

15 July 2021



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Please ask for Helen Orton
Our Ref HMGO/tb/150721
Your Ref

Dear Ofwat

Thank you for the opportunity to comments on the consultation in relation to RAGs. We have set out our response below and would be happy to answer any further queries.

Yours faithfully

[REDACTED]
Helen Orton
Finance & Regulation Director

Question 1	What are your views on the proposed changes to the APR tables in A1?
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Table	Line	Issue
1F	18	The legacy adjustment 2015-20 should include any Retail adjustments, as well as Wholesale. The %'s given in the Financial Flows Data Source document exclude Retail.
1F	10	The definition of allowed Totex should clarify that this is before any ex-ante adjustments.
2A	3 and 4	The formulae in these Retail lines need a minus in front of the reference cells. Line 3 should exclude depreciation from Table 2C.
2A	8	Only the recharges for Wholesale business units should be reported here. Maybe the Retail cells should be grey.
2B	7	The formulae in this line should include lines 4J.11 - 13
2E		Should this include a section for any Grants and Contributions from the 'Additional Control', such as Havant Thicket? We have deferred income relating to this price control.
2F	all	We find the presentation of Table 2F somewhat confusing. We would suggest restructuring so that it reads <ul style="list-style-type: none"> • Retail assumptions underpinning (2021/22) tariffs (ex-ante property count forecast) • Ex post reconciliation at year end when property count is known, quantifying if any adjustment is required • Actual retail revenue raised in the year
4C	9	The Totex cost sharing rates published in the Financial Flows Data Source document were misleading. The descriptions were as follows; Totex WR – cost sharing rates – under Totex WR – cost sharing rates – over The 'over' heading should read 'out' performance, as the 'under' refers to under performance. In addition, it should be clear that this is the company share and not the customer share. This was very confusing for the auditors.
4D	10	I think that you mean that 4D.10 now correctly refers to 4N.11
4R	14 and 23	Clarification on the definition of voids for Business properties in lines 4R.14 and 4R.23 We use MOSL data to provide this information and in our case there are no NHH voids, given the guidance states not to use the count on the temporary flag.

Question 2	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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We support mandatory standardisation for reporting of operational GHG. We have used the Carbon Accounting Workbook (CAW) published by UKWIR each year and believe this is used widely in the industry and will ensure consistency between companies. We would suggest this is the most efficient way of ensuring consistency.

Question 3	Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?
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We are aware there will be some changes within Table 2 to include the Water UK Net Zero reporting to enable companies to include all the factors that assist with the net zero journey.

Question 4	What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?
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Embedded carbon/Capital Carbon is new for PW so currently we are devising our methodology to be able to gather the data and report what is required.

We would, therefore, welcome a standard workbook/tool to be able to utilise for the reporting similar to the CAW for operational emissions but kept as a completely separate stream otherwise the tools would become too cumbersome to use and audit.

Question 5	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?
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We acknowledge that PAS 2080 will be a key point of focus for standardisation and adequate reporting for embedded carbon. However, we need to be mindful of the link with our Net zero journey and the need to ensure consistency with operational emissions which are currently covered by the CAW process.

Question 6	<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"> • 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
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There is a risk that voluntary reporting will result in different approaches being taken as to the materiality of each scheme / activity being included. We suggest that there should be a de-minimus value for inclusion in the calculation, possible by spend.

We believe expanding the scope of the reporting significantly could result in more time and cost to compile the data for limited value. It will also increase the scope of any assurance activities.

We also believe that some companies are further ahead than others on this requirement so setting a stretching aspirations for all may be very challenging for those with limited experience / resource.

Question 7	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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Our current methodology for allocating business rates uses;

1. For assets used by Wholesale and Retail, GMEAV to allocate a % of costs to them
2. For shared assets (primarily Head office costs) we allocate these costs between Wholesale and Retail using floor space.

Our preference would be to retain methodology close to this as we feel it is the best approximation of cost drivers.

Question 8	<ul style="list-style-type: none"> • Does your company jointly own or operate assets with another company? • Should guidance be included in this area? • What specific points should the guidance cover?
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Whilst we do not currently own or operate any joint assets we recognise that, with the development of a number of RAPID programmes, the number and value of such assets could increase in the future. Accordingly we feel it is appropriate that guidance should be issued in relation to this area. This guidance should allow for a consistency/symmetry of approach to such assets between companies.