ANNUAL PERFORMANCE REPORT CONSULTATION 2021-22

United Utilities response to the Ofwat consultation

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Introduction

United Utilities welcomes the opportunity to comment on Ofwat's consultation on the Annual Performance Report 2021-22.

We have responded to each of the questions set out in the consultation and have also set out a number of additional comments about the RAGs that are not covered in the responses to the specific questions.

Included within our responses to the specific questions below, we'd like to draw your attention to two items within our question one response. Firstly, since any tax benefit in relation to the additional green recovery spend is clawed back under the associated tax true-up mechanism, and therefore does not represent out/underperformance it is important that this is excluded from reported financial flows/RORE – the proposed adjustment is included on page 6. Secondly, to ensure alignment to Ofwat's PR19 cost reconciliation model and consistency of reporting between companies it is important that the allowed totex is adjusted to reflect any changes to company totex baselines which will include the output of the WINEP adjustment mechanism (i.e. once final scope of programmes is confirmed) – see page 7 for the proposed adjustment.

Ahead of our response to question 2, we have also included additional comments regarding carbon reporting more generally including on; delivering bold carbon reductions; the use of existing frameworks for reporting; and on 'embedded' and wider scope 3 emissions. To ensure a sustainable approach to PR24 and the WINEP, we would welcome trilateral discussions (with Ofwat and EA) about how we can work together as a sector to secure the most effective and efficient approach for customers to reduce emissions and secure water services for the long term.

Consultation questions

Q1. What are your views on the proposed changes to the APR tables in Appendix 1?

Included within our response to query 1, and also other comments regarding existing RAGs definitions (included after our response to query 8), are a number of key issues we'd like to draw your attention to:

Summary of our key proposals	Page ref.
Impact of Green recovery on RCV – Table 4U Impact to shadow RCV is incorrectly based on totex variance due to efficiency only and net company share of over/under spend. Should be based on total variance and customer share.	5
Leakage activity detailed analysis – Table 6E Clear guidance on specific actions to be included under each 'activity' is required. Examples are given in detailed response.	5
Phosphorus Removal Schemes -Table 7F We would appreciate some additional guidance on how to account for removing phosphorus at the WwTW and also undertaking associated interventions within the catchment scenario in table 7F.	6
Financial Flows - Table 1F To ensure financial flows more accurately represents tax out/underperformance, this line definition should be updated to also exclude tax benefits from green recovery which will be clawed back. Totex out/(under) performance (1F.10) should be adjusted to exclude spend in relation to PR19 innovation fund. Actual performance adjustment 2015-20 (1F.18) within Ofwat's financial flows document appears to include a spurious negative adjustment in respect of the PR19 innovation fund.	6
Impact of price control performance to date on RCV – Table 4C Final determination allowed totex (4C.1) should adjust for changes to company's totex baselines resulting from the output of the WINEP adjustment mechanism.	7
Enhancement expenditure – Wholesale – Tables 4L and 4M	8

When populating allowed enhancement expenditure, we believe there are several areas where clear guidance is needed to avoid there being inconsistencies across the industry.	
Direct Procurement for Customers (DPC) The primary statements (i.e. tables 1A-1D) could be expanded to include a new separate adjustments column to separately report the DPC impacts.	23
Rechargeable works Rechargeable works should be reclassified as 'Third party services, Income not governed by price control' in line with PR19 final determination.	23
Reporting of revenues – Table 2I To ensure consistency across companies, clarification of Ofwat's expectations on how it expects companies to split revenues into the four wholesale price controls would be helpful.	24
Wastewater performance commitments - Table 3B The 'better air quality' (PR19UU_C10-BR) performance commitment is bespoke to United Utilities, and requires clarification on the use of an additional conversion step in the outperformance/underperformance calculation.	24
FFO / Debt – Table 4H (line 17) We expect 'FFO / Debt' (4H.17) is likely interpreted by users as mirroring the ratings agencies' calculations, and as such it would be more appropriate that this ratio is calculated on a consistent basis to Standard & Poor's methodology.	25
Innovation competition reporting - Table 9A As we progress into 2021-22, and reporting PR19 innovation fund transactions becomes more complex, we believe it would be beneficial for slight changes and clarity to table 9A to facilitate accurate and comparable reporting.	25

In relation to question 1, we have structured our response into; comments relating to new tables, comments relating to table changes, and other administrative items.

<u>Comments relating to new tables proposed for 2021-22</u>

New green recovery financial tables (Tables 4S, 4T and 4U)

We support the inclusion of the three additional tables (4S, 4T and 4U) which provide more granular green recovery cost information and show the corresponding impact on Shadow RCV. For completeness of totex reporting, we agree with including the green recovery spend also within the enhancement lines of table 4L/4M which would then flow through to tables 4D/4E. Whilst the consultation document suggests adding additional lines to table 2B to separately disclose green recovery spend (albeit not reflected in RAGs themselves), we believe table 2B would be better remaining as it is currently with the green recovery spend forming part of the enhancement totals. This will ensure enhancement costs are consistently reported between table 2B and the section 4 tables. Readers of the APR tables can still see the green recovery spend totals from the new tables 4S & 4T.

We also agree that the green recovery spend should be stripped out of the totex build-up in table 4C – although we would recommend updating the line definition in 4C.2 to confirm this treatment – a point we have raised on page 8. Given the different mechanism to the rest of totex, we agree that the green recovery RCV impact is best separately dealt with in the new table 4U. For the RCV build-up in table 4U, under the proposed line definitions, the RCV adjustment is incorrectly derived from the company, rather than the customer, share of out/underperformance and also doesn't adjust for timing differences in spend. We have suggested some tweaks to the line definitions to correct for this below.

Finally, since any tax benefit in relation to the additional green recovery spend is clawed back under the associated tax true-up mechanism, it is important that this is excluded from reported financial flows/RORE – a point we have raised on page 6.

Impact of Green recovery on RCV – Table 4U

Line reference	Line Name	Comment
4U.8-11	Customer/company share of totex – out/underperformance	These lines take the totex over/underspend due to efficiency (i.e. line 4U.5) and multiply by the relevant customer sharing rate. However, the whole total overspend (i.e. 4U.3), including any timing differences, should be reflected in Shadow RCV – similar to the table 4C shadow RCV build-up. All 4 line definitions should therefore be amended by replacing '*4U.5*' with '*4U.3*'.
4U.12	Increase / decrease in shadow RCV	This line correctly takes actual totex (line 4U.2) as starting point but then incorrectly adds only the efficiency element of any over/underspend (it should be whole amount including timing differences) and uses the net company share of the over/under spend (i.e. lines 4U.10 – 4U.11), when it should be the customer share (i.e. lines 4U.8 – 4U.9). The issue with only including timing differences would be corrected by amending lines 4U.8-11 as suggested above. Assuming these are amended, then this line definition could then be amended as follows: '*Calculated as 4U.2 plus ~~4U.10~~ 4U.8 minus ~~4U.11~~ 4U.9*'

New green recovery non-financial tables (Tables 10A, 10B and 10C)

Please refer to our previous green recovery consultation response – 'UUW Ofwat GR Determination Response Final', which was submitted on 9 June 2021.

New Leakage Activity table (Table 6E)

United Utilities very much supports the development of a consistent understanding of the costs and benefits of different leakage activity. This will be key in helping the industry to drive best practice and to achieve the ambition of halving leakage by 2050. Companies have varying "starting positions" with regards to key factors (e.g. supply and demand balance, metering penetration, operating pressures etc.), so it's likely that differing leakage activities will be employed.

As outlined in previous consultation responses and in the recent "leakage and metering information workshops", there are challenges with achieving consistency of reporting in this area. We believe these challenges can be articulated and, with further work, overcome. Metering activity is a key enabler in improving the awareness and estimation of leakage. We, therefore, support the assessment of leakage and metering costs and benefits in the round.

Some of the key challenges in understanding the costs and benefits of different leakage activity are:

- Consistency in the methodology for calculating the amount leakage would increase by each year without active leakage control activity (the natural rate of rise or "NRR") – this is a key assumption in determining the activity required to "maintain" leakage and has to take account of asset health, operating pressures etc.

- Understanding the temporal aspects of leakage benefits – "investment ahead of need" and lasting benefits (e.g. sensors may be installed a year or so before benefits are achieved and, if properly maintained, can provide benefits for several years)
- Understanding environmental aspects, e.g. the impact of weather events, such as freeze-thaw events and dry weather events, that can affect the natural rate of rise through increased "breakout" (i.e. the result of additional stress on the system)

Leakage activity detailed analysis – Table 6E

Line reference	Line Name	Comment
6E	All	Clear guidance on the specific actions to be included under each "activity", e.g. pressure management could constitute: • Implementation of a pressure management scheme (i.e. installation of a pressure management valve to serve a district metered area or part of a district metered area in an active or passive way) • Implementation of additional control to pressure management valves to allow remote optimisation of pressures • Operational maintenance of pressure management valves • Operational optimisation of pressure management valves (would generally be a manual or remote adjustment) "Grouping of activity (e.g. repair, detect, prevent)" to be reported in line with the industry recognised acronym "PALM" (Prevent, Aware, Locate, Mend)

Phosphorus Removal Schemes (Table 7F)

United Utilities understand the requirement for more granular reporting relating to phosphorus removal schemes is a response to recommendations from the CMA, however would appreciate more clarity on the requirements of table 7F.

United Utilities have some WINEP schemes where we are removing phosphorus at the WwTW and also undertaking associated interventions within the catchment to achieve the target. We would appreciate some additional guidance from Ofwat on how to account for this scenario in table 7F, most notably with regard to the population equivalent and phosphorus consent for the catchment interventions. We would also like to understand how to correctly account for a difference in delivery timeframe between the two aspects (i.e. if there is a year between the delivery of the site solution and the catchment solution).

<u>Comments relating to changes Proposed for 2021-22</u>

Financial Flows - Table 1F

We recognise the clarifications and corrections made to this table within RAG 4.09, but we believe there are further adjustments required to ensure the impact of green recovery, and the spend in relation to the PR19 innovation fund, are correctly reflected for better alignment to actual shareholder's return.

Line reference	Line Name	Issue
1F.5	Variance in Corporation Tax	All tax benefits in relation to the additional green recovery spend is clawed back under the green recovery tax true-up mechanism. As such, to ensure financial flows more accurately represents tax out/underperformance, this line definition

		should be updated to also exclude tax benefits from green recovery from reported RORE i.e. add the following underlined section to the existing line definition: • Plus or minus any adjustment for accelerated or deferred capital allowances – <u>except in relation to green recovery spend which should be excluded</u>
1F.10	Totex out / (under) performance	We agree this line should refer to the total company share of totex over/under spend per table 4C. However, as more lines have been added to table 4C under RAG 4.10, this should now read '*This data should be the same as the data in lines 4C.24 and 4C.25*'. In addition, all spend specifically in relation to the PR19 innovation fund should be excluded, since there was no expenditure allowance assumed at PR19 (being separately funded through customer revenues). It would be counter intuitive for a company that had successfully been approved expenditure under the innovation fund for that expenditure to then be deemed as overspend. We have already adopted this treatment for 2020/21 reporting in line with 'RAG query log 2020/21' reference 209 and believe the RAGs should also be updated to reflect this to ensure consistency of reporting. This could be achieved by adding an extra bullet to the line definition e.g. '*The difference between the actual totex performance versus the amount allowed in the published Final Determination, for the reporting period, adjusted for the following:* • *Timing differences* • *Company sharing ratio with customers* • <u>*Expenditure directly relating to the PR19 innovation fund*</u>*….*'
1F.18	Actual performance adjustment 2015-20	This line is sourced from Ofwat's financial flows document. Per Ofwat's financial flows document, as well as adjusting for post-financeability adjustments, this line also includes a negative adjustment, i.e. reduction to reported financial flows, in respect of the PR19 innovation fund (shown in rows 69-72 of the 'Allowances' tab). We don't understand the basis of reducing reported financial flows for this income since Base RORE itself (reported in line 1F.1) does not include any allowance for the income received for the innovation fund. As such, we believe that deducting this would result in an inaccurate reported return in this table and so should be removed from Ofwat's financial flows document.

Impact of price control performance to date on RCV – Table 4C

To ensure alignment to Ofwat's PR19 cost reconciliation model and consistency of reporting between companies it is important that the allowed totex (i.e. line 4C.1) is adjusted to reflect any changes to company totex baselines which will include the output of the WINEP adjustment mechanism (i.e. once final scope of programmes is confirmed). This will ensure the reported totex subject to cost sharing variance will be comparing actual costs to the adjusted PR19 assumption on a like-for-like basis, in line with the PR19 cost reconciliation model. Further details of how this could be presented within the existing table are shown below, along with some additional points.

Line reference	Line Name	Issue
4C.1	Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	This line does not adjust for changes to company's totex baselines resulting from the output of the WINEP adjustment mechanism. In addition, any other adjustments to PR19 assumed totex (e.g. via IDoK) would also need to be accounted for. We recommend adding two additional lines to this table. The first line would report any adjustments to totex baseline (including under the WINEP adjustment mechanism) and the second line would show the adjusted baseline position, which would then be compared actual totex to derive the variances in existing lines 4C.3-4C.5. This first line showing the totex baseline adjustments would also need to be separately added/deducted to the Shadow RCV (existing line 4C.23) to account for the underlying adjustment that will be made as part of PR24.
4C.2	Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	Consistent with the proposals within the Ofwat consultation document, this line definition should be amended to also strip out expenditure in relation to green recovery schemes since these are to be separately reported within the new APR tables. In addition, there may be 3rd party income recorded within grants and contributions in table 2E (classified within other income in the regulatory accounts). Amounts recorded as non-price control would be correctly excluded as per the line definition but amounts recorded within price control would not. To ensure these amounts are correctly excluded we propose to also list '3rd party grants and contributions price control income' as an excluded item.
4C.22	Final determination actual totex - not subject to cost sharing	This line definition should be amended so it is clear that, as well as the reported costs quoted, it also includes the additional items referenced in line 4C.2 i.e. income offset payments; non price control grants and contribution income (negative number); pension deficit recovery costs: and third party services opex and capex.
New line	Net proceeds from Land Sales	For completeness and consistency to final determination, shadow RCV should also include an additional line (e.g. between Line 4C.29 and 4C.30) which reports 50% of '*Land sales – proceeds from disposals of protected land'* (as reported in table 2L.1). This total would then feed into shadow RCV under existing line 4C.32.

Enhancement expenditure – Wholesale – Tables 4L and 4M

Under RAG 4.10 there is an additional requirement to report the allowed expenditure against each enhancement scheme. We believe there are several areas where clear guidance is needed to avoid there being inconsistencies across the industry:

- The new column *'cumulative allowed expenditure on all schemes to reporting year end'* requires an assumption about how Ofwat's AMP7 allowance should be profiled. This might lead to inconsistencies across companies without clear guidance on Ofwat's expectations in this area.

- The requirement to report Ofwat's allowance for *'Reduce flooding risk for properties'* in table 4M is complicated by the fact Ofwat included this enhancement line in its botex models at PR19. This means that no explicit allowance was provided, and we are not aware of any commonly accepted means to calculate an 'implicit allowance' for the line. We consider that Ofwat should provide an allowance, or a method for deriving, the implicit allowance (and annual profile) for this line if it wishes to collect this information.
- We note that there have been some changes to the lines in table 4L from APR 20/21 onwards, namely the splitting out of the supply-demand balance line into five sub-categories (lines 4L.20 to 4L.34) and the metering line into three sub-categories (lines 4L.39 to 4L.47). While we agree with Ofwat that greater granularity is desirable in these areas, we note that this means there is no clear mapping between Ofwat's PR19 allowance (which was based on the pre-20/21 APR format), and the new, more granular format. This means that there is no separate allowance for these lines. Given this, we intend to complete this information by allocating it all to one line, and highlighting this in the commentary.

We note that inconsistencies in these areas will lead to differing interpretations of company out/ underperformance on totex. This has the potential to lead to unwarranted scrutiny being placed on companies by stakeholders, solely due to the companies' chosen methodology for mapping the PR19 allowance to the new lines. Given this, we consider that if Ofwat wishes to collect this information, then it must provide guidance to support consistent reporting across companies.

Other administrative items

Other administrative issues identified, some of which were included as part of the Ofwat 2020-21 query log:

Table	Line	Issue
2A.3	Operating expenditure – excluding PU recharge impact	As per the 2020-21 Ofwat query log #149, this definition should be corrected to read '*Calculated as the sum of 2C.8 x (-1)*'.
2B.18	Developer services capital expenditure	This definition should be corrected to read '*Total developer services capital expenditure*'.
2B	New requirement	There are no additional lines within the table 2B proforma. This is in line with our expectations as green recovery expenditure is to be included within enhancement expenditures in line with paragraph 4.4 of 'Consultation on regulatory reporting for the 2021-22 reporting year'.
2F.11	Average household retail revenue per customer	As per the 2020-21 Ofwat query log #9, this definition should be corrected to read 'This is 2F.6 divided by 2F.7, multiplied by 1000'.
4D.3	Developer services operating expenditure	We believe the updated reference to 4N.12 is correct, but it should not include third party opex or lines from table 4P.

4D.10	Developer services capital expenditure	We believe the updated reference to 4N.11 is correct, but it should not include third party opex or lines from table 4P. Further, the description should be amended reference capital expenditure, rather than operating expenditure.
4E.3	Developer services operating expenditure	We believe the updated reference to 4O.10 is correct, but it should not include third party opex or lines from table 4P.
4E.10	Developer services capital expenditure	We believe the updated reference to 4O.9 is correct, but it should not include third party opex or lines from table 4P.
4I	All	Line definitions for table 4I are not included within RAG 4.10; a duplicate table for 4H is provided instead.
4K.1	Power	'Copied from 4N.1 and 4O.1' should be removed from the definition as per query #20 on the Ofwat 2020-21 query log.

Additional guidance on proportion allocation between base and enhancement – Tables 4L/4M

We note reference, within RAG 4.10, to additional guidance on proportion allocation between base and enhancement expenditure contained within RAG 2, but do not consider RAG 2 to have been updated to include this.

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ADDITIONAL COMMENTS REGARDING CARBON REPORTING IN ADVANCE OF OUR RESPONSE TO Q2

Carbon reporting

United Utilities welcomes Ofwat's increased focus on climate change. This is a core business priority for United Utilities and many of the other water companies because of the threat to the resilience of water and wastewater services that customers fundamentally rely on, and are shaped by, the weather and climate. As well as being a significant challenge, climate change also presents substantial opportunities for the sector to secure further efficiencies and grow value for society through the multiple benefits offered by more sustainable approaches.

The sector's traditional planning processes do not yet effectively value carbon in decision making, with a historic imbalance in legal and regulatory requirements protecting the water environment at the expense of the atmospheric environment. While there are clear national carbon targets defined in the Climate Change Act (2008), this is yet to translate into the transformative action required across all parts of the water sector. For example, there is now widespread recognition for the need to further mature sustainability considerations in the process to define the Water Industry National Environment Programme (WINEP). Recent reforms to escalate the presence of carbon in the WINEP process are welcome, but we are keen to help ensure the true value and impact of carbon is factored into decision making and the best environmental and social outcomes are achieved.

Leading by example, and leading others, to sharply reduce carbon emissions is the first priority in our strategy to protect the affordability and resilience of services from climate change; it being essential to minimise the scale of the future challenge. However, it is also essential that the water sector effectively prepares for projected climate scenarios, with a degree of further change now inevitable. Collaboration and innovation will be required across all actors in the water sector if we are to maximise the benefits, reduce emissions and secure water services for the long term. To ensure a sustainable approach to PR24 and the WINEP, we would welcome trilateral discussions (with Ofwat and EA) about how we can work together as a sector to secure the most effective and efficient approach for customers.

Delivering bold carbon reduction

We are committed to reducing emissions on a trajectory sufficient to achieve the global goal to limit average temperature rise to no more than 2^{o}C, known as the 'science-based' approach. We have made six carbon pledges, and significant progress towards them. We have also committed that we will demonstrate integrity and leadership in carbon reporting and disclosure. For example, United Utilities has:

- Reduced operational carbon emissions by over 70% since 2010, primarily achieved through investment in energy efficiency and renewables.
- Expanded our carbon focus beyond energy to act across our whole footprint, with programmes well underway in switching to electric and hydrogen vehicles, and further expanding our peatland restoration and woodland creation. We have established two tree nurseries to help with the national shortage following the surge in tree planting activity (relating to pledges 3, 4 and 5).
- Formalised two new scope 3 targets to engage our asset delivery and maintenance framework partners and secure absolute emissions reduction in the wider supply chain (relating to pledge 6).
- Participated in the CDP global disclosure system for environmental reporting every year since 2010, achieving a rating of A- in 2020, demonstrating leadership-level reporting and disclosure. We are one of only two companies in the UK water sector achieving leadership level.

- Been a leader and early adopter of the best practice guidance published by the Task force on Climate-related Financial Disclosures (TCFD). We recently published our second annual comprehensive overview of our approach to both carbon reduction and climate resilience in the TCFD section of our 2020/21 annual report and financial statements, available at: https://www.unitedutilities.com/corporate/investors/results-and-presentations/annual-reports/
- Around 20 years of experience in carbon accounting, reporting openly on our performance using global best practice standards and independent verification.

It is in this context that we generally welcome Ofwat's proposals for carbon reporting, with the following suggestions to maximise desired outcomes as efficiently as possible. We provide headline messages below, followed with more detail in response to each consultation question. We would be happy to discuss our observations and suggestions.

Use of existing reporting frameworks to ensure alignment, credibility, fairness and to avoid duplication

We support strict adherence to existing global and national best practice accounting standards and frameworks, with third party verification, to ensure high standards of credibility and to avoid extra administrative burden. We and most other UK water companies are already mature at carbon accounting for operational emissions. At United Utilities, our measurement and reporting is aligned to the 2015 Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard and the 2019 UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Guidance (SECR). Our reporting is compliant with the international carbon reporting standard (ISO 14064, Part 1) and assured by the Carbon Reduce programme, previously known as Certified Emissions Measurement and Reduction Scheme (CEMARS), and we hold a Platinum status certificate as we have demonstrated emission reductions over ten years.

We also verify to the science-based approach because this ensures compliance with global best practice accounting standards, covering scope 1, 2 and 3 emissions. Importantly this approach also ensures an organisation's reduction pathway is playing its fair role in achieving the global goal to limit average temperature rise to no more than 2°C. For these reasons we would welcome Ofwat's support for sectoral alignment to a third party verified science-based approach.

To ensure consistent and comparable reporting we provide several detailed suggestions in our answer to question 3. In particular:

- Energy related emissions should be reported for both location-based and market-based methods to ensure clear alignment with the GHG Protocol and to allow transparency in progress on renewable energy.
- The intensity ratios that enable the most meaningful comparison and insight on a water company's carbon performance are the existing ratios for emissions per mega litre of water supplied and wastewater treated. These are already well used across the water industry as part of our long history of collaboration towards a standard reporting method. Reporting emissions by turnover or revenue will cause confusion and misunderstanding in the context of regulatory reporting because they will not be consistent or comparable across different company structures in the industry.

Clarity and consideration on 'embedded' and wider scope 3 emissions

We strongly agree value chain (scope 3) emissions are an important part of the sectors carbon impact and a priority for improved accounting and management. However, we are concerned about the terminology and approach proposed in the consultation because the term and scope of 'embedded' emissions is not well defined or supported by a standard framework that we are aware of, and will not therefore secure a consistent or meaningful approach. Furthermore, these types of emissions cannot easily be meaningfully reported on an annual basis as proposed. We provide further details and evidence on these points in our answers to questions 4 and 5. We would welcome the opportunity to explore this further with Ofwat and share the learning we have taken from our recent comprehensive assessment of scope 3 emissions, which could provide an effective approach to annual reporting. We would like to support in the co-creation of an approach that will provide meaningful disclosures and an incentive for industry action.

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?

We generally welcome the further guidance in the 2021 "Notice" however we have some proposals to help improve the transparency and accessibility of the data (see response to Question 3).

We request further guidance on what Ofwat would like to see and gain from the proposed introduction of a SWOT commentary. We recognise a supporting narrative is important to provide context and insight alongside the carbon accounting numbers, with a comprehensive disclosure provided annually in the TCFD section of our annual report and financial statements. Understanding any specific areas of interest would help shape an effective narrative that meets Ofwat's needs. Provision of a template and or example would help water companies meet expectations, and United Utilities would welcome the opportunity to develop or pilot this with Ofwat. We have the following questions on the SWOT:

- Should this focus on the accounting and reporting process, or on carbon performance and impact, or both?
- Is this likely to be an ongoing future requirement for annual reporting, or a one-off exercise to support understanding in the first year of this new reporting requirement?
- How much detail would Ofwat find valuable – headlines or technical details?

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

Below is our proposed table for regulatory operational greenhouse gas emissions in the annual performance report. These incorporate the highlighted changes to the Table 2 presented in the consultation document.

Gross annual operational GHG emissions

Scope 1 emissions	Water tCO_2e	Wastewater tCO_2e
Direct emissions from burning of fossil fuels (including CHP generated onsite)	N,nnn	N,nnn
Process and fugitive emissions (including refrigerants)	N,nnn	N,nnn
Transport: Company owned or leased vehicles	N,nnn	N,nnn
Total scope 1 emissions	N,nnn	
Total scope 1 emissions by GHG - CO_2	N,nnn	
Total scope 1 emissions by GHG - CH_4	N,nnn	
Total scope 1 emissions by GHG - N_2O	N,nnn	
Scope 2 emissions	Water tCO2e	Wastewater tCO2e
Purchased electricity - generation – Location-based	N,nnn	N,nnn
Purchased electricity - generation – Market-based	N,nnn	N,nnn
Purchased heat	N,nnn	N,nnn
Electric vehicles	N,nnn	N,nnn
Removal of electricity used to charge electric vehicles at site	N,nnn	N,nnn
Scope 3 emissions	**Water tCO2e**	**Wastewater tCO2e**
Business travel on public transport and private vehicles used for company business	N,nnn	N,nnn
Outsourced activities (if not included in Scope 1 or 2) Energy and other	N,nnn	N,nnn
Purchased electricity - transmission and distribution - location based	N,nnn	N,nnn
Purchased electricity - transmission and distribution - market based	N,nnn	N,nnn
Purchased heat - transmission and distribution	N,nnn	N,nnn
Total scope 3 emissions - location based	N,nnn	
Total scope 3 emissions - market based	N,nnn	
Total scope 3 emissions by GHG type - CO2	N,nnn	
Total scope 3 emissions by GHG type - CH4	N,nnn	
Total scope 3 emissions by GHG type - N2O	N,nnn	
Gross operational emissions (Scope 1, 2 and 3) totals	Water tCO_2e	Wastewater tCO_2e
Location based - by area	N,nnn	N,nnn
Location based - total	N,nnn	
Market based - by area	N,nnn	N,nnn
Market based - total	N,nnn	
Emissions reductions	Water tCO_2e	Wastewater tCO_2e
Exported renewables (generated onsite and exported)	N,nnn	N,nnn
Exported biomethane (generated onsite and exported)	N,nnn	N,nnn
Green Tariff electricity offsets purchased (location based)	N,nnn	N,nnn
Net annual operational GHG emissions	Water tCO_2e	Wastewater tCO_2e

Location based - by area	N,nnn	N,nnn
Location based - total	N,nnn	
Market based - by area	N,nnn	N,nnn
Market based - total	N,nnn	

Annual operational GHG intensity ratio values

	$kgCO_2e/Ml$
Annual Operational GHG emissions per Ml of treated water	nnn
Operational GHG emissions per Ml of sewage treated (Flow to Full Treatment)	nnn
Operational GHG emissions per Ml of sewage treated (Water distribution input)	nnn

List of proposed **changes**:

1. Clarity that process and fugitive emissions include refrigerants
2. Total scope 1 emissions – as total rather than by area
3. Total scope 1 emissions by GHG gases – as total rather than by area
4. Purchased electricity - generation – Market-based
   Market-based as well as location-based to be consistent with the GHG Protocol recommendation for dual reporting, and supporting the request in 5.7 to share emission reductions brought about by the purchase and generation of renewable electricity.
5. Facility to include purchased heat and power for electric vehicles, in-line with latest best practice developments and the industry's Carbon Accounting Workbook (CAW).
6. Total scope 3 emissions – as total rather than by area
7. Total scope 3 emissions by GHG gases – as total rather than by area
8. Purchased electricity – transmission and distribution – Market-based
   Market-based as well as location-based to be consistent with the GHG Protocol recommendation for dual reporting, and supporting the request in 5.7 to share emission reductions brought about by the purchase and generation of renewable electricity.
9. Gross operation emissions totals – Market-based as well as location-based
10. Breakdown of emissions reductions
11. Note that benefit of renewable electricity purchase is not an emissions reduction applied to the gross emissions to give the new emissions but the market-based method of calculating scope 2 or 3 energy related emissions.
12. Net operation emissions totals – Market-based as well as location-based
13. Please define the treatment volume to be used to calculate the wastewater intensity ratio value (i.e. flow to full treatment and or water distribution input).

Intensity measures

We encourage focus on the intensity ratios already used across the water industry for emissions per mega litre of water supplied and wastewater treated. These ratios enable the most meaningful comparison and insight on a water company's carbon performance because this relates to the scale of the main services provided during the accounting period being reported.

We do not support the introduction in regulatory reporting of emissions by turnover or revenue because this would likely cause confusion and misunderstanding as they company structures and boundaries are not consistent or comparable. United Utilities publishes its emissions intensity by revenue as a group in the annual reports, as expected of all large companies by the Streamlined Energy and Carbon Reporting Guidance (SECR).

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

We agree the sector needs to go beyond a focus on operational emissions to also play its part in reducing the emissions associated with infrastructure maintenance and improvement. We and other water companies are taking action in this less mature area of carbon management. However, use of the term ‘embedded’ carbon is confusing because it is poorly defined and without a common accounting and reporting standard or framework. We set out below a few examples of potential terms and their scope to demonstrate the point and inform discussion towards an effective approach for the sector. We would welcome the opportunity to co-create an effective approach with Ofwat and other key players from the sector, aligning with existing and developing best practice in this newer area of carbon management that is maturing rapidly.

Name	Framework / Standard	Example definition	Emissions per….
Embedded emissions	Ofwat consultation	None provided	Reporting year
Embedded carbon (Carbon that has been sequestered)	GHG protocol	The uptake of CO_2 and storage of carbon in biological sinks.	From baseline to current date for that sink.
Embodied emissions (excluding asset operation)	2012 UKWIR report ‘A framework for accounting for embodied carbon in water industry assets Ref No 12/CL/01/15	The embodied carbon emissions associated with a *manufactured product* are the direct and indirect emissions of greenhouse gases (GHGs) expressed as a carbon dioxide equivalent (CO2e), resulting from the **extraction, transportation and processing of raw materials used to create that product plus any emissions associated with its subsequent maintenance and disposal**. i.e. cradle to grave (excluding asset operation)	Product
Capital carbon	PAS 2080:2016 – *Carbon Management in Infrastructure*	Greenhouse gas emissions arising from the creation, refurbishment, and end of life treatment of assets such as buildings and infrastructure.	Project / group of infrastructure assets
Capital goods GHG emissions	GHG protocol	Scope 3 Category 3 GHG emissions from investment in capital goods	Reporting year
Whole life carbon	2012 UKWIR report ‘A framework for accounting for embodied carbon in water industry assets Ref No 12/CL/01/15	The total emissions from construction, periodic maintenance/renewal and operation over the lifetime of an asset, which can be counted for investment	Asset design lifetime

		selection and used in cost-benefit analysis.	
Capital goods	Scope 3 Category 2 GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard	Final goods that have an extended life and are used by the company to manufacture a product, provide a service, or sell, store, and deliver merchandise. Examples of capital goods include equipment, machinery, buildings, facilities, and vehicles.	Accounting year
Lifecycle assessment (LCA)	GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard	Compilation and evaluation of the inputs, outputs and the potential environmental impacts of a product system throughout its life cycle	Product lifetime

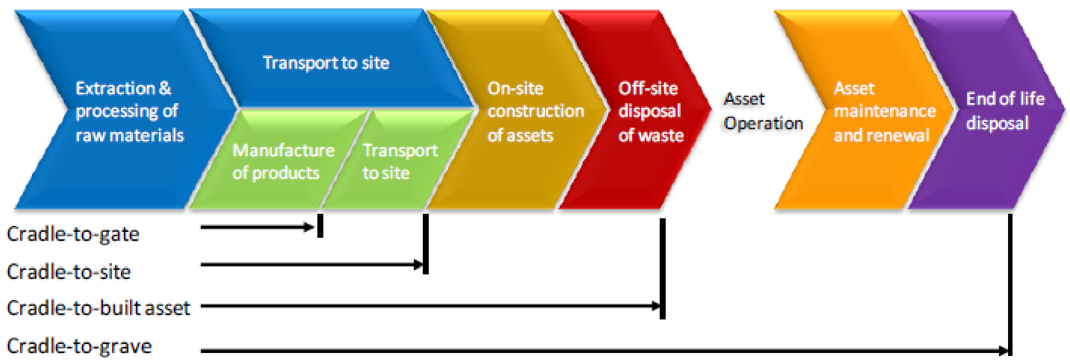
Q5. Are there any particular relevant frameworks or approaches for us and the industry to consider in relation to embedded emissions reporting and reductions? For example PAS2080?

Building on our answer to Question 4, it is important to clarify the scope of 'embedded' emissions and desired goals in this area of focus, recognising different reporting and accounting activities for different purposes.

We recognise the PAS2080 management framework as a best practice cross sector framework, and we also value the further detail provided for the water sector in the UKWIR accounting framework. We encourage the deployment of these frameworks throughout the water industry to support more sustainable asset management and investment planning decisions across the life of an asset, for example whole life cost from cradle to grave as shown in the diagram below. However, these frameworks are not appropriate or deployable for annual reporting as proposed in this consultation. We suggest that annual reporting is considered separately to asset-based carbon management in processes like the price review and WINEP.

2012 UKWIR report 'A framework for accounting for embodied carbon in water industry assets Ref No 12/CL/01/15 Figure 2.1 from page 12

Figure 2.1 – Embodied carbon emissions arising from asset construction, maintenance and disposal (excluding asset operation)



For annual reporting, the GHG Protocol is the widely used best practice accounting standard that we and others use to provide the structure for standardised and increasingly comprehensive emissions reporting. The GHG Protocol Corporate Accounting and Reporting Standard provides the accounting platform for virtually every corporate GHG reporting programme in the world and provides an established standardised way to calculate and present an annual inventory of the emissions that occur as a result of the activities that occurred in the reporting year. It accounts for the fact that some of the emissions may have occurred in the previous year or will do in the subsequent years but does not double count.

The table below summarises the scope of current standard water industry emissions reporting, already including some aspects of scope 3 emissions. The table goes onto show potential and needed future developments to expand reporting to cover more elements of scope 3 emissions. We explore this further in our answer to the next question as there is a variable scope of influence and maturity to inform prioritisation.

	Annual reporting
Suggested framework	GHG Protocol Corporate Accounting and Reporting Standard
Current scope	Scope 1 Scope 2 Scope 3 • Business travel on public transport and private vehicles used for company business • Outsourced activities (if not included in Scope 1 or 2) Energy and other • Purchased electricity - transmission and distribution

Future developments	Voluntary inclusion of all scope 3 categories deemed relevant. *1. Purchased goods & services* *2. Capital goods* *3. Fuel- and energy-related activities* *4. Upstream transportation & distribution* *5. Waste generated in operations* *6. Business travel* *7. Employee commuting* *8. Upstream leased assets* *9. Downstream transportation & distribution* *10. Processing of sold products* *11. Use of sold products* *12. End of life treatment of sold products* *13. Downstream leased assets* *14. Franchises* *15. Investments* NB UU's work would define this as categories 1-7.

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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**

Wider scope 3 emissions

Having completed a comprehensive scope 3 screening exercise in advance of setting science-based emission targets we have expanded the scope 3 categories that United Utilities will report on an annual basis. From our 2021 annual report onwards, we will report the following scope 3 categories and have set targets currently being validated by the SBTi on this basis.

- Purchased goods and services (Using spend based methodology using Comprehensive Environmental Data Archive (CEDA) excluding construction services)
- Capital goods (Spend based methodology using CEDA for our spend with construction services)
- Fuel and energy-related emissions (well to tank and transmission and distribution emissions)
- Upstream transportation and distribution (third party provided sludge transport)
- Waste generated in operations (including sludge disposal to land)
- Business travel (public transport, private vehicles and hotel accommodation)
- Employee commuting and home working (Estimated using EcoAct model)

In the future we will increase the proportion of scope 3 emissions that are estimated using supplier based and product based factors rather than emissions per £ spent (by category). As different companies will be using different and evolving methodology combinations / emission factors the annual figures should not be used to compare between companies.

Whole life emissions

When planning major investments such as those that make up the business plan for price reviews the impact on GHG emission of the build and future operation of the assets involved should be embedded into the decision making. It is in this context that frameworks such as PAS2080 or the RICS Whole Life Carbon assessment for the built environment (https://www.rics.org/globalassets/rics-website/media/news/whole-life-carbon-assessment-for-the--built-environment-november-2017.pdf) could play a part.

Regardless of the framework, being able to compare similar projects against each other in terms of scale and intensity is a meaningful way of applying learning between projects and ensuring that good work done to reduce emissions on one project is not missed on other projects. Including quantification of whole life carbon in project definitions also means that alternative (lower carbon) solutions to business problems that have merit but may not have the lowest likely cost are more likely to be included in business plans because of the wider benefits. In turn the costs of the solutions are likely to reduce and the confidence in their successful delivery increase pushing forward the transition to a low carbon industry.

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 appreciate the opportunity to comment on this matter after raising it as part of the 2020-21 RAGs consultation.

Under RAG 2.08 (paragraph 2.25), business 'rates costs for wholesale should be allocated to price control units using gross modern equivalent asset ("MEA") values.'

The business rates liabilities for both water and wastewater are arrived at by different means. The water liabilities are based on the receipts and expenditure valuation basis which calculates the business rates liabilities based on the level of profit/return the water assets generate. Whereas the wastewater liabilities are based on the contractor valuation basis which ultimately derives the liabilities by referencing the replacement cost of the individual wastewater liabilities.

As such, on a gross MEA value basis, the wastewater rates are allocated in accordance with the underlying cost driver. However, in order to align the cost allocation with the underlying liability for water, we consider an allocation on the basis of profit or RCV would be more suitable.

Given the potential volatility that could be seen in the profit measure, as a result of one off costs or accounting estimates, and the potential circularity (with rates impacting reported profits), we believe that it would be **more appropriate to allocate water rates between water resources and water network plus based on RCV**. Allowed returns per price control are derived from RCV values and thus this method of allocating water rates would be more aligned to the actual water rates bill than the current method of using gross MEA values. We propose that the PR19 final determination RCV value is used, rather than shadow RCV, as that is the basis of AMP7 allowed returns (and allowed revenues) and is therefore most consistent with the basis for the calculation of water rates.

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?**

United Utilities does not currently operate any jointly owned assets.

ADDITIONAL COMMENTS RE: RAGS NOT COVERED IN ABOVE CONSULTATION RESPONSES

We have separated our additional comments re: RAGs not covered in the above consultation responses into two sections; those we consider to be of most importance and other issues. Our comments include concerns identified during previous years' reporting processes that we feel have not been reflected in the latest version of the regulatory accounting guidelines and of which we continue to hold these views.

<u>**Key Issues**</u>

Direct Procurement for Customers (DPC)

We were pleased the 2020/21 RAGs consultation document proposed the following in relation to DPC accounting:

'Leased assets procured through a DPC process and paid for directly by customers through a specific condition B clause should be excluded from regulatory accounts. This includes any accounting adjustments that would ordinarily by required by the lease accounting rules under IFRS16.
Revenue collected on behalf of and payments to a competitively appointed provider should not be reported in the regulatory accounts.

Companies will make adjustments for these assets in table 1A in the APR so visibility of the amounts will be maintained. We would expect any companies to provide a clear breakdown of the differences for such DPC projects.'

Whilst RAG 1.09 section 4.19 sets out that lease accounting is to be excluded from the regulatory accounts, we believe it would be beneficial to expand this to be more explicit in stating how companies should exclude the DPC impacts i.e. excluded from all APR tables via an adjustment to the primary statements. RAG 3.13 could also be amended to require companies to include a brief narrative in the APR explaining the adjustments for DPC (particularly if there is no separate column for DPC impacts in tables 1A-1D).

Also, to ensure adjustments are made on a consistent basis and are transparent, the primary statements (i.e. tables 1A-1D) could be expanded to include a new separate adjustments column (next to the statutory to regulatory adjustments column) called 'Direct Procurement for Customers' to separately report the DPC impacts which could then be deducted from the 'Total appointed activities' column. This would ensure all intended DPC impacts are excluded from the reported regulatory numbers in the section 2-4 APR tables, in line with the proposals set out in the 2020/21 RAGs consultation document.

<u>Advance purchases classified as non-appointed</u>

As part of the Haweswater Aqueduct Resilience Programme (DPC project) UUW is purchasing land and other assets in advance to support this project. UUW will be reimbursed for these items by the CAP (once appointed) and this will ultimately be funded by customers through the unitary charge mechanism. As such, in order to ensure this spend is not inadvertently also captured within appointee totex, which feeds the cost sharing mechanism, it was agreed with Ofwat that this spend would be classified as non-appointed within the regulatory accounts. To ensure consistency of reporting across the industry, we would propose the income categorisation table in RAG 3 appendix is expanded to list within non-appointed activities 'Advance fixed asset purchase activity in relation to Direct Procurement for Customers which are separately funded through unitary charge mechanism'.

Rechargeable works

We appreciate your response to our query raised as part of the '2020-21 RAG query log', reference 24, regarding the classification of rechargeable works, however we do not agree that rechargeable works should be classified as 'Third party services, Income governed by price control'.

At PR19 revenue from rechargeable works was classified as sitting outside of the price control (consistent with PR14), and subsequent financeability assessments underpinning the Final Determination were made on that basis. This in-AMP change to the classification of revenue was not specifically highlighted or justified in the 2020-21 RAGs consultation and we cannot understand the reason why this change would be made.

Classifying rechargeable works' revenue to be inside the price control removes a company's incentive to recharge the responsible party (e.g. in the instance of a third party damaging a company's asset). Whilst the incumbent could recharge the costs of the damage to the party responsible, being now inside the price control would mean that this action would not result in additional revenue overall, but instead other customers would simply pay less by a commensurate amount to ensure no over-recovery of price control revenue.

We do not believe this is the correct treatment for costs of this nature, and therefore suggest rechargeable works are reclassified back to 'Third party services, Income <u>not</u> governed by price control' within RAG 4.10 appendix 1, aligned to the PR19 final determination classification.

Reporting of revenues – Table 2I

Companies are now required to report actual revenues against the four wholesale price controls within table 2I.

It would be helpful if Ofwat would clarify its expectations on how it expects companies to split revenues. For example, this could be done:

- by allocating simply based on PR19 allowances (very quick and easy to do); or
- based on a separation of charges between price controls which may be expected to reflect the separate build-up of charges (i.e. recognising the cost of providing the separate services and the consumption of those services by customers), particularly with the evolution of competition in Bioresources. This would require changes to the charges guidance, as Ofwat does not currently require companies to establish separate charging arrangements for the four wholesale price controls.

We do not have a strong preference about which approach should be taken, but we do believe that clarity is important to ensure consistency of reporting across companies. Current ambiguity could also lead to unnecessary time spent setting and monitoring charges to report the resultant revenue allocations down to a more granular price control level.

Companies should also be required to include narrative commentary explaining how they have allocated revenues between the four price controls.

Wastewater performance commitments - Table 3B

The 'better air quality' (PR19UU_C10-BR) performance commitment is bespoke to United Utilities. It is measured in Tonnes of NOx emissions per GWh of renewable electricity generated per year, and reported to 2 decimal places.

The performance output is calculated using an A/B formula, where A = total tonnes of NOx emitted per year and B = total renewable electricity generated per year.

Within the S3001 Performance Commitments technical document from our business plan submission, it was stated that the incentive rate was to be applied as a rate per tonne/GWh, as opposed to a rate per tonne only. This was applied in order to avoid deterring additional renewable electricity generation.

Based upon projections of tonnes NOx and GWh at that time, the incentive rate was calculated as £0.269m per 0.01 tonnes NOx per GWh.

Therefore, when calculating the corresponding outperformance or underperformance financial payments, a 0.01 point conversion is required in order to ensure the incentive is correctly applied. This was clearly stated in the both the proposed definition in S3001 and the worked example sections.

This means that as part of the standard (A–B) * C formula for calculating outperformance or underperformance ODI calculation, a conversion step must be included to ensure the correct incentive application. The correct formula is therefore ((A-B)*100) *C

This additional calculation step is required in order to accurately determine the underperformance or outperformance payment for this performance commitment. United Utilities would therefore like to highlight the use of this non-standard calculation step to Ofwat, in to avoid any potential ambiguity of financial reporting of this measure in AMP7. To overcome this issue in this reporting period, we have overridden the output in cell I19 in table 3B to reflect the correct financial position of £0.323m outperformance.

FFO / Debt – Table 4H (line 17)

We expect 'FFO / Debt' (line 17) within Financial Metrics (table 4H) is likely to be interpreted by users as mirroring the ratings agencies' calculations. Whilst we recognise that Ofwat has stated that its approach will differ to the credit rating agencies, we still consider it would be more appropriate that this ratio is calculated based on Standard & Poor's methodology to ensure consistency in the calculation of this metric. The key difference is that FFO should be calculated after deducting all underlying interest, not just cash interest as per the 'Funds from operations (FFO)' (line 14) definition. Net debt should also include any reported pension deficit. An additional sentence could be added to the existing line definition so it reads:

"Ratio of FFO to net debt. <u>FFO as per line 14 less interest charge for the accretion of index-linked debt. Net debt as per line 1 plus any reported pension deficit (as per table 1C, line 24).</u> We acknowledge that our approach to calculating this differs from some of the methodologies applied by the credit rating agencies."

Innovation competition reporting - Table 9A

The requirements of accounting and reporting the transactions relating to the PR19 Innovation Competition in 2020-21 were relatively straight forward given that no bids had been allocated, or cash transferred between companies, in year. As we progress into 2021-22, and this becomes more complex, we believe it would be beneficial for slight changes and clarity to table 9A to facilitate accurate and comparable reporting.

Line reference	Line title	Comment
9A.2	Price control revenue collected from customers	This table asks for price control income collected from customers. However nowhere in the table does it ask for any details about additional income collected from other water companies or payments made to other water companies following the awarding of projects. For completeness, to show total net income collected, we would recommend adding 2 additional lines showing 'income collected from other water companies' and 'payments made to other water companies'.
9A.4	Revenue collected from customers and transferred into the innovation competition fund	We would welcome clarity in the line definition as to what is expected to be reported on this line, particularly since there is no central innovation competition fund. For example is

		this the amount transferred to other companies? Does this include the amount 'transferred' from and to ourselves?
9A.5-20	Innovation spend per project – columns 2-5	For these columns reporting forecast and actual spend, to ensure consistency of reporting can you clarify in the line definitions that this is excluding the 10% shareholder funded amounts. We believe this should be the case to ensure consistency with column 1 project funding which is excluding this 10% shareholder funded element.
9A.5-20	Innovation spend per project – column 2 'Forecast expenditure on innovation projects funded through the innovation competition in year'	Can you clarify that this is forecast total spend across the whole project? (As opposed to in-year forecast spend. If intended as in-year forecast, how should this be derived given in-year actuals already known when reporting).
9A.5-20	Innovation spend per project, column 3 'Difference between actual and forecast expenditure in year'	We don't believe this column works in the current table format assuming forecast spend is on a project life basis and actual spend on an in-year basis. This column comparing actual to forecast would make more sense on a cumulative cost basis and presented once projects complete.
9A.5-20	Innovation spend per project, column 4 'Actual expenditure on innovation projects funded through the innovation competition'	It may be useful to also collect the per project actual spend split between operating and capital expenditure? (similar to enhancement opex/capex APR tables). This could be achieved by splitting the existing column 3 into two columns, one for opex and one for capex.
9A.5-20	Innovation spend per project, column 7 'Expenditure on innovation projects funded by shareholders'	Can you clarify in the line definition that this is the in-year spend? (as opposed to the cumulative spend). It may be beneficial to split this into 2 columns to show in-year and cumulative spend.

Other Issues

Wholesale/retail cost classifications – Table 2C

In the RAGs, there is some ambiguity surrounding the allocation of costs between the wholesale and retail price controls for:

- customer side leaks; and
- demand-side water efficiency initiatives.

For both these cost types, RAG 2.08 section 2.4 states that "*all expenditure in retail except where there is expenditure to meet wholesale outcomes*". This definition is subjective and, as demonstrated in companies' table 2C, results in opposing retail and wholesale classifications between companies, with a resultant inconsistency of reporting.

We propose the classification be replaced with "*wholly in wholesale*" justified as follows:

- customer side leaks - all water companies have significant programmes of work within their wholesale business required to reduce leakage by at least 15% in AMP7.
- demand-side water efficiency initiatives - water efficiency measures are designed to the meet the goals of our water resources management plan and protect both the short and long term resource requirements of our water resources.

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Issues regarding proforma tables:

Table	Line	Issue
Table 1C Statement of financial position	New line	**Current deferred income – grants & contributions (G&Cs) and adopted assets** Consistent with the presentation of non-current liabilities (lines 1C.26 & 1C.27), within current liabilities we believe two distinct lines for deferred income G&Cs and deferred income adopted assets should be added. This will improve transparency and ensure that total capitalised G&Cs and adopted assets can be reconciled to table 2E line 37 (carried forward G&Cs).
Table 1D Cash flow	1D.2	**Other Income** Currently 'Other income' line 2 is only be populated with *"the cash impact of other income in line 1A.5"*. This is not aligned with 'Operating profit' line 1 which is populated from table 1A.4 and includes non-cash items. This results in a mismatch of regulatory to statutory adjustments – for example the amortisation of deferred income is removed from 'Operating profit' 1D.1 but can't be reclassified to 'Other income' in 1D.2 as it is a non-cash item. We propose the 1D.2 line definition to be amended to remove the reference to cash impact and say "*Other Income. Equal to 1A.5*".
Table 1D Cash flow	New line	**Non-cash items** We propose to include an additional line within the top section of the table for 'Other non-cash items' so that the working capital and provision lines reflects true movements in working capital and provisions only.
Table 1E Net debt analysis	1E.1	**Table 1E Net debt analysis** The borrowing valuations used in line 1 represent a 'notional value' basis which we believe is more appropriate than book value and is in line with the guidance. In our opinion, the guidance could be more explicit in stating that 'notional values' should be used (as has been done in the guidance for 'Preference share capital' in line 2) rather than book values and recognising that this could create a reconciling difference to borrowings in table 1C. We are currently inferring the use of notional values from the guidance which states: *"The following should not be included: fair value accounting adjustments which do not impact on the principal sum outstanding on the debt or the total interest paid. For example when financial instruments, such as interest rate swap agreements are presented at fair value."*
Table 4I Financial derivatives	4I.26	Line 26 requires 'Other financial derivatives' to be included as one line to reconcile the total (line 27) mark-to-market value through to table 1C. We have three types of derivatives which feed into this line, being electricity swaps, forward dated floating to fixed interest rate swaps and RPI to CPI inflation swaps. In relation to the electricity swaps the nominal value by maturity would have been GWh rather than a financial amount and there is no weighted average interest rate to disclose only a fixed price per GWh. In relation to the forward dated floating to fixed interest

		rate swaps, the nominal value by maturity assumes the swaps have reached their value date which they have not due to them being forward starting. However, as the RPI to CPI swaps are not forward starting, their nominal value and weighted interest rates have been disclosed within line 26. As such we have disclosed a combined Mark-to-Market value for the three types of swaps in line 26, with the nominal value and interest rates only being relevant to the RPI to CPI swaps. We have provided additional analysis within the narrative regarding this. One potential solution to this issue might be to include another line within section A of the table for "index linked to index linked swaps"), specifically exclude commodity swaps from the table, and require a reconciliation instead to table 1C. Line 26 could then be used purely for forward starting swaps, we could provide a weighted average interest rate, but with these swaps we would remain unable to provide a maturity analysis due to them not having reached their value dates.
Table 4I Financial derivatives	4I.3-4I.5	No definition has been given for the accretion column. We would suggest "*Total accretion is equal to the inflation-uplift on the nominal amount of index-linked swap, which will be paid/received on maturity*".
Table 4I Financial derivatives	4I.26	There is no row for index-linked to index-linked swaps (i.e. RPI to CPI swaps), meaning we currently have to be include these swaps in 'Other financial derivatives' line 4I.26. We would recommend adding an additional line to this table (e.g. before 4I.7) 'Index-linked to Index-linked' so this could be separately disclosed.
Table 4I Financial derivatives	4I.11	We have a number of HKD currency interest rate swaps, but there is no row to accommodate these and they need to be input with other currencies in this line, skewing the weighted average interest rates. One solution to this issue might be to allow for more currency lines within the table, i.e. similar to Lines 21-23 for forward currency swaps which include CAD, AUD and HKD.
Tables 4N and 4O Developer services expenditure		The categories within tables 4N and 4O are inconsistent; within water (4N) 'New connections' and 'Requisition mains' are two separate lines, however within wastewater (4O) 'New connections and requisition sewers' are a single combined line. For consistency we suggest that these lines are reported on the same basis within each table e.g. 4O.1-2 split out between 'New connections' and 'Requisition sewers'.
5B / 8B		A number of tables (e.g. tables 5B and 8B), require costs to be segregated into direct and indirect. Whilst there is some guidance within the RAGs it is open to significant interpretation. Companies are also structured in differing ways which would lead them to treat costs differently between direct and indirect in comparison to others. As such, we do not see the benefit of asking companies to split their costs on this basis. To remove the ambiguity that segregating costs in this ways makes, we would suggest merging the 2 categories so there is no direct/indirect split provided.
Table 8B Operating cost analysis for Bioresources		There is a large % of costs which sit within the 'Other' column, for example in our 2020/21 APR table 8B 85% of sludge treatment opex was reporting in 'Other'. To provide improved disclosure we would

		recommend further splitting this out between 'Thickening', 'Dewatering' and 'Other'.
8B Operating cost analysis - Bioresources	8B.12-8B.22	'Incineration of digested Sludge' is shown in table 8B as being a sludge treatment activity. This appears to be inconsistent with RAG 4.10 which requires 'Incineration of non-treated sludge' (page 131) to be classified as Sludge Treatment and 'Incinerators (for completely treated sludge)' (page 132) to be classified as Sludge Disposal. Table 8B should be amended to include 'Incineration of digested sludge' in the Sludge Disposal block rather than Sludge Treatment. For further clarity, the guidance for Sludge Disposal on page 132 of RAG4.10 should retain the sentence 'If incineration of completely treated sludge takes place, then this should be included in 'sludge disposal' as was previously included in RAG4.08 (page 120).
RAG4.10 page 131	Network + Sludge liquor treatment	Liquor storage tanks are not identified in the assets list unless interpreted as ancillary assets. As this is open to interpretation, we think that this text should be clarified to confirm the position of liquor storage tanks in either the Bioresources or Wastewater Network Plus price control.
RAG4.10 page 131	Sludge transport	The unit cost description is Volume transported (m3). However data collection in table 8A is based on work done calculations with the unit m3*km/year or ttds*km/year. Ofwat needs to confirm what the appropriate unit is and ensure data is collected in the relevant units.
RAG4.10 p124-133	Unit cost description text	We have a general recommendation that where the units cost data is collected that the table and line reference is included in the unit cost description text to provide clear cross referencing to data tables.