

Consultation on regulatory reporting requirements for new appointees in 2021/22

Question 1

Do you have any comments on our proposed documentation approach?

Response

We fully support Ofwat's proposed approach for developing new appointee-specific regulatory documents. This will reduce the burden on regulation teams for identifying the scale and scope for required submissions, and will reduce the likelihood of regulation requirements being missed.

Ofwat's proposed approach for RAG5 publications is pragmatic.

Question 2

Do you have any comments on the issues raised in our May and June 2021 consultations on the main RAGs?

Response

We have no comments on the issues raised.

Question 3

Do you agree with our proposals for which parts of the existing RAGs should apply to new appointees, our proposed adjustments and the drafting in Annex A1?

Response

Area	Item	Reference	Comments
Cost allocation	Cost allocation principles	RAG 2, paragraph 2.1	We agree these principles should be applied to new appointees.
Cost allocation	Allocation of capital costs between price control units	RAG 2, section 2 (except for paragraph 2.2 and with references to 'business units' instead of 'price	We agree these requirements should be applied to new appointees.

		control units')	
Cost allocation	Allocation of operating costs between retail and wholesale	RAG 2, section 3	We agree with the principle that operating costs should be correctly allocated between business units, and agree that the cost allocation principles are appropriate. However, we are concerned with the suggested levels of precision set out in RAG2, section 3, table 1 (other operating expenditure).
Cost allocation	Allocation of retail operating costs between residential and business	RAG 2, section 4	We agree with the principle that operating costs should be correctly allocated between residential and business retail, and agree that the cost allocation principles are appropriate. However, we are concerned with the suggested levels of precision set out in RAG2, section 4, table 2 (other operating expenditure).
Cost allocation	Allocation of residential retail operating costs between measured and unmeasured services	RAG 2, section 5	<p>We do not agree that the requirements for allocating retail operating costs between the different categories of customer is appropriate for new appointees.</p> <p>In almost all circumstances, there are no unmetered customers served by new appointees.</p> <p>At the current scale of new appointees, we don't believe the benefits from a disaggregated allocation of retail operating costs outweighs the efforts associated with the allocation of the costs. This may change as new appointees become larger.</p>
Accounting disclosures	Statement on executive pay and performance	RAG 3, paragraphs 3.3, 3.4, 3.6 (first	We agree that these parts of RAG 3 should apply to new appointees.

		nine bullets only – aligned with statutory requirements and excludes PR19 expectations)	
Accounting disclosures	Statement on dividend policy and explanation of dividends paid	RAG 3, paragraphs 3.11 to 3.17 (except for paragraphs 3.13 and 3.15 which refer to PR19 expectations)	We agree that these parts of RAG 3 should apply to new appointees.
Accounting disclosures	Revenue recognition note	RAG 3, paragraph 3.20 (first bullet point only – a description of adjustments between statutory and regulatory turnover)	We agree that this part of RAG 3 should apply to new appointees.
Accounting disclosures	Bad debt note	RAG 3, paragraphs 3.22 to 3.25	We agree that these parts of RAG 3 should apply to new appointees.
Accounting disclosures	Ring-fencing certificate or certificate of adequacy	RAG 3, paragraphs 3.27 to 3.29	We agree that these parts of RAG 3 should apply to new appointees.
Accounting disclosures	Differences between statutory and RAG definitions	RAG 3, paragraphs 3.32 to 3.33	
Narrative on performance	Board statement on accuracy and completeness of data and information	RAG 3, all paragraphs (with an additional statement confirming	We agree that these parts of RAG 3 and the additional statement set out in Annex A1 should apply to new appointees.

		whether any third-party assurance or audit has been undertaken in relation to regulatory reporting – see Annex A1)	
Transactions with associates and the non-appointed business	Transactions with associates and the non-appointed business	RAG 3, Section 5 (with the threshold for declaring single transactions reduced from £100,000 to £10,000 for new appointees)	We agree that these parts of RAG 3 should apply to new appointees.
Accounting methodology statement	Accounting methodology statement	RAG 3, A2 (adapted for new appointees – see Annex A2 of this document for an example).	We agree that these parts of RAG 3 (as detailed in Appendix 2) should apply to new appointees.

Question 4

Do you agree with our proposed approach for new appointees to produce an accounting policy and methodology note and the draft text in Annex A2?

Response

We agree with the proposed approach that new appointees should produce an accounting policy and methodology note as suggested in Annex 2. However, we have concerns that the level of effort required in order to compliantly separate out some items of costs will likely be greater than the benefits for doing so; especially for “other operating expenditure” cost categories.

Question 5

Do you agree with our proposed approach for allocating regulatory costs?

Response

We agree with the proposed approach for allocating regulatory overhead costs, and welcome Ofwat's relatively prescriptive approach. This will increase the likelihood of a consistent approach for regulatory overhead allocation across new appointees.

Question 6

Do you have any comments on the format and draft line definitions of the financial reporting tables for new appointees?

Response

None

Question 7

Do you have any comments on the format and draft line definitions of the performance reporting tables for new appointees?

Response

Performance table P1, line definition 28; we would like clarification on the treatment of sewers which are built and in use, but have not yet been adopted due to ongoing developer services processes. Should these sewers be counted in the overall site meterage?

Question 8

Do you agree with our proposed approach to unique identifiers?

Response

We agree that unique site identifiers could aid with long-term data management. Our preference would be for Ofwat to prescribe unique identifiers by site.

Question 9

Should we introduce further granularity in reporting against the guaranteed standards scheme in the performance reporting tables?

Response

We believe site-specific reporting should be included in the performance reporting tables. If this level of granularity were adopted, it could remove the need for the recently introduced

performance summaries. Ofwat may wish to produce and publish its own summary data in a standardised format.