



Ofwat  
Centre City Tower  
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Birmingham  
B5 4UA

By email only to: [REDACTED]

19/07/2021

Dear Sir/Madam,

### **Consultation on regulatory reporting for the 2021-22 reporting year**

Thank you for the opportunity to review and comment on the proposed changes to the Regulatory Accounting Guidelines, please find attached our responses to the questions posed and any additional observations.

Overall, our comments primarily fall into three categories:

- **Clarification of definitions.** There are several areas where all involved parties would benefit from additional clarification regarding the definitions to assist with consistent reporting across the industry.
- **Updates to the latest RAGs.** Following the Ofwat query process for 2020-21, we have noted that some of the errors identified through this process by various companies have not been updated within RAG 4.10. We have highlighted these within our table response to question 1.
- **Confidence in data for new reporting.** The consultation proposes the inclusion of data that is currently immature in its development. Overall, we support the new requirements, such as the leakage activity breakdown and acknowledge the benefits these bring in benchmarking against other companies in the industry. Consideration should also be given to how the industry can ensure consistency of reporting in relation to relatively immature data sets.



We confirm that we are happy for our response to be published.

Should you have any queries regarding this response please do not hesitate to contact me by email on [REDACTED] or

[REDACTED]

Yours faithfully,

[REDACTED]

**Kirstin Hutchinson**

Regulatory Compliance and Assurance Manager  
Yorkshire Water

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

We have reviewed the summary of changes provided in Appendix A3 and A4 of the consultation regarding the regulatory reporting for the 2021-22 reporting year. The table below provides our response to question 1. If we have not made a comment in the table below on a new requirement or change to the RAGs, it is because we have no concerns or further clarification being needed with its inclusion in future reporting.

Table	Line	Issue
<b>1D</b>	1D.2	As part of the 2020-21 RAG query process, the response to log 160 confirms that calculation for 1D.2 should replace 1A.5 with 1A.7. However, 1A.5 is still showing within the calculation within RAG 4.10 and needs to be replaced with 1A.7.
<b>2A</b>	2A.3	As part of the 2020-21 RAG query process, the response to log 149 states 2A.3 should "equal to $2C.8 \times (-1)$ ". This definition within RAG 4.10 still looks to be incorrect.
<b>2A</b>	2A.3	As part of the 2020-21 RAG query process, the response to log 229 confirms that calculation for 2A.3 should BE ' $(2C.8 + 2C.19 + 2C.20) \times (-1)$ '. However, RAG 4.10 still shows the previous calculation and requires amending.
<b>2B</b>	2B.18	As part of the 2020-21 RAG query process, the response to log 38 states '2B.18 should be defined as; Total developer services capital expenditure rather than operating expenditure. We will propose this change in our 2021-22 consultation'. However, no change has been made to RAG 4.10 to reflect this.
<b>2C</b>	2C.30 & 2C.31	The guidance for 2C.30 and 2C.31 states 'Allowed in the PR19 FD'. We will assume that that this will be against the CMA redetermination and that other companies that went through CMA, will do the same to provide consistent benchmarking.
<b>2C</b>	2C.30 & 2C.31	For Table 2C.30 and 2C.31, clarification is required if the reported numbers should be 'Out-turn' prices or 'Nominal' prices.

<b>2C</b>	2C.30 & 2C.31	The RAG guidance for 2C.30 states, 'Cumulative total retail expenditure for the period 2020-25 to reporting year end' and 2C.31 states 'Cumulative retail expenditure allowed in the PR19 FD for the period 2020-25 to reporting year end'. Confirmation is required that only singular year-end expenditure is required against these data items.
<b>2F</b>	2F.11	As part of the 2020-21 RAG query process, the response to log 9 confirms that 2F.11 requires the calculation amending to multiply the figure by 1,000. RAG 4.10 does not reflect this and needs amending.
<b>2K</b>	2K.1 & 2K.5	The proforma tables that have been published do not appear to have been fixed in the way the consultation paper suggests. Lines 2K.1 and 2K.5 still show as '1   C' rather than 'C C C'.
<b>3D</b>	3D.4	As part of the 2020-21 RAG query process, the response to log 144 confirms that calculation for 3D.4 should remove 2E.10. However, 2E.10 is still showing within the calculation within RAG 4.10.
<b>3D</b>	3D.5	As part of the 2020-21 RAG query process, the response to log 144 confirms that calculation for 3D.5 should remove 2E.23. However, 2E.23 is still showing within the calculation within RAG 4.10.
<b>3F</b>	3F.4	As part of the 2020-21 RAG query process, the response to log 28 confirms that definition for 3F.4 should state "Total household population served for water excluding business". However, this change hasn't been made within RAG 4.10.
<b>3F</b>	3F.9	As part of the 2020-21 RAG query process, the response to log 43 confirms that definition for 3F.9 should state "Total number of residential properties billed for water (4R.19 total column) and/or wastewater services within the supply area at the end of the report year. Excludes void properties". However, this change hasn't been made within RAG 4.10.

<b>3F</b>	3F.4	As part of the 2020-21 RAG query process, the response to log 45 confirms that definition for 3F.4 should state "Total household population served for water excluding businesses". However, this change hasn't been made within RAG 4.10.
<b>3I</b>	3I.4	As part of the 2020-21 RAG query process, the response to log 101 confirms that "Spot" should be changed to "patch" within the definition for 3I.4. However, this hasn't been amended.
<b>4B</b>	4B.1-616 (Category Column)	We would welcome further clarification on what is expected in the category column.
<b>4B</b>	4B.1-616 (Issue date Column)	<p>We would welcome further clarification within the definition on whether this is for all instruments or just those with a forward start date.</p> <p>If the definition is to include all instruments, please confirm if the first trade date of the swaps should be used and to ignore any restructuring/ novation dates?</p>
<b>4B</b>	4B.1-616 (Issue price Column)	<p>Our expectation would be to only provide an 'Issue Price' for publicly listed debt instruments. E.g. Financial derivatives would show 'n/a'.</p> <p>Can Ofwat please confirm this to be an acceptable view?</p>
<b>4B</b>	4B.1-616 (Issuance costs Column)	We would welcome clarification on whether this is expected to be unamortised debt issue discount/premiums and costs for the year-end balance sheet.
<b>4B</b>	4B.1-616 (RPI interest rate & CPI interest rate Column)	Clarification is required if these are intended to be the same as "Real RPI Coupon and Real CPI Coupon" in the 2020-21 APR table and RAG 4.10 guidance.
<b>4B</b>	4B.1-616 (Issuer Column)	Where debt and hedging derivative instruments have been amalgamated onto one line (and the debt and derivative instruments sit in different legal entities) we would welcome confirmation within the definition on whether the issuer of the underlying debt issue should be reported.

<b>4C</b>	4C.24	The definition against 4C.24 'Total company share of totex overspend' within RAG 4.10 is blank. This data item is a calculated cell and we would expect the definition to show, what makes up the calculation.
<b>4C</b>	4C.25	The definition against 4C.25 'Total company share of totex underspend' within RAG 4.10 is blank. This data item is a calculated cell and we would expect the definition to show what makes up the calculation.
<b>4C</b>	4C.26	The definition against 4C.26 'Total customer share of totex over/under spend' within RAG 4.10 is blank. This data item is a calculated cell and we would expect the definition to show what makes up the calculation.
<b>4D</b>	4D.10	The consultation paper states 4D.11 now correctly refers to 4N.11. We believe this should be 4D.10 which should refer to 4N.11.
<b>4E</b>	4E.10	The consultation paper states 4E.11 now correctly refers to 4O.9. We believe this should be 4E.10 which should refer to 4O.9.
<b>4I</b>	All	As raised as part of the 2020-21 RAG query process, within RAG 4.09, Tables 4H and 4I had the same line titles and definitions as each other which was accepted as an error. This error has not been rectified within RAG 4.10, the wrong line titles and definitions sit within 4I.
<b>4J</b>	4J.1	As part of the 2020-21 RAG query process, the response to log 19 confirms that definition for 4J.1 incorrectly states 'Copied from 4N.1 and 4O.1' as this cell is an input cell. RAG 4.10 still shows this within the definition and requires removing to avoid confusion.
<b>4K</b>	4K.1	As part of the 2020-21 RAG query process, the response to log 20 confirms that definition for 4J.1 incorrectly states 'Copied from 4N.1 and 4O.1' as this cell is an input cell. RAG 4.10 still shows this within the definition and requires removing to avoid confusion.

<p><b>4L</b></p>	<p>All</p>	<p>Please confirm the final source of the 'allowance' amounts they require entering for:</p> <ul style="list-style-type: none"> <li>• Cumulative allowed expenditure on all schemes to reporting year end.</li> <li>• Cumulative allowed expenditure on all schemes 2020-25.</li> <li>• We are working on the assumption that, for example, for 4L.52 (Meeting Lead Standards) we would source the allowance from 'FM_E_WW_lead-standards_FD.xlsx' published as part of the Final Determination.</li> </ul> <p>If the working assumption above is correct presumably we are also required to re-price the allowance figure from 2017-18 to the outturn price base for comparative purposes?</p>
<p><b>4M</b></p>	<p>All</p>	<p>Please confirm the final source of the 'allowance' amounts they require entering for:</p> <ul style="list-style-type: none"> <li>• Cumulative allowed expenditure on all schemes to reporting year end.</li> <li>• Cumulative allowed expenditure on all schemes 2020-25.</li> <li>• We are working on the assumption that, for example, for 4M.10 (Schemes to increase flow to full treatment) we would source the allowance from 'FM_E_WWW_flow-to-full-treatment_FD.xlsx' published as part of the Final Determination.</li> </ul> <p>If the working assumption above is correct, please confirm that we are also required to re-price the allowance figure from 2017-18 to the outturn price base for comparative purposes.</p>

<b>4R &amp; 6D</b>	4R.17-4R.22 6D.1-6D.15	Whilst we agree with the split between 'Basic meter', 'AMR meter (remote read only)' and 'AMI meter', the introduction to the 'AMR meter (AMI upgrade capable)' requirement is complex and provision of accurate data would be difficult. There would be a significant amount of assumptions required to be able to provide a figure for this, as to understand if an AMR meter was AMI upgrade capable, the age of meter, location, manufacturer and size of meter would all need to be taken into account. This is not something that we currently report on or have readily available.
<b>4S, 4T &amp; 4U</b>	All	Whilst we don't have any 'Green Recovery' schemes in place, we believe it would be beneficial for a definition on 'Green Recovery' was published within RAG 4.10.
<b>5A</b>	5A.20	As part of the 2020-21 RAG query process, the response to log 3 states "raw water transport should be deleted from the 5A.20 definition". However, within RAG 4.10, this is still stated against 5A.20.
<b>5A</b>	5A.18	As part of the 2020-21 RAG query process, the response to log 132 confirms that definition for 5A.18 should remove the reference to bankside storage facilities. However, this is still referenced within RAG 4.10.
<b>6D</b>	6D.1-6D.15	As 'AMI Meter' has been added into this table, the 'Smart meter' column can be removed as these are the same.
<b>6E</b>	6E.4 (Asset renewal and replacement Row)	We do not currently associate asset renewals or replacement as a leakage enhancement activity.  To assist us in developing our reporting appropriately for future requirements, we would welcome early clarification on whether there would be an expectation to see this in the table.
<b>6E</b>	All	If a new specific table is to be introduced for this, we believe that the requirement for 6D.16 could be removed as these would be a duplication of the totals held within 6E.

<p><b>6E</b></p>	<p>All</p>	<p>The data table for 6E sets out Capex, Opex, Totex and leakage saved benefits for each financial year between 2020-21 and 2024-25. Clarification is required to understand if a forecast is needed for the years ahead of the reporting year. Also, please clarify if the 2020-21 figure would need to be backdated/calculated should the consultation for 'Regulatory reporting 2021-22' be approved for this Table. We would like to highlight that if there is a requirement to backdate against 2020-21, there would be a significant amount of work required to analyse and produce a figure at activity level retrospectively.</p>
<p><b>6E</b></p>	<p>All</p>	<p>We understand the importance in providing more detail on leakage costs and support the further provision of this information. However, there may be difficulties in apportioning the costs to either 'maintaining' leakage or 'reducing' leakage. Several methods have been suggested to be able to do this, our concern is that there will be different methodologies across the industry which would make it difficult to compare like for like. We would recommend a working group is set up to agree how all companies report on this using consistent methodologies.</p> <p>RAG 4.10 states 'We recognise that reporting and proportioning of costs and benefits may vary between companies. We believe that whilst in its infancy, this reporting should be provided outside the APR or in a separate submission as previously done for 'Cost assessment reporting'.</p>

<b>6F</b>	All	Overall, we are comfortable with the introduction to Table 6F 'WRMP annual reporting on delivery - non-leakage activities' However, if a new specific table is to be introduced for this, we believe that the requirement for 6C.22, 6C.23 and 6C.25 could be removed as these would be a duplication of the totals held within 6F. This would remove the task of reporting the same data twice.
<b>7F</b>	All	We require further clarification within the definition that we should only report incurred (actual) costs and not projected forecasts.
<b>7F</b>	All	Having referred to RAG 4.10 please confirm that -we correct in assuming that only the incurred (actual) costs for each year should be reported? Any forecast costs (at the time of reporting) in later years are not required to be entered.
<b>7F</b>	Opex	For Table 7F, we would be unable to provide the operating costs at an asset level as our current expenditure reporting against 'WINEP phosphorus removal scheme costs' are done at a sub-asset level as opposed to an asset level basis. If asset level of detail is required, we would need to provide on a management estimate basis or on an asset standard basis. The expected level of detail against this table requires further clarification.
<b>7F</b>	All	We would welcome clarification within the definition on whether Table 7F reconciles back to aspects of Table 4M.28-30 and whether it is the incremental costs only, which are required to be reported within Table 7F as a result of WINEP phosphorus removals.
<b>RAG 3.13</b>	Accounting methodology statement	As part of the 2020-21 RAG query process, the response to log 24 states there will be an amendment to the 'Accounting methodology statement'. However, when comparing RAG 3.12 and 3.13, no change appears to have been made.

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?

A summary of our response to last year's RAG consultation remains the same and there are three key points:

- There is a need for careful consideration and alignment on methodologies nationally before introducing new requirements.
- We see a vital need to share best practice in data but more so in terms of process and procedures to maximise the benefits across the whole industry.
- Reporting must be consistent and in a format that all our stakeholders can understand and follow.

Following on from 2019/2020's voluntary reporting of GHG emissions, we fully support the mandatory requirement moving forward.

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

We are comfortable with the information requested in Table 2. In addition, we already report several metrics and data through the 'Streamlined Energy and Reporting'. As greenhouse gas reporting evolves in the APR, we would like to seek reassurance on consistency of reporting across various requirements to avoid duplication or confusion. For example, within our statutory accounts, the Annual Report and Financial Statement (ARFS), we report as a legal requirement and have also reported our emissions to obtain 'The Carbon Trust Standard' which both use different methodology and numbers. We believe that the APR to be consistent with the ARFS.

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

There are two challenges for embedded emissions reporting;

1) Scope and boundary of emissions i.e. when and what is reported. For example, where do companies record the baseline emissions against production? PAS2080 suggests most carbon is designed out between the concept and design phases, but carbon emissions also arise during build phase etc. A suitable framework must be agreed as opposed to a prescriptive measuring tool that follows the global standard. We believe that the approach used should be PAS2080. The approach should also consider that many capital projects fall across several reporting years, while the concept and design may be able to be assessed in year one, the actual build phase and carbon emissions from this phase may not occur until year two.

2) Currently, many companies are less advanced in reporting embedded emissions and we are concerned that our comprehensive approach, which has been developed over a number of years, will be replaced by a simple spend to carbon approach in order to fit with the required timescales of mandatory reporting. We recommend that Ofwat adopts a collaborative approach where all water companies fall into the principles and approach of PAS2080 so that whole systems thinking is applied rather than a rush to report a number.

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?

See response to Q4. We think all companies should follow the PAS2080 approach, but it should be noted that it requires considerable time and effort to fully embed these systems and collect data to deliver a capital programme to this standard.

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

Better effort may be spent in assessing what true low carbon assets look like, how can we deliver them and how to deliver them at best value to the customer rather

than additional numerical reporting. A focus on best practice delivery would be more valuable than collecting more voluntary data such as number and size of projects.

**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?**

RAG2 currently states that allocation should be made on the basis of 'gross modern equivalent asset' or 'GMEAV'. We believe the use of asset values to apportion the cost across the assets in the various Price Controls is a preferable approach because:

- It gives a consistent approach to all assets
- It is more appropriate that all assets being used in the service should attract a proportion of the rates costs – if we moved to profit values as opposed to asset values, then companies would need to show profit by each asset group within each Price Control, which will generate a greater administrative burden and raises the question on whether all areas would make a profit – e.g. Raw Water pre-treatment.
- The basis of the current rating methodology may change in the future – we are currently waiting for the outcome of the Government Fundamental Review (due in the Autumn).

**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?**

We can confirm that we do not possess any jointly owned or operated assets with another company. As a result, we do not seek any specific guidance on this or have any views on what should be covered by this guidance.