



'Cabot' Created by Bex Glover

Ofwat
Centre City Tower
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By email: [REDACTED]

5th July 2021

Dear Ofwat,

Consultation on regulatory reporting for the 2021-22 reporting year

Thank you for the opportunity to comment on the above consultation.

We continue to support the provision of the Annual Performance Report (APR); we view the majority of the reporting requirements as complementary to other work we do to inform our customers and stakeholders about our operational and financial performance and recognise the importance of some of the data to Ofwat for its regulation of the industry. However, the consultation fails to recognise that a balance needs to be struck between the cost and burden that companies incur through regulatory reporting to Ofwat, and clear communications on performance for customers and stakeholders. There are no proposals within this consultation to reduce any of the APR reporting requirements, the regulatory burden instead continues to increase and this is affecting the focus of the industry on delivery for customers. As an example we have recently had a new information request on customer charges, reflecting the proposed disclosures that were subsequently withdrawn from the APR future reporting requirements following last year's 2020/21 regulatory reporting consultation and the feedback given to Ofwat on the consequent regulatory burden.

We question whether such an increasing regulatory burden (as per the entire APR reporting requirements considered in the round, together with ad hoc requests) is all needed in order for a regulator to understand the progress that is being made in improving the industry's performance and in meeting long-term aspirations. It is not just regulatory reporting, but new requirements such as publication of customer research that are included in the separate customer code consultation. We have mentioned in previous consultation responses our concerns that Ofwat is moving away from the independent findings of the David Gray review in 2011 about the regulatory burden and focus of the industry. If current trends continue a similar review of the water sector will be required, which could reach similar conclusions.

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At the time of this submission, we have not yet completed and submitted our APR for 2020/21. We note that as of 1 July (two weeks before the 2020/21 APR submission deadline) the 2020/21 query process is still ongoing. We would be grateful if the 2021/22 RAGs and proforma tables reflected all changes identified as part of the 2020/21 APR query process. From our reading of the consultation documents, it appears as though this has not yet happened. For example, in the query below Ofwat agree to amend column 3 for 3F.4:

| Company | Seq no | Table/ RAG | Line/Para | Query | Date | Log | OFWAT response | | | | | | | | | | | | | | | |
|--------------|------------------------------|--|-----------|---|------------|-----|--|------|-------|----------|------|--------------------------|------------------|------|---------------------------|------------------|------|---------------|------------------|------|------------------------------|--|
| Northumbrian | 1 | 3F | 1-4 | APR Table 3F is populated to provide underlying calculations for water performance commitments, in that it converts actual performance to a normalised version. To do this it requires a suitable standardising value in column 3 – in the case of main repairs that value is mains length, and for Per capita consumption it is population. RAG 4.09 guidance on page 45/46 indicates the sources of data for Pro Forma table 3F. Specifically it indicates that 3F.1 – 3 in relation to mains repairs should you the sum of line 6B.5 – 8, and PCC is from 6C.13. However, we believe that these are the incorrect data tables and lines to standardise the data. Mains repairs (3F.1-3) APR table entries 6B.5 – 6B.8 do not refer to the length of mains. It refers to volume of water delivered, which is not the conversion metric for these measures. We believe that the lines 3F.1 – 3 should refer to table 6C.1 or 6C.5 – 8 which refers to the length of the water mains network. Per capita consumption (3F.4) RAG 4.09 indicates table 6C.13 should be used to convert the data. However, 6C.13 refers to the total length of potable mains laid or structurally refurbished between 1881 and 1900. We believe the conversion data would come from table 4R.26, resident population. We would appreciate if this could be clarified to ensure that we are correctly reporting data. | 22/03/2021 | 28 | <p>Mains repairs We agree and the latest table definition guidelines were amended to refer to 6C.1.</p> <p>PCC The conversion data to be used in 3F.4 column 3 should be the 'Total household population served for water excluding businesses' rather than resident population from 4R.26 which includes businesses. This is consistent with the definition set out in the PR19 Outcomes performance commitment appendices.</p> <p>The table definition guidelines should therefore read:</p> <table border="1"> <thead> <tr> <th>Line</th> <th>Title</th> <th>Column 3</th> </tr> </thead> <tbody> <tr> <td>3F.1</td> <td>Mains repairs - Reactive</td> <td>Copied from 3F.3</td> </tr> <tr> <td>3F.2</td> <td>Mains repairs - Proactive</td> <td>Copied from 3F.3</td> </tr> <tr> <td>3F.3</td> <td>Mains repairs</td> <td>Copied from 6C.1</td> </tr> <tr> <td>3F.4</td> <td>Per capita consumption (PCC)</td> <td>Copied from 4R.26 for water Total household population served for water excluding businesses</td> </tr> </tbody> </table> | Line | Title | Column 3 | 3F.1 | Mains repairs - Reactive | Copied from 3F.3 | 3F.2 | Mains repairs - Proactive | Copied from 3F.3 | 3F.3 | Mains repairs | Copied from 6C.1 | 3F.4 | Per capita consumption (PCC) | Copied from 4R.26 for water Total household population served for water excluding businesses |
| Line | Title | Column 3 | | | | | | | | | | | | | | | | | | | | |
| 3F.1 | Mains repairs - Reactive | Copied from 3F.3 | | | | | | | | | | | | | | | | | | | | |
| 3F.2 | Mains repairs - Proactive | Copied from 3F.3 | | | | | | | | | | | | | | | | | | | | |
| 3F.3 | Mains repairs | Copied from 6C.1 | | | | | | | | | | | | | | | | | | | | |
| 3F.4 | Per capita consumption (PCC) | Copied from 4R.26 for water Total household population served for water excluding businesses | | | | | | | | | | | | | | | | | | | | |

However RAG 4.10 published as part of the consultation simply restates the now outdated line definition from 4.09 as it still refers to a copied cell from 4R.26 and the proforma also indicated the cell is linked to another cell:

RAG 4.10 – Guideline for the table definitions in the annual performance report

Pro forma 3F: Underlying calculations for common performance commitments - water and retail

| Line | Title | Column 3 | Column 4 | Column 5 |
|------|------------------------------|-----------------------------|--|---|
| 3F.1 | Mains repairs - Reactive | Copied from 3F.3 | The total number of reactive mains repairs carried out in 2020-21. | (Column 4 divided by column 3) multiplied by 1000 |
| 3F.2 | Mains repairs - Proactive | Copied from 3F.3 | The total number of proactive mains repairs carried out in 2020-21. | (Column 4 divided by column 3) multiplied by 1000 |
| 3F.3 | Mains repairs | Copied from 6C.1 | Sum of 3F.1 and 3F.2 | (Column 4 divided by column 3) multiplied by 1000 |
| 3F.4 | Per capita consumption (PCC) | Copied from 4R.26 for water | The sum of post MLE measured and post MLE unmeasured household consumption in 2020-21 in ML per day. | (Column 4 divided by column 3) multiplied by 1000 |

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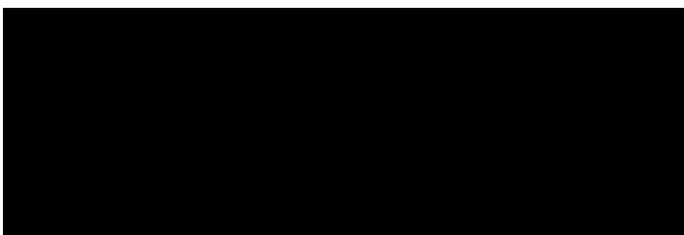
| Underlying calculations for common performance commitments - water and retail | | | | | | |
|---|---------------------------|------------------------------|------------------------------------|---|--|-----------------|
| | 1 | 2 | 3 | 4 | 5 | |
| | Unit | Standardising data indicator | Standardising data numerical value | Performance level - Actual (current reporting year) | Performance level - Calculated (i.e. standardised) | RAG 4 reference |
| Performance commitments set in standardised units - Water | | | | | | |
| Mains repairs - Reactive | Mains repairs per 1000 km | Mains length in km | C | I | C | 3F.1 |
| Mains repairs - Proactive | Mains repairs per 1000 km | Mains length in km | C | I | C | 3F.2 |
| Mains repairs | Mains repairs per 1000 km | Mains length in km | C | C | C | 3F.3 |
| Per capita consumption (PCC) | lpd | Population | C | I | C | 3F.4 |

We would therefore expect the final RAGs to reflect the changes Ofwat agree to as part of the 2020/21 query process.

Given the increasing burden of regulation, and the reporting complexity evidenced by the extensive query process now necessary, we believe that a moratorium is required on new regulatory reporting requirements not set out in determinations. This is required until a full impact assessment is produced that justifies the burden of reporting and ad hoc information requests (as being targeted and proportionate), with specific plans for its reduction, is prepared and consulted on by Ofwat. We think this is necessary to demonstrate the public interest given the level of data reporting required now far exceeds the volume at the time of the Gray review in 2011.

Finally, we have carefully considered the changes proposed and our detailed responses to the consultation questions can be found overleaf. In the meantime, please do not hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours faithfully,



Alex Smethurst
Regulatory Strategy and Programme Manager

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Q1. What are your views on the proposed changes to the APR tables in A1?

We disagree with the additional burden of collecting cost data on leakage through the APR and specifically through new table 6E, which in our view is not a proportionate requirement. We recognise that the CMA identified a need to gather more detailed data on the efficient costs of leakage prevention, detection and reduction. But the CMA also found that there were a range of different company positions and strategies on leakage, which required individual consideration. We believe that any consideration of additional reporting beyond the 2020/21 requirements should be considered first through PR24 consultations and dialogue, in particular working groups on cost assessment, and then included in PR24 plans and submissions. As currently set out in this consultation, we believe the reporting fails to recognise the full findings of the CMA as costs to volumes would not yield useful information from our perspective, beyond total cost of activities and total volumes. The submissions of more granular activity to the CMA reached similar conclusions in our case. The data is unlikely to ever be consistent because company networks and leakage approaches are not consistent.

We have fewer concerns about the new table 6F, as this is a simple expansion of existing enhancement reporting and should be readily available for supply-side schemes. It is less clear how the table can include demand-side improvements, both leakage and metering therefore, which are covered elsewhere and where volumes cannot be measured in the same way because demand side is a mix of baseline and optional impacts that vary with the demand characteristics for the year, such as weather. Leakage is excluded, and logically metering should be, but it will be simpler therefore to only consider supply schemes.

In any case, we do not believe the need for this increase in regulatory burden has been justified in the consultation, given the overall context of increasing reporting requirements throughout. We believe that a moratorium is required on new regulatory reporting requirements not set out in determinations, until a full impact assessment that justifies the burden of reporting with specific plans for its reduction is prepared and consulted on by Ofwat.

| Table | Line | Issue |
|-------|-----------|---|
| 4A | All lines | <p>Whilst we note no changes have been proposed, we would like to again (as we did in our response to the consultation on regulatory reporting for the 2020/21 reporting year) question the need for this table.</p> <p>The increased granularity of reporting requested in this table is similar to that which companies provide within the annual bulk supplies register submission. We do not believe the requirement for including this information has been justified. It represents duplication and an unwarranted increase in the regulatory burden as it is already available to Ofwat.</p> |



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| | | |
|----|--------------|---|
| | | If it is included in future years, accurate reporting would be aided by further guidance as to how costs should be calculated, to ensure all companies are reporting using a single, standardised methodology. |
| 4B | All lines | The burden of this reporting continues to increase and we question whether further changes are proportionate. This information could be collected once, at a price review as in the past, without detriment to regulatory processes. However, the information is readily available and therefore has a low burden but is only acceptable if other aspects of the increase in reporting burden are reconsidered and reduced where there is little value in the experience of 2020/21 reporting. |
| 4R | 17-19 and 22 | We would urge Ofwat to review the logical consistency of these lines and add in “grey” cell validation to ensure the following is considered: <ul style="list-style-type: none"> • Under the “unmeasured” columns it asks for meter information • Under the “measured” columns it asks for information for properties with no meters |
| 6E | All lines | Our comments above notwithstanding, if this table is deemed necessary, then in addition to the common areas, we also suggest the need to split out direct leakage activities and costs (such as active leakage control, pressure management, proactive and reactive repairs) from indirect activities (such as mains replacement and metering). By indirect costs we mean costs where part of the benefit may well be leakage but they are also driven by other needs i.e. water quality, water efficiency, long-term asset health etc., and more fundamentally, these indirect costs may be significantly different between companies due to historic investment and current strategy. If the indirect costs are listed alongside the direct leakage costs (with no disaggregation) this may potentially skew the relevancy of the dataset and impair the ability to determine any relationship between costs and benefits. Finally, we would be grateful if Ofwat could clarify whether this table requires forecast data as part of each annual submission? |
| 6F | All lines | If this table is deemed necessary, we also would be grateful if Ofwat could clarify whether this table requires forecast data as part of each annual submission, as it includes years to 24/25? On page 17 of the consultation document it states: “This table should include outturn costs and benefits for non-leakage improvements delivered during the period and be updated on an annual basis.” Our interpretation of this line is that forecasting would not be required and that future years would be left blank but would welcome your confirmation on this point. |



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Q2. Do you have any other comments or views on the proposal for mandatory standardised reporting for operational GHG emissions, beyond those included in responses to last year's RAGs consultation? And Q3. Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?

We have no objections to the proposal to introduce standardised reporting requirements for operational emissions for the 2021/22 reporting year. We believe however it should remain voluntary until there is a full, prioritised review of the regulatory burden and a regulatory impact assessment on the carbon reporting requirements. Mandatory reporting should only be considered when pertinent to the regulatory requirements of monitoring the PR19 final determination, or in relation to a government reporting requirement specific to the water sector that Ofwat has been asked to complete, or where an impact assessment has shown the benefits outweigh the additional reporting costs, or how these additional costs will be offset through other reductions in the regulatory burden. If all companies in practice voluntarily complete the information in the standardised format, there is no issues, but also no need to make the reporting mandatory until the value of the data and reporting as been assessed. This cannot be the case currently as the voluntary reporting for 2020/21 has not been submitted.

We would suggest however that “table 2: operational emissions” as presented on pages 12 and 13 of the consultation document be revised. There are two potential options to consider, either:

1. Replace “table 2: operational emissions” with a direct copy of the CAW workbook “OFWAT summary” and “Additional information”. This option has the advantage that any combination of gross/net and location/market based is covered and water companies have considerable expertise in reporting, using the established CAW methodology. A disadvantage is that for wastewater companies the v15 CAW does not split the component GHGs between treated water and wastewater, so this will be complicated to split and may therefore need to be left combined; or
2. Revise “table 2: operational emissions” by being more explicit:
 - a. For Gross operational emission (Scope 1,2 and 3) – this should specify location/market based
 - b. For ration values – this should specify net, market/location based.

We continue to disagree that the SWOT reporting requirement or framework adds any value; its potential benefits do not outweigh the potential costs and burden of reporting.

Q4. What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?

We note the proposal that companies voluntarily report their embedded emissions for the



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2021/22 reporting year. We recognise the need to work collaboratively with Ofwat and other regulators to create standardised GHG reporting requirements for operational and embedded emissions. Reporting on embedded emissions accounting will however be quite a challenge. We would ask for a working group to consider such challenges. However, we do not see a clear case that embedded carbon emissions should be a priority for reporting. If all sectors work towards net zero on operating scope 1,2 and 3 emissions, there should not be the need for embedded carbon reporting, unless there is a specific sector requirement from government as part of their net zero requirements.

Q5. Are there any particularly relevant frameworks or approaches for us and the industry to consider in relation to embedded emissions reporting and reductions? For example PAS2080?

No. We disagree that Ofwat should increase the reporting burden in this area and adding in frameworks increases that burden still further. We first need to establish the regulatory need for the information in terms of sector decision making. The Ofwat PR24 consultation appears to suggest that the sector should limit its focus on statutory obligations, which do not include net zero embedded carbon reporting as we explain under Q4.

Q6. What area/s of data or other information do you consider we should focus on for voluntary reporting? For example:

- Design, construction and/or maintenance activities
- Number and/or size of suppliers
- Project spend and/or value
- Inputs and/or materials
- Specific services
- Number of GHGs reported on by suppliers

We disagree that voluntary reporting should have a focus. We question why this is information needed, and whether any consideration has been given to the additional cost burden of collecting and analysing it?

Q7. Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?

We would suggest that business rates could best be allocated based on price review business unit revenues assumptions, as the best proxy for water cumulo rates (it is on an income and expenditure basis).

Q8.

- Does your company jointly own or operate assets with another company?
- Should guidance be included in this area?

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- **What specific points should the guidance cover?**

We are not sure what the purpose of this question and section of the consultation is. There are assets that are jointly operated, largely interconnectors, but ownership will always be clear or allocated (or reflected in RCV based on expenditure shares). We do not have shared ownership of assets, but in any case we are not clear why guidance is required as the consultation does not really set out what the issue or implication is. We understand Ofwat's desire for more transparency in this area but we would therefore like to see specific proposals before commenting in detail.