

Information notice

March 2023

IN 23/03 Expectations for monopoly company annual performance reporting 2022-23

About this information notice

This information notice is relevant to all large appointees and the licensed infrastructure provider (Tideway). The requirements for companies' 2022-23 annual performance reports (APRs) are set out in the regulatory accounting guidelines (RAGs). This information notice provides detail on:

- the submission and publication of APRs;
- reporting for in-period outcome delivery incentives;
- some extra information which we expect companies to provide in addition to their APRs; and
- an update on land sales reporting.

1. Submission and publication of APRs and reporting for in-period outcome delivery incentives

In this section we set out the process for the submission and publication of APRs and provide detail on reporting for the in-period outcome delivery incentives (ODIs).

1.1 Updates to the RAGs

In February 2023, we published our [Consultation on regulatory reporting for 2022-23](#), in which we set out proposed changes to the RAGs that would apply from the 2022-23 reporting year onwards. We have now published our [Response document](#) which summarises the responses we received to the consultation and how we have taken account of them in making our revisions. We have made revisions to RAG 3 and RAG 4. Links to the latest versions of the RAGs, which should be used for 2022-23 reporting, can be found at the end of this document in the 'More information' section.

1.2 Process for submission of APRs

Companies are required to submit their APRs to Ofwat as soon as reasonably practicable and, in any event, not later than Saturday 15 July 2023. A link to the Excel template, which companies should use to submit their APR tables, is provided in the 'More information' section at the end of this information notice.

Companies should upload their APRs and associated files to the 'July APR 2023' folder in their company's area on our Sharepoint data capture site. If companies have any problems accessing this site, they should email annual.reporting@ofwat.gov.uk

1.3 Open data

Consistent with the expectations set out in our October 2021 publication, [H2Open: Open data in the water industry](#), to make water industry data freely available to everyone to access, use and share, we asked companies to publish their 2021-22 APR tables in a format that could be accessed and reused by all. Last year companies published their APR data in an Excel format. We expect to see further progress by companies in their 2022-23 APRs, which should clearly demonstrate the application of the characteristics of open data to the presentation of their data (including in their data tables). Alongside this, we expect companies to publish the rationale for the approach taken. This rationale should set out which open data characteristics were adopted, how these were chosen, reasoning for the decision and what considerations influenced their approach. Companies should notify us when they have published both their 2022-23 APR data tables and the rationale for their approach by emailing annual.reporting@ofwat.gov.uk. Companies should provide the URL where the APR data tables and rationale can be found.

1.4 Reporting for in-period outcome delivery incentives

In line with part 3A of condition B of companies' licences, we will be making in-period determinations to adjust price controls in relation to 2022-23 performance. Alongside their other APR tables, companies should submit tables 3A to 3I within the ODI performance model, a populated version of the in-period adjustment model and any other supporting data or information (such as bill impacts and proposals for bill smoothing).

We expect companies to report against the performance commitment levels (PCLs) set out in each relevant performance commitment. Companies should ensure that they report against the most recent version of each performance commitment (PC). For ease of reference, we published [consolidated outcomes appendices](#) on our website on 28 February 2023. For all companies these consolidated outcomes appendices combine the PR19 information about PCs with changes and corrigenda made since PR19. For Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water these appendices also incorporate the Competition and Market Authority's March 2021 determinations and, for Anglian Water only, the interim

determination in August 2021. For Severn Trent Water, South Staffs Water and South West Water these appendices incorporate changes to PCs to reflect our final decisions on [Green Economic Recovery](#).¹

We shared version 1.8 of the ODI performance model with all companies on 17 February 2023 and asked for comments by 17 March 2023. We will publish an update to this model once we have considered the comments received. Once available, all companies should use the updated version of the ODI performance model to report 2022-23 performance. We intend to share a different version of the ODI model for companies to use for PR24 business plan purposes. We note that in some rare instances, such as where there are enhanced or two tiered ODI rates, companies may need to use the override function in the 'Company_PC_inputs' worksheet. When companies use this override, they should provide a clear explanation for this in their commentary.

Companies' data submissions should comply with the relevant guidance for PR19 bespoke and common PC definitions. This use of common, converged methods for reporting data increases transparency for all stakeholders and makes comparisons across the sector more meaningful. For common PCs, if a company's data is not fully compliant with the converged methodology, then it should clearly explain why this is and demonstrate that not being fully compliant does not have a material impact on the reported performance. We do not expect companies to include outperformance payments for PCs (such as leakage) where there are issues of material non-compliance. If the move to convergence affects baselines for any PCs, then companies should provide recalculated baselines and clearly explain what they have done.

For per capita consumption (PCC) companies provided little insight into the drivers of changes in household demand in 2021-22 and the steps they are taking to reduce it. The absence of this evidence, combined with the service failures customers experienced during 2022 driven by prolonged hot and dry weather, reinforce the need for companies to have the strongest possible incentives to lower PCC. At the end of the control period, we will be assessing performance throughout the 5-year period against the PCC PC. As we have previously said, we will require sufficient and convincing evidence of the mitigating actions for each year of the 2020-25 price control, in addition to company plans for recovering any shortfall beyond 2024-25. We were clear that our decision to make PCC an end of period PC should not lead to a delay or easing in demand reduction activities.

To ensure transparency for customers and other stakeholders, companies should provide a proportionate level of detail and supporting information in their commentaries to explain the

¹ The consolidated outcomes appendices are consolidated working copies of the companies' PR19 outcomes appendices, prepared using the original appendices published at final determinations, and changes that have been made to these since publication. They do not include detailed explanatory notes or guidance. They are not formal documents and companies should rely on the relevant formal decisions setting out changes to their PC appendices.

drivers of performance and associated ODI payments. We expect companies to provide comprehensive supporting commentary and evidence explaining the drivers of material outperformance payments or underperformance payments. Similarly, companies should provide commentary when reporting performance is a material step change in performance from the previous year.

We recognise that company annual reports and APRs are public facing and need to be easy for stakeholders to understand. However, companies also need to provide sufficient technical detail to support their reported out- and underperformance payments. We note that some companies usefully provide a separate document, with their APR, setting out all of the relevant commentary for tables 3A-3I in one place. Companies may take this approach, providing any separate document is clearly signposted in and accessible from the relevant sections of the APR. This should help reduce the number of queries we need to send to companies during the in-period process.

In 2021 and 2022 we found instances of companies not complying with specific reporting and assurance requirements set out in company PC definitions (both in-period and end of period). Examples include not submitting required assurance reports, other third-party materials or other additional information specified. For both in-period and end of period PCs we expect companies to comply with any specific reporting and assurance requirements as set out under 'Reporting and assurance' in company PC definitions. In order to protect customers, where a company does not comply, we will consider whether we should defer any relevant outperformance payments until we can be confident that a company has delivered what is expected of them.

Alongside the comprehensive supporting commentary referred to above, all companies should provide a statement from their assurers confirming that appropriate third-party assurance has been carried out on their reported 2022-23 financial PCs. This statement should specify which financial PCs (on a PC-by-PC basis) the third-party assurers have reviewed as part of their assurance work.

Water supply interruptions

We have updated, in RAG 4, the line definition for the number of properties affected by water supply interruptions (Column 18 of table 3F of the APR) to clarify that companies should report interruptions that are greater than or equal to three hours in duration. This is in response to feedback from companies and brings it in line with guidance contained within each company's PR19 final determinations: Outcomes performance commitment appendix. Each company should review its reporting for 2020-21 and 2021-22 and if it identifies a discrepancy in its previously reported performance, it should provide an updated figure for those previous years in the commentary in its 2022-23 APR.

As set out in RAG 4, the total connected properties number which companies are required to report in line 27 of table 4R of the APR should also be used in column 15 of table 3F, to allow the calculation of the performance level for water supply interruptions. It is stated in the guidance for table 4R that this number should exclude cattle troughs. [The final reporting guidance for PR19 – supply interruptions](#) is also clear that the total connected properties number used for calculating the performance level should not include cattle troughs. Companies should therefore ensure that the number reported for total connected properties in table 4R, also used in table 3F, does not include cattle troughs. Companies should, alongside submitting their 2022-23 APRs, inform us (via email to annual.reporting@ofwat.gov.uk) if their total connected properties number reported for 2020-21 and/or 2021-22 included cattle troughs.

Bespoke PR19 greenhouse gas emissions PCs

In our [Consultation on PR24 operational greenhouse gas emissions performance commitments definitions](#), we outlined our proposals for the scope of the PCs for PR24.

Our decisions, outlined in our [consultation response document](#), relate solely to the PR24 PCs. Companies with bespoke PR19 greenhouse gas emissions PCs should continue to report based on the requirements for their PR19 PCs, which were set at PR19 and apply to the end of the 2020-25 period.

1.5 Audit opinion wording for the 2022-23 APR

We are publishing the [Audit opinion for the 2022-23 APR](#) alongside this information notice. This sets out the wording of the audit opinion that we expect all auditors to provide on companies' 2022-23 APRs. It has been shared and agreed with the audit firms.

2. Risk and compliance statement

Alongside its 2022-23 APR, we expect each company to provide a risk and compliance statement, appropriately signed off, in which the board clearly confirms that the company:

- considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Where the company considers it is unable to provide such a statement it should explain why it is unable to do so.

3. Additional information requests

In this section we set out some areas where we are requesting information that we expect companies to provide in addition to their APRs.

3.1 Early submission of common performance commitment data

To enable us to gain a more timely view of company and sector performance, we are asking all companies to provide us with the full year results for 2022-23 for the 12 common PCs reported on in the Water Company Performance Report (these are the performance levels as reported in APR tables 3A, 3B, 3C and 3E) before submitting their final assured data in their APR submission in July 2023. Companies should submit this data to Ofwat no later than 28 April 2023. We appreciate that the April 2023 data could still be subject to change and will take that into account when reviewing.

3.2 Early submission of data for PR19 reconciliation models

For PR24 we do not require companies to provide an early submission containing all of the PR19 reconciliations. However, we do require an early submission of companies' cost reconciliations and bioresources revenue reconciliation with or shortly after the APR submission and, in any event, no later than 31 July 2023.

The early submission of the cost reconciliations comprise the models and business plan data tables as follows:

- [Cost sharing total costs reconciliation \(v4a\)](#)
- [Green Recovery cost allowance adjustment \(v1.1\)](#)
- [Green recovery time value of money adjustment \(v1.3\)](#)
- business plan tables, set out below, completed for years up to and including 2024-25:

Business plan table	Corresponding APR table
PD8	2B
PD9	4C
CW1	4D
CWW1	4E
PD7/PD7a	4U
SUP4	4S
SUP5	4T
SUP10	10E
PD1	n/a

The early submission of the bioresources revenue reconciliation comprises the model and business plan data tables as follows:

- [Bioresources revenue reconciliation model \(v2.0\)](#)
- business plan tables, set out below, completed for years up to and including 2024-25:

Business plan table	Corresponding APR table
PD5	2M
BIO1	8A
PD1	n/a

We require the early submission information to be assured and we expect there to be no changes to the forecast 2023-24 and 2024-25 information between the early submission and the business plan submission on or before 2 October 2023.

We confirm that the remainder of the PR19 reconciliations are not required as an early submission and we expect those to be submitted along with the rest of the business plan tables on or before 2 October 2023.

3.3 Greenhouse gas emissions historical data request²

To support the setting of PC levels at PR24 for the operational greenhouse gas emissions PCs, in addition to their data returns for 2022-23, we require companies to provide historical emissions data for 2018-19, 2019-20, 2020-21 and 2021-22. Where possible, companies are encouraged to also provide longer historical datasets where they are available.

This data will support our understanding of the levels of improvement that companies can be expected to deliver from base expenditure. This data is also the data we would expect companies to use to develop their PR24 business plans.

We expect historical data to be provided based on the categories and guidance for APR table 11A, including the new categories of emissions linked to the use of chemicals, waste generated in operations, and fuel and energy-related activities. Companies should use the definitions as currently set out for the [PR24 operational GHG emissions performance commitments](#) to guide them in reporting. Scope 2 emissions should be reported on a location-based method.

For chemicals, companies should report on the default list of chemicals in the Carbon Accounting Workbook (CAW). In the accompanying commentary, we expect companies to provide information around anticipated changes in their use of chemicals in the 2025-2030

² This section 3.3 contains revisions, following publication by UK Water Industry Research Ltd (UKWIR) of version 17 of its Carbon Accounting Workbook. The revisions are noted.

period, including the reasons for this. In calculating the emissions associated with a chemical on the CAW default list, the company should use the highest emission factor for which a publicly available data source is noted on that list. Where the default list does not note an emission factor with publicly available data source, it should use the highest factor noted on the default list.³

We also expect each company to detail any chemicals, not on the CAW's default list, that they anticipate will account for 10% or more of the company's GHG emissions linked to its use of chemicals (either individually or together where the company uses alternative chemicals for the same purpose) in the 2025-30 period. In calculating the emissions associated with a chemical that is not on the CAW default list, the company should use the highest emission factor for which there is a publicly available data source and cite that source when reporting. If there is no publicly available emission data for that chemical, the company must set out the emissions factor used and provide reasons for using this factor. Reported chemicals includes chemicals in gas and liquid form. The company should also report on emissions from the use of both virgin and regeneration Granular Activated Carbon (GAC). Emissions from chemicals should be based on the volumes purchased and emissions linked to their manufacture.⁴

We ask companies to report their emissions for each of the requested years and itemise the adjustments they have made as well as provide commentary on the basis they have calculated their adjustments. Where adjustments have been made to emissions factors, for example in relation to process emissions, these adjustments should be itemised, and commentary provided. Where an alternative data source is used companies should be clear on the data source used.

If a company is unable to provide data against a certain reporting line, it should clearly explain why it has not been able to meet a particular data request. If a company is concerned about the robustness of any of the data points, we expect this to be included in the commentary.

We expect companies to use version 17 of the CAW to provide this data. Where a company has not used version 17 of the CAW, we expect the reasoning for this to be explained. We expect companies to use fixed emissions factors as specified in our 2022-23 regulatory reporting consultation [response document](#).⁵ We also expect companies to report GHG emissions from

³ Updated to clarify which emissions factor company should use (May 2023).

⁴ Updated to clarify which emissions factor company should use (May 2023).

⁵ Updated to delete "Companies may use the UK government's 2023 grid emissions factor. If a company uses the UK government's 2022 grid emissions factor, this should be detailed in the accompanying commentary." (May 2023).

their retail activities by allocating them equally between their water and wastewater activities.⁶

We are aware that new emissions factors are emerging for process emissions. We also ask that, where possible, companies provide us with data to demonstrate the historical impact of these new emerging emissions factors. We expect companies to provide commentary including the emissions factors they have used and the reasons for this.

A link to the Excel template which companies should use to submit this data can be found in the 'More information' section in this document. Companies can upload this template, and accompanying commentary, to the 'July APR 2023' folder in their company's area on our SharePoint data capture site or email it to annual.reporting@ofwat.gov.uk. The data should be provided by 15 July 2023.

3.4 Developer services information request 2022-23

We aim to issue a follow up developer services information request to water companies before the end of April 2023 that we expect companies to provide alongside their 2022-23 APRs. The information request will cover the 2022-23 reporting year and will ask for the same data that we requested from water companies for the 2020-21 and 2021-22 reporting years. The additional data will allow us to assess the state of competition in developer services across England and Wales.

⁶ Updated to clarify allocation of retail activities (May 2023).

4. Land sales

Companies are reminded of their obligations under licence condition K that they should seek authorisation for disposals of protected land which are above the minimum thresholds. In RAG 3.14 we have introduced a requirement for a short statement for companies to confirm the number of disposals, how many of these were above the threshold and that such disposals were reported to Ofwat.

5. Enquiries

If you have any questions about this information notice, please send them to annual.reporting@ofwat.gov.uk

More information

[RAG 1.09 – Principles and guidelines for regulatory reporting under the ‘new UK GAAP’ regime](#)

[RAG 2.08 – Guideline for classification of costs across the price controls](#)

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[RAG 3.14 – Guideline for the format and disclosures for the annual performance report](#)

[RAG 4.11 – Guideline for the table definitions in the annual performance report](#)

[RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors](#)

[2022-23 annual performance report tables \(excluding tables 3A-3I\)](#), Excel template

[Audit Opinion for the Annual Performance Report 2022-23](#)

[Greenhouse gas emissions historical data request 2023](#), Excel template