

Consultation on regulatory reporting for the 2021-22 reporting year

South East Water response

21st July 2021

South East Water
Rocfort Road
Snodland Kent
ME6 5AH



Contents

1. Introduction	3
2. Answers to questions/ response	4

1. Introduction

This paper sets out South East Water's (SEW) response to Ofwat's Consultation on regulatory reporting for the 2021-22 reporting year.

Any queries in relation to this document should be sent to

2. Answers to questions/ response

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

Table 1F RORE calculation

The relationship between Table 4C and the calculation of the over/under performance of costs component in RORE needs more careful consideration – particularly around the treatment of Innovation costs.

The 2020-21 RAG guidelines correctly set out that: totex out/(underperformance) represents the difference between the actual totex performance versus the amount allowed in the published Final Determination. It is adjusted for the following:

- timing differences; and
- company sharing ratio with customers.

However the RAG guidelines also indicate that this data should be the same as the data in line 4C.21, converted into a 2017-18 price base. In each year Table 4C.21 is likely to include an amount of expenditure which relates to innovation expenditure - classified as actual totex not subject to costs sharing. This then incorrectly drives a negative impact on RORE. The innovation fund expenditure should only impact RORE when the innovation expenditure included in totex is different to the revenue allowed for innovation. When the cost and revenue allowance are equal there should be no impact on RORE. We have raised this with Ofwat via the APR query process and have agreed to an adjustment to line 4C.21 for the purposes of the RORE calculation. We suggest that this is set out in the guidance for APR22.

Table 2A

In table 2A, cells E10 and F10 (2A.3) are picking up the depreciation and amortisation charge from table 2C for both retail HH and NHH, then in cells E14, F14, E15 and F15 (2A.6 and 2A.7) it picks up the depreciation and amortisation charge again from tables 2D and 2O. In summing to the operating profit (2A.11), the values in 2A.3 and 2A.6 and 2A.7 are included in the calculation, thereby double counting the depreciation and amortisation in arriving at the operating profit value.

We believe that depreciation and amortisation should not be included in the operating costs (2A.3). Please could you confirm if this is correct.

Table 4C

The definitions and guidance for Table 4C should be clarified and should be more closely integrated with cross references to the issued Final Determination documentation, Financial Model, the Financial Flows numbers (as agreed/verified with individual companies) and subsequently the Rulebook cost sharing model.

There were a large number of queries on Table 4C during the APR process and we hope that Ofwat will consider each of these when they are drafting the 2021-22 APR guidance. Our Table 4C commentary picks up a number of these areas. Particular issues we would draw attention to are:

- Ofwat query log #14: It is the customer share of out/underperformance which drives the changes to the shadow RCV and at PR24. Ofwat has agreed that this is the case so we expect that change to flow through to APR22.
- When preparing our APR Table 4C we checked the published version of Financial Flows against our expectation of numbers and in particular to the numbers reported in our financial model and company specific final determination report – particularly Tables 3.2 and 3.7. Table 3.2 gives Totex by wholesale price control and type of cost, 2020-25 (2017-18 prices) and Table 3.7 gives Cost sharing rates for 2020-25 and sets out the totex for end of period reconciliation (2017-18 prices). We think it is important that the figures in the Financial Flows which are to be used for Table 4C – and the FD numbers which are subsequently used in the Rulebook Cost Sharing model are consistent with these tables. For SEW there were issues with consistency – particularly around the treatment of grants and contributions. The published Financial Flows for SEW indicated that the grants and contributions income offset was being included in ‘costs not subject to cost sharing’. This contradicts Table 3.7 of our FD document which clearly shows grants and contributions (gross of income offset) as being included in cost sharing at standard rates. This is a significant annual figure for SEW and it is important that this point is addressed. Further details on this were sent to Ofwat in a Financial Flows clarification and are set out in our APR commentary.
- We have set out concerns in our Table 4C commentary in APR21 on how Ofwat is calculating and presenting the RPI component of the year end RCV. We believe that any financial analyst without prior knowledge would expect to take the average RPI component RCV from the financial model and then index it with RPI to get the year end figure. It does not seem correct that this component is being indexed by CPIH to get the year end figure. Again we have set out details of this in our commentary.

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?

No - we support mandatory standardised reporting of operational GHG emissions.

Q3: Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?

The table doesn't allow for reporting of other emissions reduction activities, such as carbon capture, tree planting, other renewable products etc... This would seem prudent to ensure offsetting activities are recognised to reach net zero. You are proposing location based reporting

for Scope 2 emissions. Our preference is to report in parallel, the use of market based methodology to align with industry net zero approach

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

We advocate caution on the reporting of embedded emissions. As suggested in the consultation, we would welcome Ofwat’s suggestion to work with the industry to ensure a consistent understanding and table of reporting is agreed. We agree this is best achieved through current working groups associated with operational emissions.

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?

At this time we have no specific comment on this question, as we currently do not report our embedded emissions. However, we recognise the value of this and are keen to work towards being able to do so, and would support a route map to a position where we are able to report robustly. We are beginning to consult with our own contractors to understand their position and approaches to facilitate our future thinking. As recommended in the consultation, we support Ofwat’s invitation to engage with the industry, and potentially some key suppliers and contractors, on this matter to develop and agree a consistent reporting mechanism.

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

As per Q5 we are unable to provide comment at this time, but look forward to engaging on this issue at an industry level.

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 have no strong view on this question

- Q8:**
- 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?

We don’t have joint assets of this nature.

Contact Us

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

Follow us

