Regulatory reporting for the 2021-22 reporting year

Consultation response

July 2021

Introduction

Thank you for the opportunity to provide comments on the proposed APR requirements for 2021-22 and for the extension to the response window. The timing of the consultation to coincide with the publication of the annual performance report and financial statements has been an issue given finite expert resources within companies. There is significant benefit in consulting while the APR is still fresh in people's minds, but for future years, it would be helpful if the consultation began just after the publication of the previous year's data to allow further time for in depth analysis by relevant internal stakeholders. In addition to the responses to this consultation we are sure that Ofwat will also want to reflect in the updated reporting guidance the detailed points raised by companies as part of the query process for APR 2020-21.

As we fed back in the 2020-21 consultation, we note that the quantity of data being reported continues to grow, and the opportunity to remove data where it is no longer needed should be kept under constant review. We note that the number of tables (excluding green recovery) now exceeds that of the June Return[1] and are mindful that there may be further detailed data requests as part of the PR24 and that will further increase the regulatory reporting burden. Whilst understanding the importance of having a consistent, robust data set, we would ask Ofwat when finalising the data requirements to ensure that all lines are useful, necessary and clearly defined.

We welcome further discussions on the content and format of the data submitted and look forward to the next stage of the consultation. We have set out our responses to each of the consultation questions below, with detailed responses in the requested format.

[1] The 2011 June Return contained 67 tables, compared with 69, plus a further 3 for green recovery, in the proposed APR

Consultation responses

Question 1. What are your views on the proposed changes to the APR tables in A1?

	Line	Issue
4L/4M	New columns	We note that new columns have been included within these tables to report the cumulative allowed expenditure to date and for the full AMP. However, there is no guidance regarding completion of these columns within RAG 4.10. In line with our approach for allocating totex variances between timing and efficiency for Table 4C in the 2020-21 APR, we propose to take the Final Determination (FD) five-year allowance by type of enhancement expenditure and apply the overall annual opex/capex split of enhancement expenditure to each category to compare against actual expenditure. Some additional guidance on the adjustment required for inflation for these columns would be helpful. For example, are the actuals to be deflated to 2017-18 prices or the FD inflated? If the FD is to be inflated on what basis would the full FD allowance be reported?
4C	All	As an observation, having completed the table for 2020-21, the guidance in RAG 4.10 for this table could be improved. For example: • Line 4C.2 currently suggests that 3rd party services are deducted and that non-section 185 diversions are also deducted. As non-section 185 diversions form part of 3rd party services this would result in a double count. • Transition expenditure – there should be a mechanism to transfer any element of transition spend that may relate to totex not subject to cost sharing. We made this adjustment through line 4C.2 for 2020-21 but this was not covered in the guidance. • Line 4C.22 - the current list of items to include does not cover the 3rd party services items and would also be impacted by the double count mentioned above. This row also needs to include the income offset adjustment mentioned in the guidance for row 4C.2.
7B	All	In the 2020-21 APR, the list of Southern Water sites in the validation data does not align with the site names in our systems, i.e., Worthing East which should be East Worthing as well as sites at Lidsey, Petersfield, and Redgate Mill Crowborough which are not present, and former sites such as Portobello Brighton. Can you confirm the correct route to having this corrected and the primary data source for this list?
8A	9-11	In the bioresources consultation, it's inferred that transfer of indigenous sludge from a wastewater treatment works (WTW) to a co–located sludge treatment centre (STC) (i.e., Ashford WTW to Ashford STC) should be reported as sludge transferred via pipeline. For our 16 STCs and 15 dewatering sites should we be reporting the TDS transferred from the WTW to the STC as TDS transferred via pipeline, even though they are located on the same site? Currently we don't report internal transport of sludge (in a pipeline) from the WTW to a co–located STC / dewatering centre. Should this now be included?

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?

We are fully supportive of monitoring in order to manage greenhouse gas emissions. Some areas of the sector's monitoring and reporting are at different levels of maturity. For example, for process emissions the sector is working to improve our understanding on these emissions to increase the level of confidence in the quantification. Ofwat would need to be cognisant of potential change to our reported emissions data once we have additional information from current research projects.

Whilst robust guidance and standardisation will go a long way to ensure that companies are actively lowering carbon emissions, there is a concern that introducing a competitive market approach in this area may discourage companies from working collaboratively. It would be good to see Ofwat incentivising companies to work together in order to have greener working practices across the industry, and we would therefore propose that any performance commitments were reputational as opposed to financial.

As a point of clarification, it would be helpful to understand whether the assurance and publication of the proposed table supersedes the Final Determination requirement to assure and publish the Carbon Accounting Workbook (CAW).

Question 3. Are there any other data, metrics or further breakdown or categorisation that should be included in Table 2?

With the key challenge of population growth in mind we suggest consideration of an 'emissions per capita' metric.

We would welcome clarification on whether the values in Table 2 should be taken directly from the CAW or whether they require interpretation within the table.

Question 4. What are the key challenges that need to be considered and addressed to facilitate greater standardisation of reporting on embedded emissions?

The success and endurance of the operational Carbon Accounting Workbook (CAW) has been because all companies engaged at the start (in 2008) and the organic growth of the tool was successfully managed each year through a strongly supported steering group via UKWIR. The workbook is retrospective and utilises annual activity data in order to convert it into tonnes of greenhouse gases.

Closing the circle to include embodied/capital carbon is a necessary step in order to understand and optimally manage all carbon emissions from the sector. Including whole-life carbon into decision making is expected to drive the right behaviours to minimise emissions and avoid high carbon lock-in scenarios.

Calculating and reporting sector capital carbon is a very different and more challenging enterprise for a number of reasons:

1) Companies are at different stages of maturity in their development of capital carbon measurement and management - some companies already have embedded processes.
2) The value of capital carbon can change at each asset lifecycle gateway from outline design to 'as built'. There will be a requirement to agree what stage(s) it should be measured for reporting purposes.
3) Capital schemes can span a number of years and are therefore not easy to report on an annual basis. Again, clarity on the most appropriate reporting timing would be necessary.
4) Measurement is dependent on the entire value chain and is very specific to each company and how their supply chain and delivery programmes are established.

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?

We agree that PAS 2080 would be a good basis to work from and will be an enabler for good decision-making.

In addition, UKWIR is currently running a project on calculating whole life carbon (UKWIR CL/01/B/220). The recommendations of this project will be beneficial in determining how the sector moves forward on capital carbon measurement.

Question 6. 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**

Prior to the ongoing UKWIR project publishing its recommendations, the areas of focus should be on where companies anticipate the most positive impact could be gained in capital programme initiatives.

In the 2020-21 consultation it was suggested that we report unplanned non-infrastructure maintenance for both water and wastewater. No data for planned or unplanned maintenance has been included in the RAG or proforma. It would be helpful to understand whether Ofwat has decided to explore alternative routes for shadow reporting for PR24 or if is this likely to be introduced at a later date.

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?

As the requirement to maintain a full current cost accounting system and report current cost financial information was removed during AMP6, we believe all GMEAV related allocations should be replaced in the regulatory accounting framework - particularly as existing calculations will only get increasingly out of date in future years.

We also do not believe that using a calculation such as profits or returns would represent an accurate method either, as this would be open to distortion by differing annualised factors, meaning the allocation values could change significantly from year to year with no change in the underlying activities. It would also not be representative of the assets being used by each business unit.

Where allocations are required for cumulo rates we suggest that using either Gross Book Value or Net Book Value calculations, based on historic cost information would be a reasonable approach for the future.

Question 8. 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?**

Southern Water has no joint assets, but we agree that guidance should be provided to companies with joint assets.

Competition and Markets Authority referrals

While the consultation did not include any specific questions relating to the CMA's reporting recommendations, we provide comments for each below.

(i) P removal

We already track P removal in detail as part of our WINEP monitoring. We have not identified any other areas where we think similar detailed reporting would be beneficial.

(ii) Leakage

Our suggestion would be to standardise the data within Table 6E using the industry-wide ESPB values. We intend to build these into the Service Level Agreements with our third-party leakage repair service partner.

For this to be reported consistently there needs to be agreement of the measure of activity scale for each maintenance activity, and we would suggest a workshop to agree this with other water companies. We feel that the current seven measures are sufficient and that adding additional lines may represent an unnecessary reporting burden.

In order to have comparable reporting across the sector, there would need to be robust and detailed guidance from Ofwat in terms of allocation. As an example, the purchase cost of sensor replacements would sit in the 'maintain leakage' section of 6E, but installation of sensors could be allocated to sensor replacement, active leakage control, pressure management, asset renewal and replacement etc. Clear boundary definitions are required (as provided for in RAG appendixes 1-4 for the current data tables).

We would also appreciate further guidance on which activities constitute maintenance and which reduction. We would expect, for example, to report proactive detection and repair as a reduction activity as opposed to maintenance, and all active leakage control as a reduction activity.

We look forward to and fully support an industry wide workshop to further discuss and develop consistent reporting in this area.

(iii) Water resources management plans (WRMPs)

The current WRMP APR data table (6E) includes additional details for internal interconnectors only. We would welcome clarity on whether, moving forward, it is the intention to keep other reporting at the current level or break it down to the individual schemes (as with the WINEP data table) or to retain the overall categorisations in line with SOSI reporting.