

May 2021

# Consultation on regulatory reporting for the 2021-22 reporting year

**Ofwat**

## About this document

This consultation concerns proposed changes to the reporting requirements for the Annual Performance Report (APR). The reporting requirements for the APR are contained in our [regulatory accounting guidelines](#) (RAGs). They set out the information companies must collect and publish, and ensures that data is published consistently across the sector. This promotes transparency and allows all stakeholders to understand and challenge companies.

We intend to publish the revised RAGs in late 2021. These changes will be effective for the 2021-22 reporting year.

This document covers the following areas:

1. Proposals for our reporting requirements for 2021-22; and,
2. Potential new requirements for future reporting.

We invite comments from all stakeholders.

## Responding to this consultation

We would welcome comments on this document. **For responses in respect of question 1 please use the template provided in A2.** Please email your response to [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk).

The closing date for this consultation is 8 July 2021. If you wish to discuss any aspect of this consultation, please contact Rob Lee on 0121 644 7776 or by email at [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk).

We will publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk), unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

## Contents

1. Introduction	4
2. Consultation questions	6
3. Our proposals for 2021-22	7
4. Green economic recovery	8
5. Greenhouse gas emissions reporting	11
6. Competition and Markets Authority referrals	15
7. Analysis of debt (table 4B)	19
8. Bioresources	20
9. Covid-19 and the business retail market	21
10. Business rates	22
11. Jointly owned assets	23
12. Small company reporting	24
A1 Proposed regulatory accounting guidelines	25
A2 Template for responses to question 1	26
A3 Summary of changes to text of RAGs 3-4	27
A4 Proposed changes to tables (RAG3) and definitions (RAG4)	28

## 1. Introduction

- 1.1 One of the three goals set out in our [strategy](#) is to transform water company performance. A key part of achieving this is through the publication of information about how the companies are performing. 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. We will use this insight to understand the progress that is being made in improving the industry's performance and in meeting long-term aspirations. This insight will shape our policy priorities and focus areas, and allow us to evaluate our effectiveness.
- 1.2 We expect all monopoly companies<sup>1</sup> to decide how best to report their performance each year. But we also expect companies to publish some common information. This is to allow customers and other stakeholders to compare the performance of individual companies to the rest of the sector. The largest companies also publish their comparative information on the Discover Water website. Providing comparable information helps us, customers and other stakeholders challenge companies on performance and future targets.
- 1.3 We therefore require all companies to publish an APR and we set out specific mandatory requirements for the form and content of the information within it. We expect companies' APRs to be transparent about their performance and explain clearly, and in a balanced way, what is driving performance, and the steps they are taking to improve. This should cover all aspects of performance, including financial and operational performance.
- 1.4 The APR is one component of the regular engagement with each water company, allowing us to deepen our understanding of each company over time. It should help us spot risks to delivery for customers, helping us to take swift and targeted action where necessary.
- 1.5 The RAGs set out our expectations for the content and form of information in the APRs, including the treatment of particular items (for example, revenue and interest) where Ofwat disclosure and accounting requirements differ from those normally required under UK accounting standards and applicable legislation.

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<sup>1</sup> This includes the 17 large water and wastewater and water only companies and the 'new appointments and variations' (NAVs) who are limited companies providing a service to customers in an area which was previously provided by the incumbent monopoly provider.

- 1.6 The RAGs can change from time to time to reflect developments affecting the industry. We have typically updated the RAGs annually in time for companies to implement necessary data gathering and reporting changes ahead of annual reporting.
- 1.7 This consultation seeks stakeholders' views on proposed changes to the RAGs and highlights potential changes to take effect in future years.

### Table 1 Timeline

Date	
<b>13 May</b>	OFWAT publishes RAG consultation (8 week consultation period)
<b>8 July</b>	RAG consultation closes
<b>15 July</b>	Deadline for companies to publish annual performance report for year ended 31 March 2021.
<b>Late 2021</b>	Publish: <ul style="list-style-type: none"> <li>• Information notice,</li> <li>• summary of changes made to proposed RAGs; and,</li> <li>• RAG amendments for 2021-22 reporting year.</li> </ul>

## 2. Consultation questions

	Question
<b>Question 1</b>	What are your views on the proposed changes to the APR tables in A1? <sup>2</sup>
<b>Question 2</b>	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?
<b>Question 3</b>	Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?
<b>Question 4</b>	What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?
<b>Question 5</b>	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?
<b>Question 6</b>	<p>What area/s of data or other information do you consider we should focus on for voluntary reporting? For example:</p> <ul style="list-style-type: none"> <li>• Design, construction and/or maintenance activities</li> <li>• Number and/or size of suppliers</li> <li>• Project spend and/or value</li> <li>• Inputs and/or materials</li> <li>• Specific services</li> <li>• Number of GHGs reported on by suppliers</li> </ul>
<b>Question 7</b>	Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?
<b>Question 8</b>	<ul style="list-style-type: none"> <li>• Does your company jointly own or operate assets with another company?</li> <li>• Should guidance be included in this area?</li> <li>• What specific points should the guidance cover?</li> </ul>

<sup>2</sup> A2 provides a template to respond to this question.

## 3. Our proposals for 2021-22

### Summary

- 3.1 Our changes for 2021-22 fall broadly into 2 categories. Firstly we have made minor corrections and clarifications to update the 2020-21 requirements. Some of these have been identified internally and some have been brought to our attention by companies following the publication of the RAGs in November 2020.
- 3.2 Other changes have occurred in policy areas that were less well developed following the end of the 2019 price review. Teams within Ofwat have consulted in many areas, such as greenhouse gases and Bioresources to finalise the policy and reporting objectives for 2021-22 onwards. These changes are set out in chapters 4-12.

### Minor corrections and clarifications

- 3.3 Where we have made minor changes to the definitions and tables we have set these out, together with the reasoning, in appendices A3 and A4.

<b>Question 1</b>	What are your views on the proposed changes to the APR tables in A1?
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## 4. Green economic recovery

- 4.1 We will expect all companies delivering green economic recovery<sup>3</sup> schemes to provide an annual update on their progress. This annual report on green recovery should be published alongside the annual performance report as a stand-alone supporting appendix. We will provide further detail of the annual reporting requirements relating to the green recovery in the final decision documents.<sup>4</sup>
- 4.2 We will also require companies to provide updates and learning to support the PR24 business planning process and we will define these requirements further in the green recovery final decision documents.<sup>4</sup>
- 4.3 We expect companies to develop their own bespoke reporting commentary and summary tables to meet our requirements for reporting on green recovery. However, we describe below how companies should also account for green recovery related information within the existing annual performance reporting framework. We have identified three areas of overlap: cost reporting, non-cost item reporting and performance commitment reporting.

### Green economic recovery cost reporting

- 4.4 Expenditure delivering the green recovery programme should be reported, in addition to other relevant AMP7 expenditure, in the appropriate enhancement expenditure lines in tables 4L or 4M. Where an appropriate line does not exist, companies should define a new company specific line in which to record the expenditure. In addition, for each green recovery scheme the delivery expenditure should be recorded in table 4S or 4T. Companies should provide commentary to reference where expenditure recorded for each green recovery scheme in tables 4S and 4T has been included in the lines of tables 4L and 4M.
- 4.5 Tables 4S and 4T are dedicated to green recovery expenditure reporting and will enable us to track the expenditure associated with each green recovery scheme and the overall programme.
- 4.6 Since expenditure on green recovery schemes will be subject to a separate reconciliation, these costs should be removed from block A of table 4C and instead be

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<sup>3</sup> In the remainder of this section outside of titles we have abbreviated 'green economic recovery' to 'green recovery'.

<sup>4</sup> We will provide an initial view of reporting requirements in the draft decision documents we publish for consultation.

reported in a new table 4U. These costs should reconcile to those included in tables 4S and 4T.

## Green economic recovery non-cost item reporting

- 4.7 The impact of delivering the green recovery schemes on non-cost items should be included within the existing annual performance reporting lines. For example, the impact of replacing lead supply pipes should be included in table 6C and additional wastewater network storage volume delivered for WINEP schemes should be recorded in table 7D. In addition to reporting these non-cost items in the existing annual performance tables, companies delivering green recovery schemes should report the green recovery element separately in a bespoke table 10A. For example:

**If a company replaces 150 lead communication pipes for water quality under its PR19 programme and 200 under the green economic recovery programme:**

- 350 should be included in Table 6C, line 21, 'Number of lead communication pipes replaced for water quality'; and
- 200 should be included in Table 10A under a line created for 'Number of lead communication pipes replaced for water quality'.

**If a company installs 20,000 m3 of additional volume of network storage to reduce spill frequencies under the PR19 WINEP programme and 5,000 m3 under the green economic recovery programme:**

- 25,000 m3 should be included in Table 7D, line 25, 'Additional volume of network storage at CSOs etc to reduce spill frequency'; and
- 5,000 m3 should be included in Table 10A under a line created for 'Additional volume of network storage at CSOs etc to reduce spill frequency'.

- 4.8 The lines in Table 10A should clearly reference the table and line in the existing annual performance tables in which the green recovery data is included alongside the PR19 programme data. In the examples above these would be 6C.21 and 7D.25. We will ask companies delivering green recovery programmes to identify the reporting lines to include in table 10A before we publish our final decisions.

## Green economic recovery performance commitment reporting

- 4.9 We will adopt one of two approaches to performance commitments that are impacted by the green recovery schemes, ex-ante or ex-post adjustment.
- 4.10 Where we make an ex-ante adjustment to a performance commitment, companies should include the impact from delivering green recovery in annual performance reporting in table 3A or 3B and related tables as appropriate.
- 4.11 Where we are making an ex-post adjustment to a performance commitment, companies should exclude the impact from delivering green recovery from table 3A or 3B and related tables.
- 4.12 In both cases companies delivering green recovery schemes should report the green recovery impact on performance commitments separately in bespoke tables, 10B and 10C. We expect the companies to provide narrative commentary to explain any material deviation of the outturn green recovery impacts from forecast impacts, alongside any supporting calculations, within their annual report on green recovery<sup>5</sup>. We will ask companies delivering green recovery programmes to identify the reporting lines to include in tables 10B and 10C before we publish our final decisions.

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<sup>5</sup> These reports should be referenced in the narrative commentary provided for the annual performance reports.

## 5. Greenhouse gas emissions reporting

- 5.1 Standardised, transparent and accessible data on both operational and embedded GHG emissions will allow for greater scrutiny from both Ofwat and other stakeholders. As well as this, it will help to inform investment decisions in the run-up to PR24 and the setting of targets to drive and monitor progress in emissions reductions. For embedded emissions, reporting is also a first step in enabling the industry to develop strategies for embedded carbon reduction.
- 5.2 In the [responses document for the 2020-21 RAGs reporting consultation](#) (“the responses document”), we outlined our intention to introduce mandatory standardised reporting for both operational and embedded greenhouse gas (GHG) emissions over the coming reporting years, in line with table 1 below. This remains our intention.

**Table 1: Emissions reporting**

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

- 5.3 Responses to this consultation will inform our final decision on introducing reporting requirements for 2021-22.
- 5.4 We intend to publish an Information Notice with any further reporting guidance and updates later this year. This Information Notice will be informed by responses to this consultation, 2020-21 APR submissions and any later engagement about our proposals that occur after this consultation closes.

### Operational greenhouse gas emissions

- 5.5 We propose to introduce a **mandatory standardised reporting requirement for operational emissions for the 2021-22 reporting year**.
- 5.6 On 1 April 2021, we published an [Information Notice](#) (“the Notice”) setting out further guidance to assist companies in reporting their operational GHG emissions. As part of the Notice we included a table which detailed what companies should report on. In particular, we asked for companies to:

- report on their gross and net GHGs (in tCO<sub>2</sub>e) for water and wastewater;
- break down their reporting by scope and the three main GHGs CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O (for scope 1 and 3); and
- present data on intensity of emissions (Kg per ML), and intensity per £m of turnover.

5.7 Within this table, we also requested data for the emission reductions brought about by the purchase and generation of renewable energy.

5.8 As per the guidance already published on 1 April 2021, **we propose that all companies complete this table as set out in the Notice, and replicated here at table 2, for the 2021-22 reporting year. This table should be accompanied by a ‘Strengths’, ‘Weakness’, ‘Opportunities’, ‘Threats’ (SWOT) based commentary, also outlined in the Notice.** 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. To further improve table 2, we are also considering whether to include an additional line or lines in the reporting table for companies to complete, which will focus on further offsets information and/or lines enabling a further breakdown of Scope 3 emissions.

**Table 2: Operational emissions**

Focus	Water (tCO <sub>2</sub> e)	Wastewater (tCO <sub>2</sub> e)
<b>Scope 1 emissions (for example):</b>		
Direct emissions from burning of fossil fuels		
Process and fugitive emissions		
Transport: Company owned or leased vehicles		
Total scope one emissions		
Total scope one emissions by GHG type	CO <sub>2</sub>	CO <sub>2</sub>
	CH <sub>4</sub>	CH <sub>4</sub>
	N <sub>2</sub> O	N <sub>2</sub> O

<b>Scope 2 emissions</b>		
Grid electricity used by company (including Combined Heat and Power (CHP) electricity purchased). Location-based method		

<b>Scope 3 emissions (for example):</b>		
Business travel on public transport and private vehicles used for company business		
Outsourced activities		
Electricity transmission and distribution		
Total scope three emissions		
Total scope three emissions by GHG type	CO <sub>2</sub>	CO <sub>2</sub>
	CH <sub>4</sub>	CH <sub>4</sub>
	N <sub>2</sub> O	N <sub>2</sub> O

<b>Gross operational emissions (Scope 1, 2 and 3)</b>		
By area (water and/or wastewater)		
Overall total		

Exported renewables (generated onsite and exported)	
Emissions reduction from purchased renewable energy (market-based carbon accounting benefit)	
<b>Total net operational emissions</b>	

<b>Ratio values</b>		
Annual operational GHG intensity ratio values	kgCO <sub>2</sub> e/MI	kgCO <sub>2</sub> e/MI
GHG emissions in relation to turnover	tCO <sub>2</sub> e per £m turnover	

5.9 Responses to this consultation will inform our final decision on whether to introduce this mandatory reporting requirement for 2021-22. For the Information Notice that we intend to publish later in the year, we will also take account of and be informed by the voluntary round of reporting of operational emissions in the 2020-21 APRs when these are received. We welcome feedback from companies about their experience in completing the voluntary round of reporting for 2020-21.

5.10 We intend that this reporting requirement remain in place in this format in each reporting year going forwards subject to any updates that may be required, for example in relation to any relevant future amendments to the Carbon Accounting Workbook (CAW). Any future amendments deemed necessary may be subject to further consultation as required.

## Consultation questions

<b>Question 2</b>	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?
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<b>Question 3</b>	Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?
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## Embedded greenhouse gas emissions

- 5.11 Our current intentions for the timeframes for reporting of embedded emissions remain the same as set out in the responses document and table 1 above. **Therefore, for the 2021-22 reporting year, we propose that companies voluntarily report their embedded emissions.**
- 5.12 Responses to this consultation will inform our final decision on whether to introduce this voluntary reporting requirement for 2021-22. Any voluntary submissions received as part of the 2020-21 APRs, as well as responses to this consultation, will inform the Information Notice that we intend to publish later in the year. Depending on all the information we receive, this Information Notice may include a table on embedded emissions for companies to report on voluntarily for 2021-22 in a more standardised way.
- 5.13 We would like to engage and work with industry on this matter, for example through the existing industry working groups or possible future workshops in this area. We welcome ongoing dialogue with the industry on how Ofwat can best support and work with the industry in this area, and this too will help to inform future standardised reporting requirements.

## Consultation questions

- 5.14 To inform the development of a format that can be used for voluntary reporting for 2021-22 it would be helpful to understand the following;

<b>Question 4</b>	What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?
<b>Question 5</b>	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?
<b>Question 6</b>	<p>What area/s of data or other information do you consider we should focus on for voluntary reporting? For example:</p> <ul style="list-style-type: none"> <li>• Design, construction and/or maintenance activities</li> <li>• Number and/or size of suppliers</li> <li>• Project spend and/or value</li> <li>• Inputs and/or materials</li> <li>• Specific services</li> <li>• Number of GHGs reported on by suppliers</li> </ul>

## 6. Competition and Markets Authority referrals

6.1 In December 2019 we published our final determinations for the period 2020–25. Four companies out of 17 decided to appeal to the Competition and Markets Authority (CMA): Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water. The CMA made its redeterminations in March 2021 which included some recommendations about our reporting requirements.

### P removal

6.2 In its redetermination of the PR19 price control the CMA recommended that we further develop our ex-post reporting of enhancement investment, specifically that relating to phosphorus removal schemes.<sup>[1]</sup> The CMA considered that we should compare company forecasts, our allowances and delivered costs and explore the differences in these figures. The CMA considered that this would improve our information base for future price controls and provides a reputational incentive to strengthen accountability.

6.3 We are exploring the merits of this approach and are proposing to capture ex-post investment for phosphorus removal schemes in pro forma 7F. We are considering which other areas of investment would benefit from this approach and welcome companies' views on this.

6.4 We require companies to provide scheme level cost and cost drivers as defined in table 7F. We welcome companies' views whether there are any other material quantitative cost drivers that should be collected over those listed.

6.5 We would expect companies to provide, where appropriate, further information to assist our evaluation of the data, such as table commentary. This may be related to other material factors, for example: impact of the legislative driver; the nature of the existing works, ie filter or activated sludge; or where a single scheme addresses issues at multiple sites, for example through transferring flows from multiple sites.

### Leakage

6.6 The volume of water unaccounted for, and therefore reported as lost through leakage, is a key area of concern for customers, companies and regulators. Leakage performance,

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<sup>[1]</sup> [Competition and Markets Authority. Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations Final report](#). 17th March 2020, p. 429.



and costs for its reduction, were areas of focus during both PR19 and the CMA redeterminations<sup>6</sup>. We used a top down unit cost approach to help us set efficient cost allowances. The CMA identified a clear need to gather more detailed data on the efficient costs of leakage prevention, detection, and reduction. It added a bottom-up approach to setting cost allowances, but noted that the companies set out very different information making comparisons between them difficult. We conclude that we need consistent, more granular information than we have been collecting to date.

- 6.7 Understanding costs and companies' leakage activities<sup>7</sup> will be important in setting the appropriate leakage performance levels at PR24 and for companies in developing 'best value' plans to ensure future drought resilience. Since the sector aims to reduce leakage by 50% by 2050 from 2017-18 levels leakage reduction will continue to be important over the long term.
- 6.8 We propose companies report the cost, leakage saved and scale of each activity (eg active leakage control, pressure management, proactive repair) they undertake to both maintain and reduce leakage. Our suggestion is to group activities in common areas, for example detection, repair and prevention. It would be necessary for any activity breakdown to include leakage savings which result from activities whose costs may be reported elsewhere, such as installing and replacing meters. We also consider it will be important to provide measures of current and cumulative scales of activity such as total number of supply pipes repaired, total meter penetration, or overall percentage of network under pressure management
- 6.9 We propose that companies provide supporting narrative to explain how they derive the savings from each activity. They should explain how the breakdown by activity reconciles with their leakage performance reported in table 3A, line 3 and the expenditure for maintaining and reducing leakage reported in table 6D, line 16. The breakdown by activity could duplicate leakage benefits, for example in both detection and repair.<sup>8</sup> However, such a breakdown will help us to understand the range of costs spent on common activities.

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<sup>6</sup> Ofwat, ['Delivering Water 2020: Our final methodology for the 2019 price review'](#), December 2017

<sup>7</sup> In this context we use activities to refer to the programmes of activities companies may undertake to manage and reduce leakage such as, active leakage control, new pressure management schemes, optimisation of pressure management, proactive repairs, reactive repairs etc.

<sup>8</sup> For a leakage saved benefit to be delivered a leak would need to be detected and subsequently repaired. The benefits of this would be attributed to both the detection and repair elements. For example, 5 MI/d of leakage saved benefit may be delivered through detection method A (3 MI/d) and detection method B (2MI/d) but repaired through repair activity A (5 MI/d). Overall 5MI/d of total leakage saved benefit has been delivered and the total cost would be the sum of costs associated with both detection methods and the repair activity.

6.10 Consistent reporting will be challenging due to differences between companies in, for example<sup>9</sup>:

- classifying leakage control as reactive or proactive (or detected/reported, or visible/detected);
- Using assumptions to estimate the leakage benefit delivered by each activity – especially identifying leakage prevented;
- separating costs and leakage benefit between maintaining and reducing leakage for activities that may do both; and
- assigning both costs and leakage benefit to activities that provide a long term benefit in multiple service areas, such as mains replacement that could benefit leakage, water quality, low pressure and supply interruption performance.

6.11 We know that the information we collect now will not be consistent across the industry. But to address the challenge laid down by the CMA we need to develop better data and explore what comparisons we can make in time for the next price review in 2024. At the very least we could use the new data to provide broad higher level comparisons through grouping activities by areas such as detection, repair and prevention.

6.12 We welcome proposals from stakeholders on the most effective approach for collecting consistent and comparable leakage information.. We also invite comments on the most effective ways of enabling wider access to this data to support developments in analysis and innovative approaches to addressing leakage. We plan to explore stakeholders' proposals through a workshop

6.13 We include in table 6E a potential format for the capture of outturn cost and leakage saved data by activity on an annual basis.

## **Water resources management plans (WRMPs)**

6.14 In order to monitor progress of delivering improvements to the supply-demand balance, we expect companies to complete and submit a 'WRMP delivery report' table 6F. This table should include outturn costs and benefits for non-leakage improvements delivered during the period and be updated on an annual basis.

6.15 This table captures data to support the narrative for water resources management plan investment referenced in RAG 3.13. This data develops our reporting of enhancement expenditure in this area, in an approach consistent with the CMA's recommendation relating to wastewater phosphorus removal schemes. Understanding costs and benefits

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<sup>9</sup> Note this is not intended to be an exhaustive list

of these supply-demand balance schemes will be important for companies in developing 'best value' plans to ensure future drought resilience.

## **Reporting for tables 6E, 6F and 7F**

6.16 We do not expect companies to include these tables as part of the published APR and so we will include these tables in the list in RAG3 paragraph 2.7 which removes the requirement for them to be included in the APR itself.

## 7. Analysis of debt (table 4B)

- 7.1 We are proposing a modest amount of additional data relative to the 2020-21 APR to help with financial monitoring and price review purposes. The main share of the additional burden will be one-off – i.e. most of the requested data does not change year-by-year.
- 7.2 By changing the format of the data request now we anticipate that this will avoid having to request a different format for the data at the 2024 price review.
- 7.3 We have removed 50 lines for each block of debt instrument as we believe that 150 will be sufficient.

## 8. Bioresources

- 8.1 Following on from our work to develop a standardised methodology for the treatment of sludge liquor costs, we have also identified power/energy accounting and allocation of overheads as areas of significant cost variation in bioresources<sup>10</sup>. We will shortly consult separately on alterations to the 2021-22 RAGs that are aimed at reducing this variation and therefore the accuracy and comparability of company reporting.

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<sup>10</sup> We are also examining the impact of overhead costs in our **developer services** and **cost assessment** work areas as part of our preparations for PR24. Any decisions we make on overheads accounting will be considered alongside the impact it will have on these areas.

## 9. Covid-19 and the business retail market

### Proposals to address liquidity challenges and increases in bad debt

- 9.1 We have previously confirmed that, in the event of a business retailer's unplanned exit from the business retail market, a wholesaler should be able to recover relevant un-invoiced revenues for services that the wholesaler has provided to that retailer, but which were not due for invoicing until after the point of retailer failure. This is referred to in [Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt – decision document](#) and [Questions raised in response to Ofwat's final decision published on 30 April 2020](#). Relevant un-invoiced amounts will be reconciled through the Revenue Forecasting Incentive (RFI) mechanism.
- 9.2 We will be consulting separately on the relevant licence changes and PR19 Reconciliation Rulebook changes and following this consultation we will make any changes that are needed.

## 10. Business rates

10.1 RAG2 currently states that allocation should be made on the basis of 'gross modern equivalent asset' or GMEAV. Some views have been expressed that whilst this is suitable for wastewater, for water a measure such as profits or returns would be more appropriate.

### Consultation question

<b>Question 7</b>	Should the guidance for business rates allocation for the water service be changed in RAG2? If so then what is the most suitable driver?
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## 11. Jointly owned assets

11.1 We are aware that there are some assets, such as reservoirs, which are jointly owned or jointly operated by water companies. The RAGs do not contain any specific guidance on how to present this information. It has been suggested that guidance should be included.

### Consultation question

<b>Question 8</b>	<ul style="list-style-type: none"><li>• Does your company jointly own or operate assets with another company?</li><li>• Should guidance be included in this area?</li><li>• What specific points should the guidance cover?</li></ul>
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## 12. Small company reporting

Under the [new appointments and variations](#) (NAV) framework, new entrants can enter the water sector to serve household and non-household customers instead of incumbent companies. There are currently eight such new appointees which have different reporting requirements to incumbent companies under the RAGs.

We [consulted](#) on the future monitoring and reporting approach for new appointees in February 2021 with a closing date of 26 April 2021. Informed by the feedback we receive to our February consultation, later this year we will separately consult on changes to the RAGs with respect to new appointees for the 2021-22 reporting year.

## A1 Proposed regulatory accounting guidelines

No changes are proposed to RAG 1.09, RAG 2.08, RAG 4 appendices 1-4 or RAG 5.07. The links below are for the proposed revised RAGs for the reporting year 2021-22:

[RAG 3.13 – Guideline for the format and disclosures for the annual performance report](#)

[RAG 4.10 – Guideline for the table definitions in the annual performance report](#)

[RAG 3.13 pro-forma tables \(excel document\)](#)

## A2 Template for responses to question 1

Table	Line	Issue

## A3 Summary of changes to text of RAGs 3-4

Table	Issue	Description of change	Paragraph affected
<b>RAG3</b>	New requirement	New narrative requirement on proportional allocation.	4.25
<b>RAG3</b>	Deletion	Unit cost commentary requirements have been removed in line with the revised tables for 2020-21.	n/a
<b>RAG3</b>	Correction	References to RAG4 in paragraphs now refer correctly to RAG2.	A2.4, A2.5 and A2.7
<b>RAG4</b>	No changes	Add guidance on proportional allocation between base and enhancement to RAG4	13.10

## A4 Proposed changes to tables (RAG3) and definitions (RAG4)

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	No changes	n/a	N	N
1E	No changes	n/a	N	N
1F	Correction	1F.7 now refers to 1F.8 rather than 1F.10.	N	Y
1F	Correction	1F.10 now refers to 4C.21 rather than 4C.18.	N	Y
1F	Correction	1F.17 title now consistent with 4H.5 “RORE (return on regulatory equity)”.	Y	Y
1F	Correction	1F Note 1 “Calculating Cost of Debt (unadjusted for hedging instruments): Actual returns and actual regulatory equity” point d) now correctly refers to 1F.2.	N	Y
1F	Clarification	1F.15; Land sales proceeds should be reflected in RoRE and financial flows after adjusting to reflect the 50:50 sharing mechanism in the RCV midnight adjustments.	N	Y
2A	No changes	n/a	N	N
2B	Correction	2B.3 Wastewater formula has been corrected to the sum of 4K.8-10.	N	Y
2B	Clarification	2B.7 renamed ‘Other operating expenditure (including Location specific costs & obligations)’ to clarify the link to 4J and 4K.	Y	Y
2B	Correction	2B.11 and 2B.19 captions now refer to ‘developer services’ rather than ‘growth’.	Y	N
2B	Correction	2B.19 now refers to capital rather than operating expenditure.	N	Y
2B	New requirement	New lines 2B.12 and 2B.20 to separately identify ‘Green Recovery’ expenditure.	Y	Y
2C	New requirement	New lines 2C.30- 2C.32 to allow a comparison between actual and allowed expenditure.	Y	Y
2D	No changes	n/a	N	N
2E	No changes	n/a	N	N
2F	Correction	Line 2F.4 now correctly refers to line 2F.2.	N	Y
2G	No changes	n/a	N	N
2H	No changes	n/a	N	N
2I	No changes	n/a	N	N
2J	No changes	n/a	N	N

2K	Correction	2K.1 table now shows C C C rather than I I C (copies from 2E.10 and 2E.23)	Y	N
2K	Correction	2K.5 table now shows C C C rather than I I C (copies from 2K.1)	Y	N
2L	Correction	Include 'additional control' column omitted in error	Y	N
2M	No changes	n/a	N	N
2M	Update	2M.4 reference updated for new version of the reconciliation rulebook; "For bioresources - This is equivalent to the 'Modified Revenue' set out in line 3 of the calculations block in the PR19 Reconciliation Rulebook."	N	Y
2M	Update	2M.6 reference updated for new version of the reconciliation rulebook; "For bioresources - This is equivalent to minus 'Bioresources revenue adjustment (ABR) - with financing adjustment & 2 year lag of inflation' in line 7 of the calculations block in the PR19 Reconciliation Rulebook."	N	Y
2M	Update	2M.7 reference updated for new version of the reconciliation rulebook; "For bioresources - This is equivalent to minus 'Profit from bioresources trading - with 2 year lag of inflation' in line 8 of the bioresources calculation block in the PR19 Reconciliation Rulebook."	N	Y
2M	Update	2M.8 reference updated for new version of the reconciliation rulebook; "For bioresources - This is equivalent to the 'Allowed revenue' in line 4 of the calculations block in the PR19 Reconciliation Rulebook."	N	Y
2M	Update	2M.11 reference updated for new version of the reconciliation rulebook; "For bioresources - This is the 'Revenue imbalance' in line 5 of the calculations block in the PR19 Reconciliation Rulebook."	N	Y
2N	Correction	2N.4 – 2N.6 now corrected to refer to customers NOT on social tariffs.	N	Y
2O	No changes	n/a	N	N
3A	No changes	n/a	N	N
3B	No changes	n/a	N	N
3C	No changes	n/a	N	N
3D	No changes	n/a	N	N
3E	No changes	n/a	N	N
3F	No changes	n/a	N	N
3G	No changes	n/a	N	N
3H	No changes	n/a	N	N
3I	No changes	n/a	N	N
4A	No changes	n/a	N	N
4B	New requirement	Changes to table to align with business plan format.	Y	Y
4C	New requirement	Additional lines for increased transparency of cost sharing and for Green recovery expenditure.	Y	Y
4C	Correction	Shadow RCV calculation corrected	Y	Y

4D	Clarification	4D.1 validation check added.	N	Y
4D	Correction	4D.3 now correctly refers to 4N.12. Developer services in this table correctly includes third party activities.	N	Y
4D	Correction	4D.11 now correctly refers to 4N.11.	N	Y
4E	Clarification	4E.1 validation check added.	N	Y
4E	Correction	4E.3 now correctly refers to 4O.10 Developer services in this table correctly includes third party activities.	N	Y
4E	Correction	4E.11 now correctly refers to 4O.9.	N	Y
4F	No changes	n/a	N	N
4G	No changes	n/a	N	N
4H	Clarification	4H.13 formula clarified.	N	Y
4H	Clarification	4H.14 formula clarified.	N	Y
4H	Clarification	4H.19 Description and formula clarified.	Y	Y
4H	Deletion and New requirement	Lines have been deleted and revisions made to aid understanding and to link with the 'green recovery' impact.	Y	Y
4I	No changes	n/a	N	N
4J	Clarification	Sub-heading changed to 'Location specific costs & obligations'	Y	N
4K	Clarification	Sub-heading changed to 'Location specific costs & obligations'	Y	N
4L	New requirement	New columns to capture expenditure versus allowance.	Y	N
4M	New requirement	New columns to capture expenditure versus allowance.	Y	N
4N	No changes	n/a	N	N
4O	No changes	n/a	N	N
4P	No changes	n/a	N	N
4Q	Correction	4Q.14 reference to 6C.4 now correctly aligned with that in 4Q.13.	N	Y
4R	Correction	4R.12 and 4R.15 changed to 'C' in tables.	Y	N
4R	Correction	4R.14 now correctly refers to 'business' properties.	Y	N
4R	New requirement	Additional columns for AMR and AMI meters	Y	Y
4S	New requirement	New table for 'Green recovery' expenditure (water).	Y	Y
4T	New requirement	New table for 'Green recovery' expenditure (wastewater).	Y	Y
4U	New requirement	New table for 'Green recovery' impact on RCV	Y	Y
5A	No changes	n/a	N	N
5B	No changes	n/a	N	N
6A	No changes	n/a	N	N
6B	No changes	n/a	N	N
6C	No changes	n/a	N	N
6D	Clarification	6D.7 definition clarified.	N	Y
6D	New requirement	Additional columns for AMR and AMI meters	Y	Y

<b>7A</b>	No changes	n/a	N	N
<b>7B</b>	No changes	n/a	N	N
<b>7C</b>	No changes	n/a	N	N
<b>7D</b>	No changes	n/a	N	N
<b>7E</b>	No changes	n/a	N	N
<b>7F</b>	New requirement	New table for P removal following CMA recommendations.	Y	Y
<b>8A</b>	Clarification	8A.5 definition clarified for untreated sludge.	N	Y
<b>8B</b>	Correction	Erroneous 'Basic meters' header removed.	N	Y
<b>8C</b>	No changes	n/a	N	N
<b>8D</b>	No changes	n/a	N	N
<b>9A</b>	Clarification	'In year' added to columns 2 and 4.	Y	Y
<b>10A</b>	New requirement	New table for Green recovery non-cost data.	Y	No line definitions included in this consultation.
<b>10B</b>	New requirement	New table for Green recovery water outcomes data.	Y	
<b>10C</b>	New requirement	New table for Green recovery wastewater outcomes data.	Y	
<b>S1</b>	No changes	n/a	N	N
<b>S2</b>	No changes	n/a	N	N



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