

By email: annualreporting@ofwat.gov.uk

Ofwat
Centre City Tower
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3rd March 2023

Dear [REDACTED],

Consultation on Regulatory Reporting for 2022-23

We have set out below our views on the proposed changes to Regulatory Reporting for reporting year 2022-23 and have structured our reply using the section headings and questions in the consultation document. We have not commented on section 10 and 11 as they relate to wastewater topics.

3. Proposals for 2022-23

Using the appendix A2 template, our suggestions and comments on individual table lines are as below:

Table	Line	Issue
4D	4D.2	References 4L.88 in RAG4.11; this should be 4L.115, per revised tables
4D	4D.9	References 4L.87 in RAG4.11; this should be 4L.114, per revised tables
6A	6A.20-27	There is no definition for 'Maximum Production Capacity MI/d' (page 113 of the RAG 4.11). We continue to assume this has the same meaning as 'Peak week production capacity' which is now included in the RAG as 6A.28.
6A	6A.29-30	These line definitions lack clarity - see comment in section 9 below.
6B	6B.37	It would give greater visibility to stakeholders if the volume for 'water taken unbilled' were split between water that taken 'legally' and that taken 'illegally', as was the case with the original June Return table 10 water balance.
6C	6C.22	We feel this line definition to be unclear as to whether areas supplied by NAVs are to be included or excluded from the Company area km ² .
6C	6C.25	We do not support this line being included in the APR. Please see further comments under section 7 below.
6C	6C.26	Whilst we support the concept of 'average hours of low pressure', we feel the definition as written here is not sufficient for a common basis of reporting. Please see our further comments under section 7 below.

We would also mention that the line numbers in RAG 4.11 do not always align to those given for the same definition in the PR24 business plan tables (V3-02-final issued on 07/02/2023). No doubt Ofwat will aim to ensure they match once the APR tables are finalised after this consultation process.

4. Swaps and pensions disclosures

We support the additional disclosure requirements for tables 4B and 4I, and new tables 4V and 4W. We provided shadow reporting information to Ofwat on this topic in January 2023 and will include the relevant information in our current year APR.

5. Enhancement costs

We confirm that we will be able to provide additional disclosure on the infrastructure relating to smart meter installation in table 4L in 2022-23 and going forwards.

6. Expenditure on non-price control diversions

Previously we have provided totex in table 4P for non-price control diversions but welcome the split between opex and totex in this table to ensure we can analyse costs between developer services opex and capex totals included in 4D and the breakdown in both 4N and 4P.

7. Low Pressure Reporting

Question 2	<i>Is reporting the average time of low pressure feasible for the 2022-23?</i>
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We support 'average time of low pressure' as being a better measure for industry reporting of properties experiencing low pressure.

As average time of low pressure is a bespoke performance commitment for us (PR19AFW_W-D5a), we already report against this measure in our APR.

For a company to report average time of low pressure it would have to have reasonable coverage of 'critical point' pressure loggers; a critical point logger being a permanently installed/continuously monitoring pressure logger fitted at the point within a district meter area (DMA) where low pressure is most likely to occur. Generally, this will be the highest ground level AOD of the mains within the DMA.

The definition given in 6C.26 would not give consistent reporting across companies. Reporting cannot be by 'all pressure loggers' as suggested in the line definition; it has to be by critical point loggers. For example, pressure loggers at district meters (the input to the DMA) do not usually pick-up low pressures as they will not register the head losses seen within and across the DMA i.e., the hydraulic gradient that occurs between the district meter input and the critical point within the DMA.

The 6C.26 definition also makes no mention as to whether any exclusions may be allowed, nor the minimum period for low pressure to count as a reportable duration.

The denominator for the measure should reflect the proportion of properties covered by critical point loggers, not the count of total connected properties. If, for example, only 50% of properties were covered by critical point loggers, the denominator should be 50% of total

connected properties. Without this, a company is advantaged by having a low percentage coverage of critical point loggers.

Our AMP7 performance commitment is bespoke, and we designed it to be specific to Affinity Water. However, if there were wider interest, it would be transferable to other companies, provided they had reasonable coverage of critical point loggers.

The principles of our measure are:

- Ideally, at least one critical point logger within each DMA.
- Each critical point logger is assessed as to whether it is representative of all a DMA or only part of it.
- A low pressure event is any continuous period of an hour or more (i.e. four 15-minute readings on the logger) with pressure below 15m head.
- The target pressure of 15m head is adjusted for where the logger is not at the same height as the highest property connection e.g., 16m head is required if the logger is sited 1m lower than the highest property connection; 17m head if 2m lower, etc.
- The pressure used for calculating each event is the average pressure seen for the duration of the period when pressure is below 15m head (allowing for any adjustment as above).
- Logger pressure readings and property connection heights are rounded to the nearest whole number. This is to ease the calculation of properties affected per metre drop in pressure. (The number of properties affected is referenced to a look-up table in one-metre bands).
- There are no exclusions for one-off events, planned work, etc.
- Exclusions are included for a maximum of five days of abnormal demand seen on each logger in the year.
- Property-hours of low pressure for each event are the sum of properties affected x duration of event, e.g. an event affecting 100 properties for 90 minutes would equal 150 property-hours.
- The property-hours sum of all low pressure events within the report year is divided by the total number of properties covered by critical point loggers to give an hh:mm:ss average. We currently have 87.6% of properties covered by critical point loggers.

Question 3 *What resource is required to report this information initially and on an ongoing basis?*

- a. Reasonable coverage of critical point pressure loggers. However, coverage does not need to be 100%.
- b. The ability to record the average pressure for any period when pressure is below 15m head (or whatever pressure a common set of guidance were to stipulate).
- c. Reliable property count records based on ground levels from GIS.

- d. Comprehensive maintenance programme to ensure critical point loggers are in working order and giving reliable results.

We recognise the way we determine average time of low pressure is to our own design. It is possible companies would have differing views as to how this could best be calculated. Wider industry discussion to determine a common standard may mean us having to change our approach, so we could not be sure this would not have resource implications for us.

Question 4	Do you think that reporting both <ul style="list-style-type: none">• the number of properties below the minimum standard of pressure; and• the average time of low pressure provides useful information?
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We are not supportive of companies having to report 'properties below reference level at end of year as proposed in 6C.25. We feel neither the 2017 common guidance 'Properties at risk of receiving low pressure' nor the former June Return DG2 guidance to be fit for purpose and do not give a basis for comparative reporting across companies.

It is important to remember that the provisions within the guidance were written more than 30 years ago, at a time when knowledge and understanding of network pressures was limited. Network modelling and data loggers were still relatively new technology; permanently installed 'critical point' loggers were only just beginning to be installed and few companies had any. The guidance was written to what seemed like a sensible and pragmatic methodology. It was for the time a good piece of work; the guidance was clear in its intentions, but nevertheless understanding was in its infancy in terms of practical application.

In the intervening 30-plus years the guidance has not revisited and revised in the light of companies' experience of working with it and the increasing accumulation of data and understanding of network pressures. Until the WRc project in progress now, there has never been a forum for discussing guidance, methodology and best practice. This is very much in contrast to other measures, most notably leakage, and meant each company went its own way in developing a methodology. When Ofwat started to apply financial penalties based on companies reported numbers, companies looked at how the precise wording (rather than the intention) of the guidance might be interpreted and applied. Overall, there has been growing divergence rather than convergence in companies' reporting methodologies.

Below are examples of areas of the guidance that companies may have chosen to apply differently to that intended originally:

- 1) The opening statement in the guidance is: *The aim of this indicator is to identify the number of properties that have received, and are likely to continue to receive, pressure below the reference level when demand is not abnormal.* Some companies may have taken this as the defining statement, ignoring the fact that the guidance later makes clear that only a maximum of five days (or an alternative of 25 days over five years) can be excluded for abnormal demand. Ignoring the 5-day rule would discount most of the properties affected by low pressure.

- 2) The 2017 version of the guidance includes this paragraph: *The total number of properties in the undertaker's area of water supply which, at the end of the year, have received, and are likely to continue to receive, a pressure or flow below the reference level.* Some companies may have read the words ... *at the end of the year, have received ...* as saying ... *at the end of the year are receiving ...*, which completely changes the meaning of the paragraph and the intention of the guidance. Most properties that have received low pressure will be discounted by this, as relatively few properties have low pressure at the end of March, it being a time when water demand is low and the network likely to be in a calm state.
- 3) The guidance has effectively two different reporting criteria that co-exist within the same measure: the reference level (9 litres per min at 10 metres head in the communication pipe) and the surrogate level (15m head in the main in the street outside the property). The reference level assumes that (in general) to deliver the 9l/min at 10m.hd reference level an additional 5m head is needed in the main, and conversely that an additional 5m will be sufficient to overcome any deficiency in the communication pipe unless specifically proven otherwise. The guidance says: *In practice, companies will report the number of properties served by a main in which the measured pressure falls below the surrogate for the reference level (usually 15m head in the adjacent distribution main) subject to the allowable exclusions.* It is ambiguous whether 'will' in this context means 'companies shall ...' or 'companies will in practice probably ...'. Companies may be exploiting this by carrying out a one-off flow & pressure test at the property boundary box at a date and time when pressure in the main is good, declare that they are meeting the reference level and that (in effect) this one-off test 'trumps' data from a logger recording pressure continuously through the year.
- 4) The guidance says: *Companies should use a surrogate of 15m head in the adjacent distribution main unless a different level can be shown to be suitable.* It can be legitimate to assign a lower surrogate to a specific property, typically for a remote property where pressure is marginal, but the communication pipe is in good condition and capable of delivering the reference level with less than 15m head in the main. However, some companies may be applying a surrogate of less than 15m head universally.
- 5) The June Return version of the guidance says: *Section 65 of the 1991 Water Industry Act: In some circumstances companies do not have a duty to provide customers with a constant supply of water under pressure (usually because the properties cannot be supplied by gravity from an existing service reservoir). If such properties receive a level of service below the reference level, they must be included in the reported DG2 figures.* Some companies will have chosen to interpret this paragraph as saying the opposite of what it says, and not include properties that sit close to the service reservoir level and receive daily or constant low pressure.

- 6) A key aspect of the guidance is that it allows for the exclusion of certain 'one-off' events. The guidance says: *This exclusion covers a number of causes of low pressure: mains bursts; failures of company equipment (such as Pressure Reducing Valves or booster pumps); firefighting; and action by a third party. If problems of this type affect a property frequently, they cannot be classed as one-off events and further investigation will be required before they can be excluded.* The guidance gives no guidance as to what constitutes 'frequently' or what the intended outcome should be of 'further investigation'. A company may be masking continuing or recurring problems by declaring each event to be a 'one-off'.
- 7) There is some ambiguity in the guidance as to whether a low pressure event of one hour is reportable or excludable. The guidance says: *... low pressure incidents of less than one hour may be excluded,* but elsewhere it refers to events that last more than an hour. As the industry standard for permanent data loggers is 15-minute readings, there will inevitably be many low pressure events of exactly one hour (i.e. four consecutive 15-mins readings on the logger). Some companies report events of one hour or greater, but others report only those greater than one hour.
- 8) The June Return version of the guidance says: *Properties should only be removed from the DG2 figures and the register when there is a specific and auditable reason for doing so.* Companies may be inconsistent in the degree of rigour applied to confirming that properties are unlikely to continue to receive low pressure.
- 9) Some companies quote their performance reporting as 'properties at risk of persistent low pressure'. Receiving low pressure and persistent low pressure are very different things (see points 1 and 2 above). The guidance makes no mention of 'persistent'.
- 10) Companies that do not have a low pressure performance commitment will report numbers for the purpose of the WaterUK 'Discover Water' web site only. In view of the significant amount of work involved in reporting according to the Ofwat guidance, it is likely some companies numbers are produced with only cursory attention.

8. Treated water distribution

We support the collection of additional granular data to inform the make-up of the water balance (new lines 6B.29 to 39, and 58 to 67).

We support the inclusion in table 6D of additional lines relating to the replacement/upgrade of existing meters with smarter technology.

9. Water resources – asset and volumes data and raw water transport, raw water storage and water treatment data

We support the inclusion in table 5A of an additional line (5A.30) for the number of completed WINEP/NEP investigations.

We support the inclusion in table 6A of an additional line (6A.28) for Peak week production capacity.

However, the line definitions for 6A.29 and 6A.30 are not adequate and could be interpreted by companies in different ways. Is the intention that reporting is where expenditure has been incurred in the report year irrespective of whether works have progressed to the point where actual production is benefitting from those enhancements? Should this be only where expenditure has been incurred in the report year, or at any time within the current AMP? Should it relate to expenditure incurred or expenditure intended also?

12. Innovation competition

We do not foresee any difficulties with the changes proposed to table 9A.

13. Greenhouse gas emissions reporting

Operational greenhouse gas emissions

Question 5	<i>Do you have any comments on our approach to continue to align the GHG reporting requirements to the latest version of the Carbon Accounting Workbook?</i>
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We support the approach to continued alignment to the latest version of the Carbon Accounting Workbook (CAW).

Question 6	<i>Do you have any comments on our reporting guidance for GHG intensity ratios?</i>
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We support the reporting of intensity ratios and the Ofwat guidance for this.

Question 7	<i>Do you have any comments on the proposal to expand the scope of mandatory reporting for operational GHG emissions?</i>
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We have previously reported the emissions associated with the production of chemicals and are supportive of this as part of mandatory reporting. We would however note that the emissions factors associated with chemicals are often based on information in the CAW that is now 10+ years old and would benefit significantly from investment in updating. Should chemical usage be included within operational emissions, this will lead to considerable differences in the reporting under the banner of 'operational emissions' for Ofwat and the WaterUK Net Zero target. This could make it more difficult for customers and stakeholders to understand our performance and how it compares with other companies.

Generally, we are supportive of increased emissions reporting where there are appropriate tools (such as the CAW) available to do so and the collection of required input data is proportionate with respect to resource requirements. To provide a clearer narrative to customers and stakeholders we would welcome a consistent set of scopes and terminology to be used across the water sector helping us to differentiate to customers the difference between our sets of emissions accounts and targets.

Embedded emissions framework

Question 8	<i>Do you have any comments on the introduction of our mandatory framework for the reporting of embedded emissions?</i>
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We are supportive of the aim to ensure consistent reporting on embedded emissions by 2027-28 through reporting framework review.

We estimate and report on emissions associated with capital projects using our asset-based Capital Carbon estimation tool. This tool is focussed on providing estimates for cradle-to-built asset (stage A-1 to A-5 within PAS 2080). To estimate cradle-to-gate emissions will require additional work and a number of assumptions to be made. We would suggest that in relation to the traffic light system, being able to report either cradle-to-built asset or cradle-to-gate should be considered Amber, while reporting both is considered Green.

Question 9	<i>Do you have any comments on distinguishing between construction and maintenance activities for the reporting of capital project emissions?</i>
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We feel this may be something difficult for the industry to do in practice, but recognise it is something we shall have to work towards.

Question 10	<i>What are the key challenges that need to be considered and addressed in introducing a rating system designed to facilitate increased standardisation and continual improvement in the reporting of embedded emissions?</i>
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We recognise several key challenges when introducing standardised reporting:

- a) Water companies are at different stages of maturity in their journey to understand, report and reduce embedded emissions, some will have invested heavily in bespoke tools specific to their supply chain and capital programme. It seems unlikely that a single framework or tool (similar to the CAW) will be able to work for all without considerable challenge or compromise and potentially disincentivising emissions reductions.
- b) Reporting frameworks and standards such as the GHG Protocol recognise that organisations will need to utilise differently types of data and method to enable reporting dependant on their level or reporting maturity including:
 - Supplier specific
 - Hybrid
 - Average-product
 - Average-spend

Each of the above type can be considered valid but offer different levels of accuracy. To facilitate continual improvement reporting will need to consider data type and method alongside the number and type of categories which are reported on.

- c) The purpose of the reporting could also prove an important determinant in driving the standardisation. Like the current consultation on the Operational emissions performance commitment, it is likely that multiple reporting frameworks could be

required to enable the measurement of emissions reductions vs best estimate of annual embedded emissions. Embedded emissions have an added layer of complexity in that a baseline is more complicated to create.

Question 11	<i>Are there are any particular frameworks or approaches our traffic light system should consider in determining differing levels of progress and what expected progress should look like?</i>
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As per question 10, the GHG protocol identifies different methods and data types which can be used for calculating scope 3 emissions. The traffic light system could incorporate considerations of the method / data used.

Question 12	<i>Do you have any comments on requesting a SWOT analysis that covers both operational and embedded emissions?</i>
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We have no comments on requesting a SWOT analysis. We included a SWOT analysis in our APR-22.

14. Statement on dividend policy and explanation of dividends paid

Question 13	<i>Do you have any comments on our proposed changes to disclosures in the Statement on dividend policy and explanation of dividends paid set out in RAG 3?</i>
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We support the requirement to explain how dividends paid reflect delivery for our customers and the environment. Any future dividends that are paid by the company will explain why these are appropriate and in line with the dividend policy approved by our Board. Where applicable, we will disclose and justify any future dividends that are paid to holding companies to finance debt.

15. Statement on executive pay and performance

Question 14	<i>Do you have any comments on our proposed changes to disclosures in the Statement on executive pay and performance set out in RAG 3?</i>
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We support the additional disclosure requirements relating to performance related pay, linking pay to customer and environmental factors and the performance of the company overall.

We set out in our response to Ofwat on 21 December 2022 our commitments relating to executive pay and that we have made changes to both our long term and annual incentives for 2022/23 to ensure that our executive pay continues to be aligned to the expectations of customers and of Ofwat. For both our annual bonus and long-term incentive scheme, we have changed some of the scheme metrics and altered the weightings to ensure that more than 60% of the metrics are based on achievement of customer outcomes.

For our long-term incentive scheme we have also reviewed the metrics to ensure that they incentivise longer term performance and take a broader view of the Company's responsibilities, taking into account priorities for the 2025-30 period and the broader



performance, particularly around Environmental, Social and Governance measures. We will make additional disclosures to explain this in our 2023 APR.

Yours sincerely,



Head of Economic Regulation