

22 July 2021

Ofwat
Centre City Tower
7 Hill Street
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By email: [REDACTED]

Dear colleagues

CONSULTATION ON REGULATORY REPORTING FOR THE 2022-22 REPORTING YEAR

Thank you for the opportunity to respond to the consultation on regulatory reporting for the 2021-22 reporting year.

We recognise following the conclusion of reporting on the first year of the new regulatory period that there is need to update the guidance and tables for the large volume of issues with tables and guidance, identified by companies before and during this year's process. We also recognise and welcome proposed new tables in respect to Green Recovery.

Reflecting on the recently submitted annual performance report and regulatory accounts and considering the additional tables in this consultation, we would welcome the opportunity to discuss the current and proposed reporting. We would like to better understand the purpose of some of the current and additional data collected to help improve reporting for all water companies in future years.

Appendices 1 and 2 contain general feedback and our responses to the specific questions raised in the consultation.

We hope you find our comments helpful. Please contact me if you would like further detail.

Yours faithfully

[REDACTED]

Lisa Gahan
Regulatory Director

[REDACTED]

APPENDIX 1 – GENERAL FEEDBACK AND SWW RESPONSE TO CONSULTATION QUESTIONS

GENERAL FEEDBACK

Firstly, South West Water would recommend extending the cross referencing and consistency checking formula throughout the tables to include the new tables to ensure higher levels of accuracy e.g. 1A.1 = 2A.1 + 2A.2, 1A.3 = 2A.10, 1A.1 = 2I.25 etc.

Secondly, we would be in support of an early view of the 2021/22 APR's tables and supporting documentation, to avoid the 2020-21 APR situation where Water companies were required to update the formula in the tables themselves, in some cases received very late clarifications on definitions and received multiple versions of the Financial Flows and Capital Values information, all of which caused added time pressures for Companies, along with additional assurance costs.

RESPONSE TO CONSULTATION QUESTIONS

Question 1

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

Our views on the proposed changes to the APR tables are included in Appendix 2 of our response.

Specific to South West Water, it would be very helpful for the RCV publication to also include an addendum to show the RCV totals either including the IFRS16 adjustment or to state the updated value of the IFRS16 adjustment to improve transparency.

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?

South West Water supports with the proposal for mandatory standardised reporting for operational GHG emissions within the timeframe put forward by Ofwat.

Question 3

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

GHG Emissions Breakdown – CO₂, CH₄, N₂O

We recommend the inclusion of Scope 2 GHG breakdown, since the water industry's CAW outputs CO₂, CH₄ and N₂O for location-based Scope 2 emissions. We would also recommend that Companies have the option of voluntarily reporting other GHGs here, specifically HFCs, PFCs and SF₆. HFCs are particularly relevant for emissions from air conditioning and refrigeration plant. By including location-based Scope 1,2 and 3 broken down by the basket of 6 GHGs in this way the total, when converted to tCO₂e, should then add up to total gross location-based emissions, neatly facilitating a complete set of gross location-based GHGs to be reported as individual gases.

Location-Based and Market-Based Reporting

The current table does allow for reporting of market-based - '*Emissions reduction from purchased renewable energy (market-based carbon accounting benefit)*' however this value will also include the market-based impact of the various Fuel Mix Disclosure emissions factor values assigned to individual electricity suppliers. Particularly relevant if your electricity purchase includes supply from a supplier whose Fuel Mix Disclosure emissions factor is above the grid average emissions factor, as it is with one of our electricity suppliers. It means the value reported in Table 2 here is the net

impact of market-based bundled or unbundled REGO-backed renewable electricity purchase (at zero emissions) plus, in our case, a volume of electricity that is supplied at an emissions factor above grid average. Therefore, the value reported here is not exclusively an emissions reduction from purchased renewable energy.

Reporting Contribution of Carbon Offsets

Table 2 needs to include the option to report on further offsets. We would support the inclusion of lines here to report offsets from carbon removals such as those under the Woodland Carbon Code or Peatland Carbon Code, so called 'insetting' if domestic carbon units are generated from activities on water company land, as well as a separate line to account for purchased offsets. It would also be helpful to be given the opportunity to include some further details of any purchased offsets, for example the opportunity to explain that purchased offsets been verified under a certified scheme.

Table 2 Format

We would recommend adopting dual reporting both location-based and market-based values against all Scopes. Whilst this would expand the table to 4 separate columns, 'Location-based Water', 'Location-based Wastewater', 'Market-based Water' and 'Market-based Wastewater', it would help the reader understand where the various differences in emissions under location-based and market-based emissions have occurred.

We also propose that the GHG individual gas breakdown is better represented in a separate section of the table that includes all Scope 1, 2 and 3 emissions.

Strengths, Weaknesses, Opportunities, Threats

We would appreciate further explanation of what Ofwat's expectations are in regard of the reporting of Strengths, Weakness, Opportunities and Threats.

Question 4

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

Developing a standardised approach is already underway within the industry through UKWIR, although we note the short time period before mandatory embedded carbon reporting begins which presents a challenge to the industry in developing and testing a workable framework in a compressed time frame.

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?

South West Water agrees the most appropriate framework for embedded emissions reporting is PAS2080.

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*

South West Water supports the additional information for voluntary reporting with no further areas to consider at this time.

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?

South West Water support the existing approach pending the outcome of the current consultation on the approach to Water rates.

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?

South West Water does have jointly owned assets – Wimbleball reservoir which is shared with Wessex Water. As jointly owned assets are likely to have site specific contracts in place, detailed guidance is unlikely to be able to cover all circumstances. However, South West Water does support the need for guidance which should set out the expectations on how these assets are reported under cost headings. For example, setting out how the following costs are shared in the accounts of each company:

- RCV
- Capital Maintenance
- Operating costs
- Income
- EA charges

Additional Points:

Green Recovery

- **Green economic recovery (points 4.1-4.3)**

South West Water supports the request for annual reporting of Green recovery data to be submitted in line with the Annual Performance Report.

- **Green economic recovery cost reporting (points 4.4-4.6)**

South West Water supports the proposal to include Green recovery data within the existing APR tables and the additional data in new tables 4S, 4T and 4U

- **Green economic recovery non-cost item reporting (points 4.7-4.8)**

South West Water agrees with the proposal to report on non-financial data in the existing APR tables as well as separate reporting for just the Green recovery data in the new table 10A, as this keeps data reporting consistent and comparable between reporting periods.

- **Green economic recovery performance commitment reporting (4.9-4.12)**

Whilst South West Water agrees there is a needs to report on the impact to performance commitments of Green recovery programmes, we believe there should be a separate consultation and further guidance on what Ofwat deem is ex-ante or ex-post by performance commitment before we can fully respond to this point.

South West Water does support the requirement to provide narrative commentary to explain any material deviation of the outturn Green recovery impacts from forecast impacts, alongside any supporting calculations under new tables 10B and 10C.

P removal

South West Water is able to provide information to populate this data but we challenge the whether capturing data at this level is really required. Individual sites have very different characteristics and the type of solution deployed can have widely different costs. Due to companies having different accounting treatments we recommend using totex rather separate opex and capex value supports the need to capture ex-post investment for phosphorus removal schemes in new table 7F - WINEP phosphorus removal scheme costs and cost drivers.

Leakage

We would welcome the opportunity for further discussions through the Leakage Workshop to help shape any additional reporting in this area. As noted in our letter there is potential for highly variable outcomes due to the allocation of costs required to report his data and different accounting treatments between companies. We would seek to understand the purpose behind this data collection to help shape a more appropriate response.

Water resources management plans (WRMPs)

Similarly to leakage we have concerns over the potential quality of data at a granular level with potential different methods of allocation by companies leading to data that is not necessarily compatible. The free form nature of the table will also reduce the value that comparing companies would bring.

Analysis of debt (table 4B)

South West Water supports the proposed approach for changes to table 4B.

Bioresources

South West Water looks forward to the opportunity to contribute to the separate Bioresource consultation on alterations to the 2021-22 RAGs that are aimed at reducing the variation and therefore the accuracy and comparability of company reporting.

Covid-19 and the business retail market

South West Water looks forward to the opportunity to contribute to the separate consultation on alterations to licence and PR19 Reconciliation Rule book.

Small company reporting

South West Water has no comment to make.

APPENDIX 2 – SWW RESPONSE TO CONSULTATION QUESTION 1

Table	Line	Issue
1F	7	It would be helpful from an assurance perspective to have the Note 1 text make it clearer that the “interest paid” is not the cash flow payment, but the interest charge
1F	20	Indexation – the RCV published did not include the indexation %, this was left to companies to calculate. The presentation in the model and the query response #202 (batch 16) gave a misleading calculation which wasn’t the actual applied % used in the year-end balance. The presentation within the year end RCV publication document needs to be looked at again to ensure it allows for the correct calculation to be made – or preferably for this calculation to be shown explicitly in the publication. To avoid confusion and aid transparency
4U	all lines	Will the allowance in 4U.1 be included in the Financial Flows document How will this table interact with table 1F?
10A, 10B & 10C		No definition has been supplied for these tables; therefore, it has not been possible to provide detailed feedback on this occasion