Wales, pursuant to the Wales Act 2017. It also has powers to decide to replace the existing new connection charging regime for Welsh companies.

further clarity for the definition of discounts. We will work with the industry to understand how we can be clear on this point.

2.3 Board statement on accuracy and completeness of data and information

We are not making any changes to the wording for RAG 3 which we consulted on. We received 12 responses on this proposal of which eight were supportive or did not disagree with the proposed approach. A further response was supportive of the overall approach but suggested an amendment to the terminology being used in the proposed requirement. Another was supportive but sought further clarification of how the approach would work.

Two responses were opposed to the proposal. One of these stated that it was an unacceptable requirement for boards as it was not possible to always assert accuracy and existing requirements were sufficient. The other set out the view that the assertion of complete accuracy was not possible.

We will proceed with the requirement for the statement to relate to accurate and complete data and information. Boards are able to set out exceptions where they do not consider they can state that data and information is accurate and complete. We have considered other terms but consider that the use of 'accurate' will provide us and other stakeholders with the confidence that is needed in the data and information which companies provide and publish. We also note that the term 'accurate' is used in relation to requirements for company data and/or information by other regulators, for example Ofgem and the Office of Rail and Road.

We were clear in the consultation that our proposal was designed to ensure that company boards have full ownership of the provision and publication of accurate and complete data and information. We consider that ensuring that there is complete and accurate information is key to boards' strategic role as that will ensure the right decisions are made and that they can monitor delivery against their company's strategy. We are not proposing or expecting that boards sign-off every piece of data and/or information that is submitted and/or published but rather that the board should carry out activities which they consider appropriate to give them the assurance that they need to make the required statement.

One response asked about (1) whether we would still expect a data assurance summary and (2) the interaction between the required statement and risk and compliance statement. The expectation for a data assurance summary to be published will be replaced by the new requirement for a board statement. However companies may still wish to publish one if they consider that this helps provide transparency and assurance for their stakeholders. There will be no change to the expectation that companies will provide a risk and compliance statement because this has a different focus to the board statement on data and information.

2.4 Transparency of financial flows

Since introducing the financial flows metric, we have been aware of some duplication and inconsistencies of this metric with the reporting of RoRE in table 4H, this point has also been highlighted by a number of companies, most recently in the responses to this consultation. Almost a quarter of such responses to question 1 were in this topic area. In response, we are therefore proposing to amend the reporting requirements for financial flows and RoRE to remove the inconsistencies and align the two metrics. We are proposing to remove the table in 4H detailing the breakdown of the RoRE calculation and instead use the value in Table 1F - Line 19 – Total Earnings (Actual returns and notional regulatory equity) as the value for RoRE that should be reported in table 4H, the detailed components of RoRE will be reported in table 1F.

We are interested in hearing companies' views on this proposal and are also planning to hold an online workshop to discuss the matter in further detail in early 2021 prior to confirming our final decision in the annual Information Notice published in spring 2021.

We are also providing clarification about the notional cost of debt that companies should use in their reports. The calculation of the cost of debt performance requires companies to compare their own cost of debt with that included in the calculation of the allowed return on capital from the final determination for all reporting periods in the price review period. However, we recognise that the cost of debt in final determinations is based on a five year average ratio of new to embedded debt. In reality, new debt will build up across the AMP resulting in an element of underperformance in earlier years which reverses in later years. The allowed cost for new debt is also subject to a reconciliation adjustment at PR24 to reflect movements in the benchmark index of borrowing costs. This could result in companies reporting under or outperformance that is subsequently reversed at PR24. Therefore, annually we will publish an updated allowed cost of debt for companies to use in calculation of the cost of debt performance. The updated cost of debt will reflect a linear progression of the ratio of new to embedded debt across the AMP as well as changes in the iBoxx indices.

2.5 Principal use recharges

We have revised table 2A to focus the detailed recharge information on retail and to be clear how the wholesale information feeds into this table, taking account of concerns raised by companies about how recharges should be represented.

Because the detailed wholesale cost tables already take account of the recharges in opex we are now only requiring detailed data on recharges borne by retail. We noted some of the concerns raised regarding depreciation charges and have included a means for companies to reconcile the depreciation charges that result in table 2A.

2.6 Finance leases

Our guidance relating to finance leases for the 2019-20 reporting year has now been updated in RAG 1 so that the RAGs treatment now follows UKGAAP. Our approach to setting prices for 2020-25 now follows the UKGAAP approach and so we no longer need to diverge from UKGAAP in this area.

2.7 Innovation competition

We have considered the suggestions in the responses. We have subsequently reconfigured the table to allow for more projects and to introduce reporting of the cumulative position.

2.8 Major projects

There were 11 responses on question 1 concerned with major projects with requests for greater clarity being the principal concern. We have incorporated the proposed text into RAG4. We believe that the definitions provide enough clarity but would urge companies with individual queries to contact us to discuss this further.

3. General concerns raised in the responses

Many of the responses set out general concerns with the proposed RAGs, unconnected with particular tables or definitions. Those areas which were highlighted by more than one respondent were principally concerned with;

- the burden of producing the APR,
- whether we had identified obsolete data that could be removed from the requirements; and,
- whether the requirements are applicable for all companies.

3.1 Ensuring clarity and avoiding duplication

We have looked again for obsolete or repetitive data requirements and removed these where possible. We have, for instance, removed two full tables for atypical costs and replaced these with smaller requirements attached to tables 4D and 4E. We have also simplified table 2B so that this copies from section 4 tables. In tables 4L and 4M we have reduced significantly the number of expenditure types where we require cumulative expenditure to be reported. In our outcomes tables we have redesigned the performance commitment reporting to give a more logical flow to the data, to have shorter tables and to avoid repetition.

We have set a limit of 35 lines per table as many respondees asked that tables could be more easily published in a portrait format. This drive in itself inevitably increased the number of tables slightly whilst not in itself creating a greater burden. We have identified 2 tables which clearly do not meet this criteria and have added these to the list of tables which RAG3 does not require to be published in the body of the APR. We have however clarified minimum requirements for company websites to ensure that this data is accessible by stakeholders.

3.2 Applicability of our requirements

We have been clear that tables 2G and 2H **apply to Welsh companies only as all** English companies have now exited the business retail market. Water only companies do not, of course complete tables concerned with wastewater.

We think that for other regulated companies where not all of the tables are applicable, such as Tideway, we should set out those particular reporting requirements outside of the RAG documents themselves. This allows us more flexibility to modify our requirements where there are issues unique to a particular company without having to propose modifications to the RAG documents. This could be done in the annual information note.

4. Greenhouse gas emissions reporting – additional rationale

The UK is now legally required to reduce net emissions of greenhouse gases (GHGs) to zero by 2050, with climate change one of the biggest challenges facing the water sector. In working towards addressing this challenge the industry has committed to achieving net zero operational emissions by 2030. In our strategy, 'Time to act, together', we committed to strengthening the sector's approach to climate change mitigation and adaptation. Since the launch of our strategy, the Committee on Climate Change (CCC), in its 2020 report to Parliament, recommended that we seek to accurately measure the industry's GHG emissions. To achieve all of this there is a need for clear, consistent, standardised, transparent and accessible data; and there is a need for more detailed reporting.

As feedback to our consultation demonstrated, differences exist in how individual companies currently report on their operational emissions, as well as in their ability and readiness to report on embedded emissions. Our approach to implementing reporting requirements for GHG emissions recognises these differences, allowing time for companies to evolve their reporting approaches, while also delivering data and reporting that is gradually more detailed and standardised. Improving the quality of data through this approach will allow for greater understanding and clearer demonstration of progress and performance, including where this can be improved and/or accelerated. It will also allow for greater scrutiny from both Ofwat and other stakeholders.

Overall we consider that our approach, outlined in section 1.20, represents an appropriate, proportionate and reasonable future-proof way forward. It will help us to support and drive sector-wide efforts to reduce GHG emissions, aiding our ability and that of other stakeholders to help ensure that net zero is delivered in the best and most efficient way possible on the way to 2050.

Operational emissions reporting

As noted in section 1.20, the sector has been reporting on operational GHGs and collecting this data via the Carbon Accounting Workbook (CAW) for some time. Building on this, we would like reporting to be further enhanced. In addition to an increased granularity of reporting, as outlined previously, we are also looking for submitted data to be accompanied by a 'Strengths', 'Weakness', 'Opportunities', 'Threats' (SWOT) based commentary. This 'SWOT' approach will allow for a better understanding of the data to emerge by explaining how progress is achieved, and the success of interventions.

As we recognise that this shift in reporting will be a learning period for the industry, we are adopting a phased approach. So, for 2020-21, and in relation to the above, we invite companies to voluntarily report, on as much as they can, on gross and net GHGs (in tCO_2e) for water and wastewater. We intend for reporting to become mandatory for the 2021-22 reporting year. We also intend to issue further guidance on the reporting of operational GHG emissions, as outlined, in the first quarter of 2021, and will be looking into the possibility of facilitating an industry workshop.

Embedded emissions reporting

The importance of 'embedded' GHGs emissions is only set to increase over time, and so it follows that the industry will need to make greater and faster progress in reporting. Effective monitoring and reporting of emissions in this area is an important first step in enabling the industry to develop strategies for embedded carbon reduction.

During construction programmes for instance, the inclusion of embedded CO_2e emissions have been seen to add up to 50% to annual operational emissions.[5] While some in the industry have led in reporting on and setting targets in relation to reducing embedded emissions, the water industry does not have an agreed approach in place for how to report on embedded GHG emissions, which account for a large of proportion of total GHG emissions. This sector variation is seen in other areas of the economy, but leadership in other sectors has led to the emergence of clear guidance on how to manage embedded carbon in such areas as design, construction and maintenance activities, as in the case of Network Rail for instance.

We consider that consistent reporting in this area is an important first step in enabling all companies to collect emissions data on products and services. This data can be used to change thinking and encourage innovation, with a view to reducing such emissions. It can also help guard against efforts that are focused on reducing operational emissions unintentionally leading to an increase in embedded emissions. Consistent and standardised reporting will also help to inform investment decisions in the run-up to PR24 and the setting of targets to drive and monitor progress.

However, we are mindful that the development of a consistent sector wide approach in this area will take time and commitment from companies, with time also being needed to allow for the supply chain to respond to the sector's needs. We do not consider that the current absence of an agreed sector wide approach presents an insurmountable barrier to progress, particularly if a strong collective focus and effort is put towards this. We know that there are companies leading in this area, and we want to see companies working together with a view to identifying best practice and sharing learning to facilitate more rapid progress.

As a result, we propose a phased approach to the reporting of embedded emissions, as outlined in section 1.20. However, as time goes on, we expect reporting in this area to

[5] Konadu, D., Fenner, R., Richards, K., and Allwood, J. 2017. *UK water-energy nexus under climate change*. University of Cambridge: Cambridge.

converge, becoming standardised. Our intention is that progress in this area could in part be made via a collaborative working group, which includes companies, Ofwat, and other interested parties such as Defra, the Environment Agency, and the CCC. An overview of our proposed phased approach to reporting can be found in Table 1.

Table 1: Summary of planned and envisaged future reporting arrangements for operational and embedded greenhouse gas emissions[6]

Reporting year	Operational emissions	Embedded emissions
2020-21	Voluntary standardised reporting	Voluntary company determined reporting
2021-22	Mandatory standardised reporting	Increasingly standardised reporting but voluntary
2022-23	Mandatory standardised reporting	Mandatory standardised reporting

[6] The introduction of mandatory reporting arrangements will be subject to consultation.

A1 Changes to tables (RAG3) and line definitions (RAG4)

A1.1 Changes to tables (RAG3) and line definitions (RAG4) proposed in our consultation

Table	Issue	Description of change	Table changes	Line definition changes
1	Minor clarification	All section 1 tables should be completed on the basis that all debt relevant to the regulated company is included, even where this has been taken out by an associate or financing subsidiary.	N	Y
1A	No changes	n/a	N	N
1B	No changes	n/a	N	N
1C	No changes	n/a	N	N
1D	Minor correction	Definition for 'Amortisation – grants & contributions' clarified.	N	Y
1E	Minor clarifications	• Debt balances and interest rates should be based on all debt relevant to the regulated company including where this has been taken out by an associate or financing subsidiary. • The reconciliation of debt balances between tables 1C and 1E should clearly set out the reason for any differences. • Lines 4 and 5 should be input as negative numbers.	N	Y
1E	Impact of CPI and CPIH	• Index-linked debt column now split to allow for both RPI and CPI. • Requirement for commentary has been moved from RAG4 into the consolidated requirements in RAG3. • Changes to recognise DPC transactions. • Clarification of line definitions, in particular for issuance costs and premium/discounts.	Y	Y
1E	Weighted average years to maturity	Clarification of calculation of weighted average years to maturity based on underlying debt balances and scheduled repayments	N	Y
1E	Minor correction	Reference to table 4C in line 7 has been updated	N	Y
1F	Updated requirements for	• Clarification of line definitions following feedback from companies. • Recognition of CPI indexation replacing RPI.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
	2020-25 price review period.	• C-Mex, D-Mex, gearing benefits sharing and voluntary sharing arrangements now added. • Requirement for commentary has been moved from RAG4 into the consolidated requirements in RAG3. • Price base updated. • Confirmation that the RCV from the FD should be used and not the shadow RCV		
1F	Use of Fisher equation	Guidance updated to include the use of the Fisher equation to translate nominal interest rates to real.	N	Y
2A	Updated requirements for 2020-25 price review period	• Minor change to columns to recognise revenue for new price control units for the first time in our PR19 final determination. • Following a review of our need for recharge granularity, we now only require to see the impact of recharges separately for retail household. For wholesale, we assume that the impact of the recharges is taken into account in the cost lines to which they relate, which is in line with the business plan approach.	Y	Y
2B	Updated requirements for 2020-25 price review period	• Sludge now renamed Bioresources. • New opex and capex lines for grants and contributions, enhancement expenditure and growth expenditure. • Clarification of line definitions, in particular for companies reporting under FRS102 with regard to pension costs. Companies should include the element of the statutory charge attributable to deficit payments in line 'Pension deficit recovery payments' as a cash expenditure rather than under operating expenditure.	Y	Y
2C	Retail cost information consolidated into a single table	Additional lines for; • rates, • depreciation • recharges • third party services opex, • pension deficit repair costs and, • capital expenditure.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
		Demand side water efficiency section moved from former table 4F and additional columns added for customer type.		
2D	No changes	n/a	N	N
2E	Updated requirements for 2020-25 price review period	• Additional lines split on a price control basis, • More granular analysis of diversions and income offset.	Y	Y
2F	Updated requirements for 2020-25 price review period	Two columns added to allow greater visibility of social tariff impact.	Y	Y
2G	Updated requirements for 2020-25 price review period	Additional columns added to allow greater visibility of margins and ODI impact.	Y	Y
2H	Updated requirements for 2020-25 price review period	Additional columns added to allow greater visibility of margins and ODI impact.	Y	Y
2I	Updated requirements for changes to charging rules	• Additional lines for wastewater charges. • Reconciliation moved to new table 2M to limit table size due to additional lines added.	Y	Y
2J	No changes	n/a	N	N
2K	Minor correction	Cross references updated	N	Y
2L	New table	Land sales disclosures separated from table 2E for clarity and inclusion of water resources category.	Y	Y
2M	New table	New table for the reconciliation formerly part of table 2I. Additional lines added updating requirements for 2020-25 price review period.	Y	Y
2N	New table	New table for developer services information.	Y	Y
2O	New table	New table for intangible fixed assets analysis.	Y	Y
3A	Updated requirements for 2020-25 price review period	Information for common and bespoke performance commitments.	Y	Y
3B	Updated requirements for 2020-25 price review period	Sub-measure performance table replaced with supplementary performance table.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
3C	Updated requirements for 2020-25 price review period	C-Mex table replacing SIM measures.	Y	Y
3D	Updated requirements for 2020-25 price review period	D-Mex table replacing SIM measures.	Y	Y
3E	Updated requirements for 2020-25 price review period	Former table 3S, updated for common performance measures.	Y	Y
3S	Table deleted	Replaced by table 3E	n/a	n/a
4A	Water trading	New information to support water trading markets.	Y	Y
4B	Updated requirements for 2020-25 price review period	Totex analysis replaced by detailed analysis of debt.	Y	Y
4B	Minor clarifications	Reconciliation requirement between tables 1E and 4B as per RAG 3.12		
4B	Inflation	Amendment to align inflation used to convert debt instruments to CPI and RPI basis with table 1E.		
4C	Updated requirements for 2020-25 price review period	Table showing the impact on the RCV has been entirely revised to incorporate the totex variance formerly reported in 4B and all other variances that impact on the RCV.	Y	Y
4D	Updated requirements for 2020-25 price review period	Changes in line with those made to table 2B. Additional information on energy consumption. Water resources: now a single column incorporating abstraction licences.	Y	Y
4E	Updated requirements for 2020-25 price review period	Changes in line with those made to table 2B. Additional information on energy consumption.	Y	Y
4F	Updated requirements for 2020-25 price review period	Retail analysis now moved to 2C. Replaced with major project expenditure for water.	Y	Y
4G	Updated requirements for 2020-25 price review period	Current cost analysis no longer required. Replaced with major project expenditure for wastewater.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
4H	Updated requirements for 2020-25 price review period	Changes to dividend yield, credit rating and cover lines and definitions	Y	Y
4H	RoRE	Changes to align RoRE to financial flows (table 1F). Removed table with detailed breakdown of RoRE components and updated guidance to copy RoRE value from table 1F	Y	Y
4H	Credit ratings	Updated table to include credit ratings from each of Fitch, Moody's and S&P. Updated definition to align with credit ratings being monitored by Ofwat	Y	Y
4H	Dividends	Minor clarification setting out how to deal with zero dividends	N	Y
4H	RCF/Net debt	Removed RCF/capex and replaced with RCF/Net debt. This is a more appropriate financial ratio used by rating agencies (Moody's) and in the final determinations	Y	Y
4H	Minor corrections to line references	Amended references to other lines in table 4H and other tables to reflect changes in those tables.	Y	Y
4I	Maturity buckets	Clarification of maturity analysis based on expected maturity dates for financial instruments containing break dates.	N	Y
4J	Updated requirements for 2020-25 price review period	Changes in line with those made to table 2B. Water resources: now a single column incorporating abstraction licences.	Y	Y
4K	Updated requirements for 2020-25 price review period	Changes in line with those made to table 2B.	Y	Y
4L	Updated requirements for 2020-25 price review period	• New more granular analysis of growth expenditure • Enhancement operating expenditure added to the table • Other changes resulting from the approach in our PR19 final determinations. • Water resources: now a single column incorporating abstraction licences.	Y	Y
4M	Updated requirements for	• New more granular analysis of growth expenditure • Enhancement operating expenditure added to the table	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
	2020-25 price review period	Other changes resulting from our approach at PR19.		
4N	Tables re-ordered	• Former requirement now in table 7A. Now replaced with renumbered 4V. • Clarification of pro forma table requirements such the service charges lines now include inputs for 'Raw water distribution', 'Water treatment, and 'Treated water distribution'. • Employment costs removed, new lines for TMA and lane rental.	Y	Y
4O	Tables re-ordered	• Former requirement now in table 7B. Now replaced with renumbered 4W. • Employment costs removed, new lines for TMA and lane rental.	Y	Y
4P	Tables re-ordered	Former requirement now in tables 5A, 6A, 6B. Now replaced with new requirement for granular information on non-s185 diversion costs.	Y	Y
4Q	Tables re-ordered	Former requirement now in table 7A.	n/a	n/a
4R	Tables re-ordered	Former requirement now in tables 7C and 8A.	n/a	n/a
4S	Tables re-ordered	Former requirement now in table 7D.	n/a	n/a
4T	Tables re-ordered	Former requirement now in table 8D.	n/a	n/a
4U	Tables re-ordered	Former requirement now in tables 4E and 7E.	n/a	n/a
4V	Tables re-ordered	Requirement now in tables 4N and 5B.	n/a	n/a
4W	Tables re-ordered	Requirement now in tables 4O and 8B.	n/a	n/a
5A	Tables re-ordered Updated requirements for 2020-25 price review period	Water resources information. Contains information formerly in table 4P.	Y	Y
5B	Tables re-ordered	Water resources information. Contains information formerly in table 4V.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
6A	Tables re-ordered Updated requirements for 2020-25 price review period	Water network plus information – raw water transport and water treatment. Contains information formerly in table 4P.	Y	Y
6B	Tables re-ordered Updated requirements for 2020-25 price review period	Water network plus information. Contains information formerly in table 4P.	Y	Y
6C	Tables re-ordered Updated requirements for 2020-25 price review period	Water network plus information. Contains information formerly in table 4Q.	Y	Y
6D	Tables re-ordered Updated requirements for 2020-25 price review period	Water network plus information – demand management. Contains information formerly in tables 4A and 4Q.	Y	Y
7A	Tables re-ordered	Wastewater network plus information. Contains information formerly in table 4N.	Y	Y
7B	Tables re-ordered	Wastewater network plus information. Contains information formerly in table 4O.	Y	Y
7C	Tables re-ordered	Wastewater network plus information. Contains information formerly in table 4R.	Y	Y
7D	Tables re-ordered Updated requirements for 2020-25 price review period	Wastewater network plus information. Contains information formerly in table 4S.	Y	Y

Table	Issue	Description of change	Table changes	Line definition changes
7E	Tables re-ordered Updated requirements for 2020-25 price review period	Wastewater network plus information. Contains information formerly in table 4U.	Y	Y
8A	Tables re-ordered	Bioresources information. Contains information formerly in table 4R.	Y	Y
8B	Tables re-ordered	Bioresources information. Contains information formerly in table 4W.	Y	Y
8C	Updated requirements for 2020-25 price review period	Bioresources – new information requirements.	Y	Y
8D	Tables re-ordered	Bioresources information. Contains information formerly in table 4T.	Y	Y
9A	Updated requirements for 2020-25 price review period	Innovation competition – new information requirements.	Y	Y
S1	No changes	n/a	N	N
S2	Additional requirements	New information requirements for per capita consumption and leakage.	Y	Y

A1.2 Changes to tables (RAG3) and line definitions (RAG4) following the consultation

Table	Issue	Description of change	Table changes	Line definition changes
1A	No changes	n/a	N	N
1B	No changes	n/a	N	N
1C	No changes	n/a	N	N
1D	Minor Corrections	Line 22 now refers to leases in general rather than finance leases - following changes to UKGAAP,	N	Y

1E	No changes	n/a	N	N
1F	Minor Corrections	Further clarification added to line definitions following feedback from companies. • Clarification that cost of debt to be used in gearing calculation is CPIH stripped. • Corrected line refs in sum calculations. • For C-MeX & D-MeX out/ (under) performance, clarification has been added on to the values to be reported from 2021 onwards. • Net dividend removed	N	Y
2A	Table restructured	Table modified in respect of principal user recharges which featured in many of the responses. The requirements now reflect the treatment of recharges within the retail and wholesale detailed tables.	Y	Y
2B	Minor corrections	Additional line added to capture 'other' base operating expenditure. Breakdown off capex between infra and non-infra has been removed to reduce burden and to ensure compatibility with detailed tables.	Y	Y
2C	Minor corrections	Minor changes to breakdown of depreciation. Inputs have been significantly reduced by removing the requirement to split all costs between customer types which is no longer considered necessary.	Y	Y
2D	No changes	n/a	N	N
2E	No changes	n/a	N	N
2F	Alignment with reconciliation model	Table has been completely revised as previous requirements are no longer needed due to a change in the way we set prices. The new table now more closely reflects the reconciliation model that we have for retail.	Y	Y
2G	Minor corrections	Clarification that the table should only be completed by companies operating in Wales.	N	Y
2H	Minor corrections	Clarification that the table should only be completed by companies operating in Wales.	N	Y
2I	No changes	n/a	N	N
2J	Minor corrections	Cross references updated.	N	Y
2K	Change in policy	Net infrastructure charges are now used instead of gross.	N	Y
2L	No changes	n/a	N	N

2M	Table truncated for simplification	The table now reflects the outputs that we would have from the reconciliation model so that data inputs are not duplicated between the APR and reconciliation process.	Y	Y
2N	Moved for assurance purposes and new table added	Former developer services table 2N now moved to section 4 as table 4Q as this is non-financial data. New table added for residential retail social tariffs information.	Y	Y
2O	No changes	n/a	N	N
3A	Requirements re-organised to reduce table size and complexity	Table now focuses on water common performance commitments at a high level	Y	Y
3B	Requirements re-organised to reduce table size and complexity	Table now focuses on wastewater common performance commitments at a high level	Y	Y
3C	Minor corrections	Complaints lines added to the table (in line with consultation line references) and the definition of the Annual customer satisfaction score for the customer services survey has been clarified.	Y	Y
3D	Significant change	We have amended the D-MeX table to improve clarity on what companies are required to report, including performance against each relevant Water UK metric in the quantitative component of D-MeX. We have also ensured the table is consistent with our recent decisions on D-MeX.	Y	Y
3E	Requirements re-organised to reduce table size and complexity	Table now focuses on non-financial performance commitments	Y	Y
3F	Requirements re-organised to reduce table size and complexity	Separate table showing detail behind the water common performance commitments.	Y	Y
3G	Requirements re-organised to reduce table size and complexity	Separate table showing detail behind the wastewater common performance commitments.	Y	Y
3H	Requirements re-organised to reduce table size and complexity	Separate table showing detail behind the outcome delivery incentive payments.	Y	Y
3I	Requirements re-organised to reduce table size and complexity	Separate table showing supplementary outcomes information.	Y	Y

4A	No changes	n/a	N	N
4B	No changes	n/a	N	N
4C	Alignment with reconciliation model	Table split to allow a better analysis of totex and its impact on the RCV.	Y	Y
4D	Requirements re-organised to reduce table size and complexity	Detail has been revised to ensure a logical fit with 4L and by incorporating atypical item analysis has meant that the former 4J has been deleted.	Y	Y
4E	Requirements re-organised to reduce table size and complexity	Detail has been revised to ensure a logical fit with 4M and by incorporating atypical item analysis has meant that the former 4K has been deleted.	Y	Y
4F	No changes	n/a	N	N
4G	No changes	n/a	N	N
4H	Requirements re-organised to reduce table size and complexity	• RORE analysis removed. • Adjusted dividend yield removed • Adjusted dividend cover removed	Y	Y
4I	No changes	n/a	N	N
4J	Requirements re-organised to reduce table size and complexity	Atypical information has now been incorporated within 4D and 4E and this table is now used to disaggregate tables 4L and 4M.	Y	Y
4K	Requirements re-organised to reduce table size and complexity	Atypical information has now been incorporated within 4D and 4E and this table is now used to disaggregate tables 4L and 4M.	Y	Y
4L	Table reconfigured	To maintain consistency with a totex approach and to allow for the possibility that some opex may be incurred in the year of delivery of a capital scheme we have inserted lines for this. Cumulative expenditure is now only required for leakage improvement expenditure.	Y	Y
4M	Table reconfigured	To maintain consistency with a totex approach and to allow for the possibility that some opex may be incurred in the year of delivery of a capital scheme we have inserted lines for this. Cumulative expenditure is now only required for around half of the expenditure types.	Y	Y
4N	Requirements re-organised to	Developer services analysis now included at a disaggregated level to reflect the 2019 price control.	Y	Y

	reduce table size and complexity			
4O	Requirements re-organised to reduce table size and complexity	Developer services analysis now included at a disaggregated level to reflect the 2019 price control.	Y	Y
4P	No changes	n/a	N	N
4Q	Moved for assurance purposes	Former developer services table 2N now moved to section 4 as this is non-financial data and so is now outside of the financial auditor's opinion as suggested in the responses.	Y	Y
4R	New table	New table which consolidates customer numbers data in a central point as supported by the consultation responses.	Y	Y
5A	Minor Corrections	Clarification that data inputs are Ml/d and not proportions. Reference to further guidance in RAG4, appendix 2 added. Additional line added to collect energy consumption for water resources	Y	Y
5B	Data removed for simplification	Depreciation and operating costs have been removed from the table. The usefulness of depreciation at this level has been questioned in the responses and we agree this can be removed.	Y	Y
6A	Table reconfigured	Additional columns added to reduce length of table. Additional lines added to collect Total length of raw water transport mains and energy consumption by raw water transport and water treatment. Clarification that companies should include water treatment works that have not been used in the year but have not been decommissioned.	Y	Y
6B	Table reconfigured	Mains and communication pipe lines moved to table 6C. Additional line added to collect energy consumption by treated water distribution. Additional guidance with examples added for lines 6B.12 to 6B.19.	Y	Y
6C	Table reconfigured	Mains and communication pipe lines moved to this table from table 6B. Properties and population data removed and consolidated in 4R. Mean Zonal compliance and Compliance risk index removed. Remaining line definitions for Water network plus have been expanded and clarified.	Y	Y
6D	Data removed for consolidation and simplification	Leakage expenditure data has been simplified and the detailed savings data removed which is a consequence of our approach for the 2019 price review.	Y	Y
7A	No changes	n/a	N	N

7B	No changes	n/a	N	N
7C	Minor corrections	Clarification added to pumping station definition and lengths of sewers/mains definition.	N	Y
7D	Minor corrections	Minor clarifications added to line definitions on lines 22-24. Calculation references corrected for lines 19 & 20.	N	Y
7E	Data removed for consolidation and simplification	Properties and population data removed and consolidated in 4R. Clarification added to No. of intermittent discharge sites and no. of monitors. Energy consumption lines added.	Y	Y
8A	Minor corrections	Definition for 8A.5 changed.	N	Y
8B	Data removed for simplification	Depreciation and operating costs have been removed from the table. The usefulness of depreciation at this level has been questioned in the responses and we agree this can be removed.	Y	Y
8C	Requirements added (in line with Bioresources RAGs workshop)	Table for energy changed to include additional line for unused energy and additional column for biomethane. Unit changed to MWh. New lines added for income from renewable energy subsidies. [liquors lines will be updated after publication of consultant report on 6th Nov]	Y	Y
8D	No changes	n/a	N	N
9A	Table reconfigured	Table changes in response to the requests for more projects to be added and for cumulative spend and variances to be included. 'Funding returned' section removed from table as companies will not have the information available to complete this.	Y	Y
S1	No changes	n/a	N	N
S2	Minor corrections	Definitions altered to correctly refer to columns. Definitions updated to refer to residential and business.	Y	N

A2 Changes to RAGs 1, 2, 3, 4

A2.1 Changes to text proposed in our consultation

RAG	Issue	Description	Paragraph affected
RAG 1	New APR structure	The APR will now be split into 9 sections which follow broadly the structure used in the PR19 business plans.	1.1.2
RAG 1	Remove current cost accounting	The current cost accounting disclosures are no longer required.	
RAG 1	New price controls	Our PR19 final determination introduced separate binding controls for water resources and bioresources.	3.1.2
RAG 1	New guidance for; • grants & contributions, • leases, • Direct procurement for customers (DPC).	We have clarified our guidance on grants and contributions and have departed from UKGAAP for leases and DPC for regulatory reporting purposes.	4.5 4.7 4.8
RAG 2	Borehole pumping	The diagram in appendix 2 has been corrected.	Appendix 2
RAG 2	References to price controls, cross references to tables, and references to notes	• Updated cross references to price controls including new controls • Cross references to APR tables removed • References to notes 3 and 4 removed	2.1, 2.4, 2.12, 2.15, 5.1 1.2, 2.4 2.4.1, 2.5.1
RAG 2	Updated guidance	• Text updated to acknowledge that developers may deal with wholesalers directly rather than choose to use a retailer. • Clarification text regarding the treatment of price control units versus upstream services. • Cost definition removed. • Customer numbers definition updated.	2.9 4.1 5.1
RAG 3	Pro forma tables for the submission of data	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	2.1.4

RAG	Issue	Description	Paragraph affected
		included as part of the APR but must still be prepared in accordance with these RAGs and submitted to Ofwat.	
RAG 3	New disclosures required	• 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	3.1.1
RAG 3	Clarification on existing disclosures required	We propose a footnote for the statement on sufficiency of financial resources and facilities stating 'If, as we anticipate, we modify the ring-fencing provisions in companies' licences, the statement on sufficiency of non-financial resources and statement of sufficiency of financial resources and facilities will become one document referred to as the Ring-fencing Certificate.' Guidance updated.	3.1.1 3.9 3.10
RAG 3	Amended disclosures	Long term viability statement (LTVS) section updated to reflect IN 19/07 Expectations for companies in issuing long term viability statements.	3.13
RAG3	Amended narrative disclosures	• Include a narrative around any adjustments for FV gains / losses subject to tax in the current tax reconciliation • The current tax requirement has been split to make clear the separate disclosure required regarding both the difference from corporation tax calculated at the standard rate and differences from the amounts assumed in price limit calculations.	4.5 4.6
RAG3	New narrative disclosures	New narrative disclosures are required for; • Interest • Wastewater volumes • Narrative on costs	4.7 4.10 4.11 4.12 4.13

RAG	Issue	Description	Paragraph affected
		• Supply-demand balance and metering • Analysis of debt • New common performance measures • Board statement on accuracy and completeness of data and information • Small company access to finance, new measures and customer-focused summary.	4.14 4.15 5.1.4-5.1.5 Chapter 5
RAG 3	Pre-existing Narrative disclosures on performance	Pre-existing narrative requirements that were in RAG 4 have been moved to RAG 3. This is to ensure consistency of commentary/disclosure requirements in RAG 3 rather than RAG 4.	4.8 4.11 4.13 4.14 4.16 4.17 4.18
RAG 4	Income from diversions activity	Diversion income moved inside the price control (third party services) so that there is alignment between the final determination and the APRs over 2020-25.	Appendix 1
RAG 4	References to price review and cross references to tables	References removed as no longer applicable	Chapter 2
RAG 4	Sludge treatment	"Renewable energy generated and exported or used on site." added to end boundary point.	Chapter 2
RAG 4	Sludge disposal text simplified	Delete 'If incineration of completely treated sludge takes place, then this should be included in sludge disposal.'	Chapter 2
RAG 4	Household and non-household premises	Text updated for recent developments.	Chapter 3

A2.2 Further changes to text made following the consultation

RAG	Issue	Description	Paragraph affected
RAG 2	One response noted that paragraph 2.9 was confusing.	We note that paragraph needs updating to reflect the business retail exit for companies in England and to recognise that developers primarily bypass retailers for developer services and instead contact the wholesaler directly.	2.9
RAG 3	Website publications of the APR	We have clarified our expectations and linked in more carefully our requirements regarding table 4B, 4L and 4M and of website formats.	2.1-2.2
RAG 3	Ring fencing certificate	Footnote deleted.	3.1.1
RAG 3	Innovation competition	New requirement to disclose the cash balance relating to the innovation competition.	3.16.3
RAG 3	Outcomes	Narrative requirement slightly reworded as suggested in the responses.	4.1
RAG 3	Retail	Text updated to reflect new price control.	4.3
RAG 3	Wholesale water revenues	Requirement to provide a narrative regarding any penalty allocation between price controls added as set out in our reconciliation rulebook publication.	4.4.4
RAG 3	Wastewater volumes	Requirement deleted as superseded by new table structure. Subsequent paragraphs renumbered.	4.9
RAG 3	Population	Reference updated to table 4R.	4.10.3 4.10.10
RAG 3	Internal interconnectors	Reference updated to table 6C.	4.11.2
RAG 3	Leakage	Reference updated to table 6B.	4.11.3
RAG 3	Smart metering	Reference updated to table 6D.	4.11.4 4.11.5
RAG 3	Board statement	Reference corrected.	4.14.3 4.14.4
RAG 3	Business retail	Requirement deleted as all English companies have exited that market. Subsequent paragraphs renumbered.	4.15.1

RAG	Issue	Description	Paragraph affected
RAG 3	Social tariffs	Requirement added to provide a narrative on social tariff availability to accompany the new table 2N.	4.16.1
RAG 4	Household and non-household premises	Reference to average cost to serve for 2015-20 removed as no longer relevant.	Chapter 3
RAG 4	Major projects	Proposed definition has been added to RAG 4.	Chapter 6

A3 Further email question on developer services

From: Ofwat P and O

Sent: 07 October 2020 17:12

Subject: RAG consultation 2020-21 - growth expenditure lines 4L/4M

Good afternoon,

As part of the RAG consultation for the reporting year 2020-21, we received numerous comments on our proposal for new growth expenditure lines in tables 4L and 4M. We are grateful for all the comments received.

We would like to give companies early sight of our final proposal, ahead of the publication of the RAG document. Below the revised growth expenditure lines (note the definitions apply to both the capex and opex line):

- We are proposing to rename the block 'developer services', moving the lines 'growth at sewage treatment works' and 'reducing sewer flooding risk' to the enhancement section in table 4M.
- Compared to our consultation proposal, our final proposal removes 'other on-site' and 'other-off site' expenditure lines following comments that it is not clear which costs should be included in these lines.
- Further, we received comments on the clarification of the allocation of 'boundary connection' works (ie the cost of connecting a new property to the existing network), and are proposing this is captured in the 'requisition mains' and 'new connections and requisition sewers' lines. Although a company has pointed out the different nature of the activity and contestability of the work compared to new connection or new requisition work, we suggest a separate line would not be proportionate compared to the materiality of the expenditure.
- Finally, we propose a slightly reworded definition of 'infrastructure network reinforcement'.

We would invite any comments by COP Friday 9th October.

Table 4L – Developer services (wholesale water)		Comments
New connections	Expenditure related to the connection of a single new property (including the cost of a meter, communication pipe and boundary stop tap valve). Expenditure reported in this line should be the same categories of expenditure that was used to calculate connection charges for English companies.	
Requisition mains	Expenditure related to the provision of new requisition mains (eg the cost of work to lay new mains on-site and to connect to the existing network in the immediate vicinity of the development). Expenditure reported in this line should be the same categories of expenditure that was used to calculate requisition charges for English companies.	
Infrastructure network reinforcement	Expenditure related to the provision or upgrading of water infrastructure and non-infrastructure assets to provide for new customers with no net deterioration of existing levels of service (the expenditure relates mainly to network reinforcement works in the existing network, but can include expenditure to extend the existing network to the nearest practicable point where the connection to the network has, or will be, made). Expenditure reported in this line should be the same categories of expenditure that was used to calculate infrastructure charges for English companies.	

Table 4M – Developer services (wholesale wastewater)		Comments
New connections and requisition sewers	Expenditure related to the connection of new properties to the existing sewer network in the immediate vicinity of the development (eg cost of laying lateral drains and new requisition sewers). Expenditure reported in this line should be the same categories of expenditure that was used to calculate a water or sewerage undertaker's receipts for on-site work for English companies.	
Infrastructure network reinforcement	Expenditure related to the provision or upgrading of new wastewater infrastructure and non-infrastructure assets to provide for new customers with no net deterioration of existing levels of service (the expenditure relates mainly to network reinforcement works in the existing network, but can include expenditure to extend the existing network to the nearest practicable point where the connection to the network has, or will be, made). Expenditure reported in this line should be the same categories of expenditure that was used to calculate a water or sewerage undertaker's infrastructure charges for English companies.	

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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