Dŵr Cymru
Welsh Water

Accounting Separation Methodology Statement

2014-15

dwrcymru.com

Overview

Each company must produce and publish an accounting separation methodology statement as part of its regulatory accounts submission. The purpose of this statement is to enable Ofwat and other stakeholders to understand the systems, processes and allocation methodologies used to populate the accounting separation tables.

- This paper sets out the methodology adopted by Dŵr Cymru Cyfyngedig (DC) for the production, as required under RAG 3.07 of the operating and fixed asset analysis, within the regulatory accounts (proforma A7 to A10) and the supplementary accounting separation statements, as required under RAG 4.04. The document relates to DC appointed business only and should be read in conjunction with the following guidance:
  - Information notice ("IN") 15/02;
  - Disclosure requirements for companies' accounting separation and upstream services data methodology statements 2013-14;
  - Accounting separation guidance clarifications; and
  - IN 13/10 Sampling at customer taps.

Background to the business

Business structure

DC is a 'not-for-profit' company which has been wholly owned by Glas Cymru since 2001. Glas Cymru does not have shareholders, and any financial surpluses are reinvested in the business for the benefit of customers. DC is the group's principal trading company. Its principal activity is the supply of water and treatment and disposal of wastewater under the instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Dŵr Cymru Customer Services Limited (DCCS), a wholly-owned subsidiary of DC provided income collection and billing services during the reporting period.

Structure underlying core customer services activity

The structure is as follows:

- DCCS, a subsidiary of DC, provides income collection and billing services;
- DC has outsourced arrangements with local authorities and water companies for billing and collection;
- DC operates an operational call centre where those calls which require a visit are passed to schedulers to schedule in the initial visit (all of these costs are included in retail).
  - For calls relating to the water network the costs within retail also include the inspectors' time if it is found that after investigation the fault was not a network issue. For those that did relate to a network issue the costs of the customer liaison team (who call the customer advising that the issue has been resolved) are included in retail.
  - For calls relating to the waste network, a team is despatched so that any network issue can be resolved as soon as possible. If, when attending the site, they find that this is not a network issue then the call is aborted and these costs are included as retail. For those that did relate to a network issue the costs of the customer liaison team (who call the customer advising that the issue has been resolved) are included in retail.

- DC has inspectors who attend customer premises in relation to billing queries on their meters. The costs included in retail relate to visits made in relation to the following activities undertaken following a customer's request: final meter reading; check meter reading; customer billing meter query; meter reading work - abortive; determine property supplied by meter and site meeting to show location of meter. The latter two relate to billing and customer –facing activities hence they are treated as retail costs;
- Support costs: all of DCCS costs are allocated to retail, along with a proportion of support costs which are incurred by DC. DC support costs are allocated to retail based on various costs drivers, as shown in Appendix 3; and
- Other business activities include Ofwat fees, Water UK costs and regulation department costs. $1/9^{th}$ of the costs has been allocated to retail by splitting the costs between business activities. The split between household and non- household is based on customer numbers.

Related overheads included as direct costs or general and support costs

Our interpretation is that direct costs relate to employment costs, power, hire and contracted services, materials, EA service charges and other direct costs. All overheads are included as general and support costs rather than direct costs with the exception of 5% support costs that have been allocated to Scientific Services. Scientific Services is shown in other operating expenditure within the regulatory accounts.

Outsourced arrangements:

Ofwat requires companies to disclose any outsourcing arrangements, including agreements with other water companies and local authorities. This is required as there could be differences in costs, which may be significant, for any industry comparison. The table below lists the outsourced contracts which the Company had in place for the year ending 31 March 2015.

Outsourced provider	Function	2014/15 status
Local authorities and water Companies	Billing and collection services	Remains outsourced
IT support DC[1]	IT support	Remains outsourced
IT support DCCS[2]	IT support	Remains outsourced
Customer services	Back office data entry and basic correspondence clearing which is carried out overseas	Remains outsourced
Appcon Consultancy Services	Payroll, payments and SAP access and authorisations service	Remains outsourced
Capital delivery	Delivering the capital programme	50% outsourced
Cost consultancy	Cost consultancy for capital programme	Remains outsourced

[1] 18% of the contract for IT support DC is carried out overseas
[2] 13% of contract for IT support DCCS is carried out overseas

Commentary

The disclosure requirement requires companies to include details as follows:-

- Significant changes in the company's costs in the year
- Details of the company's processes and systems and any changes year on year
- Any additional analyses or adjustments that the company made to the data from its systems
- Changes the company has made to its methodology compared to the previous year, giving reasons and any planned improvements in future years
- How the company has applied the principles set out in RAG 4.04

Significant changes in the company's costs in the year

Changes of costs compared to 2014 with commentary are included in Appendix 1 for wholesale and Appendix 2 for retail.

Details of the company's processes and systems and any changes year on year

Systems and structures

DC is split into three reporting areas: - Managing Director, Finance and Operations. Each one of these areas is headed up by an Executive Director of the Company. The two primary business units which are included in Operations are water and waste water services. These are headed up by a director of water and waste water respectively (neither of whom is a Director of the company).

The finance team provides dedicated support to the operational and support teams. Monthly management accounts are prepared which highlight variances against budget; the finance department and the budget holder work together to identify reasons for the movement. Following this, at the department's team meeting cost performance against budget is discussed.

There is no change to this process from last year.

Sources of data and systems in place

Systems

- DC and DCCS use SAP as an integrated financial and business management system. SAP information is either downloaded into spreadsheets or extracted using Business Warehouse.
- In 2014-15 we replaced our legacy customer accounting system (CAS) with a new billing system (RapidXtra), provided by Echo Managed Services. The switch-over was completed successfully in January 2015 and our annual billing for 2015-16 was carried out successfully on the new system in February. The Rapid system is designed specifically for the water sector, operating currently in a number of UK water companies, and our strategy was to utilise as much of the existing tried and tested functionality of the system as possible to reduce implementation risk. That proved to be a key factor in the success of the project. At the same time we took the opportunity to make some improvements to our debt collection system, Tallyman, which interfaces with RapidXtra, and we will continue to develop new strategies on Tallyman throughout AMP6. These will predominantly be

around litigation processes, customer segmentation/verification and improving the ease and agility of the system to change recovery processes as business needs change. The new RapidXtra system will be a key enabler for our retail 'cost-to-serve' challenges by opening up additional opportunities for customer self-service, multiskilling of staff, e.billing, consolidated billing and automation of support processes. System developments will therefore continue throughout AMP6 to fully realise these benefits.

- Electricity costs are allocated to assets via DC's electricity management system (ARIES) which receives electronic power bills from the energy providers and, by reference to the supply point, charges the cost to the asset's cost centre via an interface with SAP. ARIES also records consumption and, based on historical data, generates accruals when actual bills are not received. Each Water and Sewerage service asset has a unique supply point allowing the actual power costs to be charged directly to the asset and its associated activity.
- SAP work management systems, such as Above Ground Asset (AGA) Water, Mechanical, Electrical and Instrument (ME&I) Planned Maintenance and Switch (below ground asset maintenance). The systems recognise which asset is being worked on, its geographical location and the type of work performed. Based on this information the system charges costs to predetermined revenue or capital cost collectors.

Process

- An alternate cost centre structure is used that aligns with Ofwat's accounting separation requirements. These contain specific cost centre groups for each of the business activities along with further groups capturing the cost of scientific services and general and support activities. This cost centre structure enables the costs to be collected in the same format as the Accounting Separation tables.
- A number of 'work management systems' have been introduced in recent years resulting in greater accuracy of cost allocation and a reduced reliance of manual allocations across activities.
- The majority of costs are coded at source. These include payroll costs, purchase orders, service orders and power.
- An alternate cost element group is also used that reflects the regulatory requirements with the key cost element groups:
    - Power
    - Income treated as negative expenditure
    - Service charges
    - Bulk supply Imports
    - Local authority rates
    - Other operating expenditure
        - Employment costs
        - Hired and contracted services
        - Materials and consumables
        - Other direct cost
        - General and support costs
        - Bad debt
        - Other business activities

- Each department is required to complete a table in the same format as the accounting separation tables. Where possible costs are allocated directly to service. For support service departments the costs that can be directly attributed are shown against those business activities while the remaining costs are allocated using the most appropriate cost driver, as shown in Appendix 5.
- DCCS (provider of income collection and billing services to DC) submits costs in the same format as the accounting separation tables which facilitates consolidation of these costs.

Governance procedures

DC has established appropriate processes and systems of control that provide assurance in respect of information contained within the regulatory accounting tables (which previously formed part of the 'June Return').

These systems have ISO9001:2008 accreditation and have been reaffirmed by SGS Ltd as part of the company-wide IMS procedures rolling programme of audits. The company is now in its eighth year of holding this accreditation.

The company has documented key processes and internal controls and has assessed the quality of systems and processes used for generating regulatory information. These processes have been followed to produce this year's Performance Report.

Ownership and responsibility for each supplementary table have been clearly defined. Each individual is responsible for adhering to all appropriate guidance in the compilation of the data and associated commentary. This also involved formal 'sign-off' by the individual, verifying that the figures in each line had been obtained from a recognised data source and compiled accurately. In addition, confirmation was required that any material judgements or assumptions had been highlighted and documented, ensuring an accurate audit trail.

Allocation of overall responsibility for individual tables and associated commentaries was assigned to the appropriate DC senior manager. Each was responsible for the review and 'sign-off' of his/her own tables and commentaries.

A rigorous process of internal due diligence meetings was undertaken by the Regulation Department in May 2015 to challenge information, judgements and assumptions made and to ensure compliance with the relevant guidance.

External assurance was provided by Pricewaterhouse Coopers as part of their audit of the company's annual report and financial statements including the regulatory accounts.

Capitalisation policy

Costs charged to capital follow the company's accounting policy. This states that capital expenditure includes the following categories of cost:

- Property, plant and equipment;
- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

The cost of property plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are only recognised on completion of a project.

For accounting purposes, the water and waste water system is segmented into components representing categories of assets with similar characteristics and asset lives.

In accordance with RD 06/02, all leakage monitoring and reporting costs are treated as operating expenditure. The cost of maintaining leakage is also classified as such, unless it falls clearly into other areas e.g. replacement of capital items. The costs of leak detection and repairs which continue achieving the economic level of leakage are treated as capital expenditure.

Additions are recorded at cost, which reflects the purchase price together with any expenditure directly attributable to bringing the asset into use, including directly-attributable internal costs. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met.

Capitalisation of salaries

The cost of employees working directly on capital projects is calculated using an hourly recharge rate which is reviewed by management annually. Each set of rates is broken down by bands based on average salary and includes national insurance, superannuation, bonus payments, overtime, car allowances, personal protective equipment, mobile phone and training costs.

A planned maintenance system integrated in SAP records mechanical and electrical maintenance, labour, materials and bought-in services costs at asset level. Craftsman time is recorded on handheld devices ("Toughbooks") and job-types determine the classification of work as operating or capital expenditure.

Integrated work scheduling and cost systems record work scheduled on the system and allocate this to process operators and network teams via handheld devices. Details of time spent and materials used are allocated to jobs via these handheld devices. The final status of a job determines whether it is operating or capital expenditure (using the predefined settlement tables held within SAP).

Capitalisation of overheads

DC's internal costs incurred in supporting the capital programme are capitalised as overheads using an appropriate recovery rate. The recovery rate is generated from a review to identify costs which demonstrate a clear link to the capital programme. The assumptions and recovery rate used are reviewed every six months by the finance team.

Additional analysis or adjustment that the company made to the data from its systems

Fixed assets overview

Additions

The principal data source for the fixed asset tables is taken from the capital expenditure regulatory reporting database which is extracted from SAP. This information source provides sufficient information to directly allocate most costs to the accounting separation business units.

The regulatory reporting and accounting separation databases hold scheme information analysed by asset types. For the purposes of completing the regulatory accounts, they also identify whether the assets are 'infrastructure' or 'non infrastructure' and separately categorise 'retail assets'.

- Infrastructure assets include the following: underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Some Information about infrastructure assets (general mapping and updating of networks records) is also regarded as an infrastructure asset.
- Operational assets include the following: intake works, pumping stations, treatment works, boreholes, operational land, offices, depots, workshops, residential properties directly connected with water and sewerage services. Land which is not currently in operational use but is expected to come in to use in the foreseeable future is included, as is plant, machinery and telemetry inherent in the nature of the works. Also included are non- operational plant, non-operational machinery, vehicles, surplus land and all other assets not previously listed.
- Retail operational assets include the following: buildings and offices, fixtures and fittings, IT systems and other operational assets directly involved in providing the retail service.

New expenditure incurred during the year is added to the base and is analysed as follows. Costs are recorded at a scheme level and are allocated to business type based on an analysis of the scheme design and target costs. This is the same principle for allocation of capital expenditure to business units that has been used for the preceding four years. The aim has been to map as much of the expenditure incurred on a one-to-one relationship, minimising the amount of subjective allocation. The analysis of each scheme is allocated to an eight digit coding structure based on the table structure of the former June Return table (Table 32).

On the assumption that Quality, Base, Enhancement and Growth (QBEG) analysis continues to be a requirement, the asset categories are further extended to allow for the four possible descriptions of asset purpose. For the purpose of our systems, the above translates to an assets classification list of eight digit codes. The eight digit classification code comprises five pieces of data, which translate into the following information about the cost.

Example 0906Q13S

First two digits denote asset type and follows Table 32 line items

- 09 = Sewerage treatment works

Third and fourth digits denote Infrastructure or non-infrastructure depending upon whether asset relates to water or sewerage

- 01 = Infrastructure – water
- 02 = Non-infrastructure - water
- 05 = Infrastructure - sewerage
- 06 = Non-infrastructure - sewerage

The fifth digit denotes the purpose

- M = Base/Maintenance
- E = Enhanced service Level
- N = New Development
- G = Growth
- Q = Quality

Fifth to eighth denotes purpose type drivers

- Q13S = Habitats driver

The database queries use the data contained in the classification code to sort and group the year-end figures to allow grouping by asset type columns and QBEG classification as necessary. Some 90 per cent of expenditure in the year was suitable for this classification method. The remaining 10 per cent is for items of IT and management and general cost that cannot be directly allocated to a specific business unit. This expenditure has been proportionally allocated across the business activities by total programme costs.

Asset lives

ChandlerKBS provide an asset life assessment service to DC ; assessments are based on DC's accounting policy in relation to asset lives. Whist undertaking this service, ChandlerKBS maintains a record of each individual assessment. The assessments are compiled on a regular basis into an overall summary database. The database is used to produce generic asset life assessment models where details of individual projects are not known.

For 2015, the following models were produced using the database. Each model relates to a specific project type as follows.

	Sample Size	**Sample Value**
Water Treatment Works	28 Projects	£269m
Waste Water Treatment Works	288 Projects	£265m
Combined Sewer Overflows (CSO) and Untreated Intermittent Discharges (UID)	225 Projects	£409m
Habitats Projects	19 Projects	£19m
Water Ultra Violet Treatment (UV) projects	12 Projects	£12m

ChandlerKBS also produce asset life assessments for several other water and sewerage companies. Using this knowledge and experience, the above models were checked and reviewed to ensure that they were consistent across the industry in general. This was used as the basis to calculate depreciation for additions in the year.

Changes to methodology compared to 2013-14 and planned improvement

Changes to the methodology

We have changed the cost drivers or cost treatment for the following costs:

A detailed analysis took place during the year to determine whether the income and associated costs previously reported as non-appointed should be treated as appointed business. A simple test was applied in the first instance of whether we would provide the activity if we did not hold the licence or whether we would continue to do the activity if we did not undertake any non-appointed business; whether the activity added value to our customers, either through an additional service (e.g. searches) or as a way of reducing costs of an existing service. The activities were then considered as to what would be the impact on the performance against the Revenue Controls. The analysis used the reconciliation rulebook and RAG guidance to form a judgement supported by discussion with Ofwat. The change to treatment following this analysis is as follows:-

- New connections – income £3.5m; costs £4m
  - This income relates to provision of new connections and associated Developer Services charges, and will be included in appointed business under the reporting requirements for AMP6. The new connections income is included in the revenue control calculation. As there is clear guidance from Ofwat to treat as appointed business from 2015-16 the income and associated costs are shown in appointed business for this report year (third party costs in treated water distribution). These income and costs were included as non-appointed in previous years.
- Search fees – income £2.5m; costs £0.3m
  - This relates to income for Developer Services activities including searches and sewer adoptions. The Company has an obligation to provide access to information on the location of our assets to customers and/or developers. The search fees relate to an additional customer offering to undertake the search on their behalf. This income is now shown as "other appointed revenue" as it is an activity that is providing additional customer service on top of an existing obligation. The costs are reported as third party costs for treated water distribution and sewerage. These income and costs were included as non-appointed in previous years.
- Tankered waste - income £1.3m
  - This relates to income from reception and disposal of tankered waste from cess pits, septic tanks and portable hygiene facilities. This income is now shown as appointed income as this activity is utilising the appointed business assets to provide this additional service. The income is shown as appointed income for this report year, whereas previously this was shown as non-appointed income.
- Rechargeable works – income £0.3m; costs £0.9m.
  - This relates to income from repairs to damaged assets and private sewer blockages. We have shown this income and associated cost in appointed business as there is a clear guidance from Ofwat to treat this activity as such in AMP6. The costs are reported as third party services and shown in treated water distribution and sewerage. These income and costs were included as non-appointed in previous years.
- Fire Service – income £0.2m; costs £0.4m
  - This relates to activities undertaken on behalf of the Fire Service in particular provision and repair of fire hydrants. We have reported this income and associated costs as appointed for this report year as this is an activity that provides additional services to 'network furniture' i.e. an asset that is an integral part of the assets used

    to provide the base service. The costs are reported as third party services and shown in treated water distribution. These income and costs were included as non-appointed in previous years.

- Rents and leases – income £0.5m
    - This relates to income received from DC properties where the assets are part of the appointed business. As a result the income is shown as negative income within third party services in water resources. This income was previously reported as non-appointed.
- Radio mast - income £0.3m
    - This relates to income from siting of radio masts on DC land and property. As these assets are in the appointed capital base the income has been treated as appointed. As a result the income is shown as negative income within third party services in water resources. This income was previously reported as non-appointed.
- Transport - income £0.8m; costs £0.5m
    - This relates to income from provision of transport services to third parties. These costs have been treated as third party costs over the wholesale activities in line with transport spend. These income and costs were included as non-appointed in previous years.
- ECARe – income £1.5m; costs £2.6m
    - This relates to income and costs from services provided by the "ECARe" team managing DC's land and estates. We have shown this as appointed costs for this report year. The reason for this is that s217 of the Water Industry Act (WIA) 1991 is the relevant provision in determining the undertaker's functions and hence what is appointed and non-appointed business. Regulated (or appointed) activities are defined by reference to duties imposed on undertakers. Interalia, S3 of the WIA imposes duties on undertakers (as well as government and regulators) in respect of conservation and recreation. There is also a duty to promote freedom of access by the public to certain areas (e.g. woodland mountains, areas of natural beauty) and other facilities. ECARe controlled land or assets which facilitate the delivery of these duties should prima facie be regarded as regulated or appointed business and therefore the associated income and costs are reported in the appointed business for this report year. These income and costs were included as non-appointed in previous years.

- During the year the company implemented a new billing system, RapidXtra, which generates a detailed breakdown of debt write- off between household and non-household customers. We have used this information to allocate our bad debt accounting charge. As a result of this the bad debt allocation between the two price controls has changed from the previous split of household 91%: non household 9% to the revised split household 93%: non household 7%.
- We have changed the basis of allocating insurance costs across the business activities to use a more cost reflective basis. Insurance costs are split into two area consisting of insurance premium and provisions for uninsured losses. In previous years the insurance cost drivers used were based on direct costs. For 2014-15 we have used full time equivalents for employers and employee liability cover, and for insurance provision we have used the profiling and nature of the insurance claims outstanding at 31 March 2015. This change in methodology is to ensure that costs are shown against the business activity to which they relate.
- £4.7m of costs (mainly power) relating to terminal pumps have been reclassified as sewage treatment. These costs were previously treated as sewerage, as our interpretation of the RAG 4.04 guidance was that assets outside the sewage treatment boundary wall was to be treated as

sewerage. Ofwat have since confirmed, following a clarification request, that the terminal pumps should be reported as sewage treatment.

- Local authority rates relating to the advanced digestion and combined heat and power plants were previously reported within sewerage treatment. Following advice from our rating team, local authority rates amounting to £0.8m associated with these plants have been reclassified as sludge treatment. This change is to ensure that costs are reported within the correct business unit.

There have been no other changes.

How the company has applied the principles set out in RAG 4.04

RAG 4.04 covers the form, content and principles of the analysis of operating costs and assets to be produced as part of the current cost accounts, and includes a list of definitions of terms.
The objective of the guideline is to facilitate:

- transparency and comparability of costs across the water and sewerage value chain;
- informed regulatory decisions; and
- demonstrate costs and assets employed in providing water and sewerage services.

The guidelines states that the cost allocation principles need to comply with the following general principles (in order of priority):

- **Transparency:** the attribution methods applied within the accounting separation system need to be transparent. This requires that the costs and revenues apportioned to each service and business unit should be clearly identifiable. The cost and revenue drivers used within the system should also be clearly explained to enable a review of their appropriateness.
  - Alternative cost centre structures have been created (as part of DC's overall accounting separation cost centre group) in SAP in a format that facilitates the completion of accounting separation tables. These contain specific cost centre groups for the business activities along with further groups capturing the cost of scientific services and general and support activities. A number of 'work management systems' have been introduced in recent years resulting in greater accuracy of cost allocation and a reduced reliance on manual allocations across activities. Asset-related cost centres and most operational support staff can be attributed directly to a business activity. Non-operational staff costs are allocated directly to activities where possible; where this has not been possible cost drivers have been used to apportion departmental costs in line with Ofwat's previous hierarchy of cost drivers.
  - Each business area has to submit its costs in the accounting separation format and forward to the Regulatory Accountant for consolidation. The consolidated spreadsheet details the costs for each business area which can be traced back to SAP. As part of the submission to the Regulatory Accountant an analysis is required for all costs that have changed significantly from previous year.
  - The costs drivers used are shown in the following appendices:
    - Retail – wholesale split — Appendix 3
    - Wholesale cost allocation — Appendix 4
    - General and support allocation — Appendix 5
    - Retail – household: non household split — Appendix 6

- **Causality:** cost causality requires that costs (and revenues) are allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution of costs and revenues to activities and services should be performed at as granular a level as possible.
  - In respect of costs that are directly attributable to a business activity, costs are allocated to these activities.
  - Any costs that are not directly attributable then the most appropriate cost drivers are used relating to that specific cost.

- **Non-discrimination:** the attribution of costs and revenues should not favour any business unit within the regulated company and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.
  - We do not have any internal transfer charges.

- **Objectivity:** the cost and revenue attribution criteria need to be objective and should not intend to benefit any business unit or service.
  - The allocation methods that we have used are not intended to benefit any business unit or service and have been applied objectively.

- **Consistency:** the cost and revenue attribution criteria should be consistent from year to year to enable meaningful comparison of information over time. Changes to the attribution methodology from year to year should be clearly justified and documented.
  - We aim to be as consistent as possible, however if we believe that there is another cost driver that is more appropriate then we will use this and will include our rationale for the change in the methodology statement.

Billing and collection

The disclosure requirement requires companies to include details as follows for billing and collection:-

- The percentage of income that the company outsourced for billing and collection should be included where the risk of collection is transferred to a third party.
- Whether or not the company issues bills to 'the occupier' and, if so, the amount of turnover and doubtful debt in respect of such bills for the year should be disclosed.
- The company's policy for treatment of doubtful debt where the customer has vacated a property leaving amounts unpaid. Where credit notes are issued to cancel all or part of the unpaid amounts, the full amount of the related credit notes should be disclosed.
- Changes the company has made to its methodology compared to the previous year, giving reasons and any planned improvements in future years.
- The approach the company has used to provisioning.

- DC has outsourced arrangements with local authorities and water companies for billing and collection.
  - Local authorities and registered social landlords:

DC has two types of agreement:

- Under the terms of the "old-style" arrangements the third party bears the risk of bad debts above the agreed level of commission. This amounts to 3% of total income in 2014/15.
- Under newer arrangements DC bears the bad debt risk. This amounts to 1% of total income in 2014/15.

- Water companies:
  - DC has agreements with Severn Trent, United Utilities and Dee Valley to collect on its behalf. This amounts to 5% of total income in 2014/15. DC bears all collection risks.

In all cases, income is shown gross (excluding any void element), with commission and bad debt elements reported separately.

- DC issues bills to 'the occupier' for metered customers only if we see consumption on the meter and cannot get a name at the time. Very few premises are billed in this way and no bills are sent out speculatively in this manner, only where there is evidence suggesting an actual occupier (e.g. a visit, finance check or Land Registry search). We are unable to provide the turnover and consequently the doubtful debt for income billed in the name of the occupier at this time without uploading and reconfiguring the 2014-15 data to extract this information, however the value is not significant (considerably less than 1% of turnover). With the change in our billing system we believe that this information will be available in future periods.
- DC's policy on treatment of bad debt is to write off debt when it is shown that a debt is not collectible. A debt is regarded as not being collectible when one of the following conditions has been satisfied:
  - the debtor has been declared bankrupt;
  - the debtor cannot be traced;
  - the debtor has died without an estate;
  - all reasonable legal remedies have been exhausted and two collection agencies have failed to recover the debt; or
  - the debt is too small to pursue beyond specified recovery action.

- All debt that has completed the full recovery process is held in an "end of line bucket" pending write-off. Write- offs are scheduled as part of a routine procedure however initiatives continue to be undertaken in respect of the "end of line" debt to review collectability and debts are currently only written off post completion of these initiatives. Generally when debt reaches the "end of line bucket" the majority will have been provided for in the bad debt provision. As a result the timing of the write-offs has little impact on the overall charge for bad debts in any year. As a consequence, the level of write-offs throughout the year is not monitored in isolation but as a component of the overall movement in collections as part of the bad debt provision calculation. DC believes it is important to look at the overall trend in collections when determining bad debt provisioning rates rather than reacting to isolated write-offs. No changes have been made to the write off policy or procedure during the year. We are unable at this time to quantify the value of any charges cancelled or credited in a year against live and leaver debt. Once a leaver has followed our debt collection route the amount is written off.

Cost allocation

Disclosure requirements

The disclosure requirements issued by Ofwat have asked for the following items to be disclosed within the methodology statement:

Explanation of how costs have been allocated for each line of the table

- Where costs explicitly relate to a specific business unit, the expenditure has been coded directly to the business unit that consumed the good or the service. Where direct coding is not possible, an appropriate allocation has been made using specific cost drivers. In most cases these cost drivers are applied consistently.
    - The retail and wholesale cost allocation table (appendix 3) provides explanation of how operating costs have been allocated to retail for each line of the table.
    - Wholesale cost allocation is included in appendix 4.
    - General and support costs allocation is included in appendix 5.
    - Retail household: non household table (appendix6) provides detail of cost drivers used to allocate costs.

Why these allocations are considered appropriate

- We consider that the allocations are appropriate as we have used , in most cases , the cost drivers mentioned in the accounting separation guidance documents issued in January 2011 for:
    - Chapter 21a Regulatory Accounts Current Cost accounting Water Services
    - Chapter 21b Regulatory Accounts Current Cost accounting Retail Services
    - Chapter 22a Regulatory Accounts Current Cost accounting Waste Services

  Other costs drivers are used if we feel that this is more appropriate . Where we have previously used other cost drivers, we have changed the allocation so that we are using the preferred cost drivers as set out in the above guidance documents. This will ensure a consistent approach in the industry and will make the reports more comparable.
- A higher proportion of employment costs is being allocated directly to business units, however some costs are cycled using assessment cycles. In the majority of cases these are cycled to the same business unit, however there is a small amount that is transferred to other business activities. These cost assessment cycles are monitored on a regular basis, and a thorough review of these takes place every six months.
- We have discussed the accounting separation guidance clarification document with the business to ensure that we are adhering to the guidance with regard to network customer enquiries and complaints. We have used reports from SAP which shows the split of household and non-household contacts and have used this for allocation. For inspectors’ non network visits, we have devised a report that shows the cause code for the jobs after the inspector has attended the premises. This is used to determine the costs for the visits that are not network related.
- We have confirmed that the customer numbers that we are using in the household, non-household split is in line with the definition set out in the accounting separation clarification guidance.
- Where management judgment has been used we have examined the rationale used to ensure that it looks reasonable.
- In allocating the bad debt charge (households 93%: non households 7%) we have used the bad debt write off allocation split between household and non-household. This is a change to the process used

for 2013-14 due to the change in the billing system where the aged debt history of the customer is not available at this time.

How the company's management is satisfied that they are reasonable

- In the main the cost driver are applied on a consistent basis, however where there have been changes this is discussed with the relevant department to ensure that this is reasonable. Any changes are disclosed in the methodology statement.
- Managers are rewarded on their performance which includes financial performance. Monthly reports are produced by the finance team which they and the budget manager interrogate to highlight any cost variances and to identify any costs that should not be included in that area. This will include extraneous cost assessment cycles. Any costs that should not be included within this area will be transferred out. Therefore, due to this rigorous system, management is satisfied that the costs are being reported in the correct area.
- For the retail / wholesale split and household/ non-household split the finance team at DCCS have to agree that the costs being transferred from wholesale to retail by DC and the cost drivers used for household/ non household are reasonable.

The breakdown of the cost categories and values that is included within other direct costs.

Other operating expenditure as reported in the Accounting Separation tables consists of the following cost elements:-

- Employment costs
- Hired and contracted services
- Materials and consumables
- **Other Direct cost**
- General and support
- Scientific services
- Other business activities

The disclosure requirement asks for details of the breakdown of the cost categories and values that the company has included within other direct costs. This is shown below:-

	Water					Sewerage					
Other Direct cost	Resources	Raw water distribution	Treatment	Treated distribution		Sewage collection	Sewage treatment	Sludge treatment	Sludge disposal		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Insurance costs	0.1	-	0.3	1.1	1.5	1.0	0.6	0.1	-	1.7	3.2
customer side leaks (funded by wholesale)	-	-	-	1.3	1.3	-	-	-	-	-	1.3
Customer compensation payments	-	-	-	0.1	0.1	0.2	-	-	-	0.2	0.3
Other Direct costs 14/15	**0.1**	-	**0.3**	**2.5**	**2.9**	**1.2**	**0.6**	**0.1**	-	**1.9**	**4.8**

Within retail activities other direct costs relate to the following:

	Household	Non household	Total
	£m	£m	£m
Customer services - DC team	0.7	0.1	0.8
Pension actuarial costs	-0.7	-0.1	-0.8
Total	-	-	-

The customer services team within DC carries out the following activities: managing online services for across all electronic channels, (Website, Web chat, eContact, eforms, emails and text messaging) as well as social media channels such as Facebook, Twitter, Linkedin and YouTube; ensuring defined governance processes for all channels are followed and the business understands how change can be initiated and managed moving forward. In addition to this they arrange the customer focus groups. These costs have always been included in other direct costs.

Pension actuarial accounting credit (FRS17 and IAS19 adjustments) is included within other direct costs for retail (which differs from the treatment in wholesale). The reason for this is that this credit can be easily identified in retail.

Local authority rates allocated to retail

The local authority rates that have been included within the retail table relate to the offices occupied by DCCS staff and the staff working on network customer and enquiries. There has been a detailed measurement of the relevant office space and the split is based on the area occupied by those working on retail activities. In addition to this there are some retail employees working in the other offices and the rates have been allocated using direct labour as the cost driver. These costs are shown in table A8 as Local authority rates. There are no cumulo rates allocated to retail.

Exceptional items

On 22 March 2015 we announced a Selective Voluntary Severance Scheme as part of the AMP6 change programme in order to assist the business in meeting our Final Determination of revenue controls for the period from April 2015 to March 2020. As a consequence £17.6 million of restructuring costs were considered exceptional by nature. A credit of £2.1 million relates to the release of unutilised provision in respect of a previous programme of restructuring.

This has been allocated across the business activities as follows:-

	Water					Sewerage					
Exceptional costs	Resources	Raw water distribution	Treatment	Treated distribution	**Total Water**	Sewage collection	Sewage treatment	Sludge treatment	Sludge disposal	**Total Sewerage**	**Wholesale costs**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Severance and reorganisation provision	0.5	0.0	2.4	3.1	6.0	1.7	3.2	0.4	0.0	5.3	11.3
Total	**0.5**	**0.0**	**2.4**	**3.1**	**6.0**	**1.7**	**3.2**	**0.4**	**0.0**	**5.3**	**11.3**

Retail			
Exceptional costs	Household	Non household	Total
	£m	£m	£m
Severance and reorganisation provision	3.8	0.4	4.2
Total	**3.8**	**0.4**	**4.2**

Severance costs have been allocated across business activities based on headcount.

Analysis of assets allocated to the retail table

The analysis of the assets allocated to retail is as follows:

Retail assets	Billing system	Other assets specifically allocated to the retail table	Shared assets allocated to the retail table	Total
Net book value	£m	£m	£m	£m
At 31 March 2015	**33.4**	**0.9**	**17.4**	**51.7**
household	28.4	0.8	16.0	**45.2**
non household	5.0	0.1	1.4	**6.5**
Depreciation charge	**1.4**	**0.9**	**1.0**	**3.3**
household	1.2	0.7	0.9	**2.8**
non-household	0.2	0.2	0.1	**0.5**

The method or cost driver that the company has used to allocate shared assets between its wholesale and retail business units

- The assets that are directly allocated or shared between wholesale and retail is as follows:
  - Billing system – all to retail.
  - Other assets specifically allocated to retail
    - Telephony - retail telephony identified and allocated accordingly.
    - Demand side water efficiency – specific schemes identified and included as retail.
    - Other IT schemes – these relate to specific IT schemes relating to retail
  - **Shared assets allocated to retail**
    - Linea – this is where predominantly DCCS and those carrying out network customer and complaints activity is based. The split is based on square footage occupied.
    - Other IT schemes–IT enhancements of the system (including SAP) that have been split to retail based on FTE, and management assessments of specific projects.

The depreciation split between household and non-household is based on customer numbers for majority of assets apart from demand side water efficiency schemes which is allocated according to nature of spend and billing system assets where the allocation is based on number of bills issued.

A breakdown of the recharges the company paid to and received from other business units for the use of fixed assets

There have been no recharges paid to or from other business units for the use of fixed assets. The only recharges are for facilities and insurance recharges. All assets used for retail activities are allocated directly to retail.

Whether the company maintains a CCA register, the extent to which it is reconciled to the HCA fixed asset register and the methodology or assumptions undertaken to compile CCA data.

We do not maintain a CCA register or reconcile this to the HCA fixed asset register.
We use the additions that are reported for HCA and adjust for IRE. The reconciliation between HCA additions and CCA additions is as follows:

	£m
Fixed asset additions (excluding income) per Historic Costs	380
IRE expenditure (excluding income)	(87)
IFRIC 18 revaluation of adopted assets	22
Current Cost additions	**315**
	£m
Water	148
Waste	149
Retail	18
Current cost additions	**315**

The Current Cost tables are prepared as follows:
Opening balances - gross replacement cost and depreciation

- The opening balances were carried forward from the accounting separation tables submitted in 2014.

AMP adjustment

- For private sewers this is revalued every year based on RAG1.10.9 and the AMP adjustment relating to this is reported as £2,758m.

RPI adjustment for gross replacement cost and depreciation

- This has been calculated by applying the inflation to the opening balances and the AMP adjustment above to reflect 14/15 prices.

Additions

- As in previous years, fixed asset additions are allocated across business areas using the project coding structure. Management and general assets that do not fall into the accounting separation categories are firstly coded to service areas (water or waste) and then further allocated to the Accounting Separation areas on a percentage uplift basis. In accordance with IFRIC 18, revaluation of adopted assets during the year are included as additions.

Disposals

- The disposals reported in the year relate to maintenance expenditure included within infrastructure additions, which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the Modern Equivalent Asset Values (MEAV).

Charge for year

- We have used the CCD charge included in the MEAV valuation which shows for each class of asset the depreciation based on the remaining asset life using Net Modern Equivalent Asset Values (NMEAV).
- For additions in the year the charge is calculated by splitting the expenditure into asset life categories by applying the asset lives % as calculated by Chandler KBS.

For each row within the retail table, the cost driver the company has used to allocate costs between its household and non-household customers

- The table in appendix 6 shows the cost drivers used to allocate costs between household and non-household customers

Operating expenditure

Operating expenditure (excluding Capital maintenance and third party services) have increased by 5%

Total operating costs (which include capital maintenance) have increased by 2% since last year; water has increased by 5% and waste services have remained in line with last year.

The movements compared to last year are as follows:

Year on year comparison of costs	Water	Waste	Total	Water	Waste	Total
	£m	£m	£m	%	%	%
Operating expenditure						
Power	2.1	1.5	3.6	11%	6%	8%
Income treated as negative expenditure	(1.4)	(0.1)	(1.5)	657%	5%	72%
Service charges	-	(0.2)	(0.2)	-	(4%)	(1%)
Bulk supply imports	0.3	-	0.3	20%	-	20%
Other operating expenditure	(1.1)	0.7	(0.4)	(2%)	1%	-
Local authority rates	0.2	(3.3)	(3.1)	1%	(29%)	(11%)
Exceptional item	6.0	5.3	11.3	-	-	-
Total operating expenditure excluding third party services	**6.1**	**3.9**	**10.0**	**5%**	**4%**	**5%**
Capital maintenance						
Infrastructure renewals charge	0.3	0.3	0.6	1%	1%	1%
Current cost depreciation	(0.8)	(5.1)	(5.9)	(1%)	(5%)	(4%)
Amortisation of deferred credits	-	-	-	2%	(3%)	(1%)
Total capital maintenance excluding third party services	**(0.5)**	**(4.8)**	**(5.3)**	**(1%)**	**(4%)**	**(2%)**
Third party services						
Operating expenditure	4.5	0.2	4.7	54%	-	56%
Infrastructure renewals charge	-	-	-	9%	-	9%
Current cost depreciation	0.1	-	0.1	12%	-	10%
Total operating costs	**10.2**	**(0.7)**	**9.5**	**5%**	**-**	**2%**

Significant Movements (>10%) compared to last year are as follows:-

- Power has increased by £3.6m compared to last year. This has resulted from increased retail prices which were due to non-wholesale costs: distribution costs and climate change related costs including a steep rise in the CRC tax. Between business activities £3.6m terminal pumping power has been reclassified from sewerage to sewage treatment following clarification from Ofwat.
- Income treated as negative expenditure has increased as during the year as we purchased Hydro assets from Infinis which has resulted in income shown against water resources.
- Bulk supply imports have increased due to increased provision for Heronsbridge claim.
- Local authority rates have decreased following a refund received during the year of £3m.
- The exceptional charge during the year relates to the restructuring provision.
- Third party services operating expenditure has increased by 54%. This reflects the change in our treatment of costs amounting to £7.8m, previously classified as non- appointed .This is offset by £1.5m income treated as appointed negative opex which was previously reported as non- appointed income.
- Current cost depreciation increase in third party services relate to assets for non potable supplies which is shown in raw water distribution.

Operating expenditure

Total operating costs has increased since last year by 11%. Household costs have increased by 12% and non- household costs by 4%. The split between household and non-households have also changed from 89%:11% to 90%:10% which is mainly due to the change in allocation of bad debt.

The increase in costs has arisen because of the exceptional charge in the year relating to restructuring costs together with increased costs for bad debt, customer service activity, debt management costs and other operating costs which is offset by a reduction in meter reading.

Year on year comparison of costs	Household	Non household	Total	Household	Non household	Total
Operating expenditure	£m	£m	£m	%	%	%
Customer services	0.5	-	0.5	5%	(1%)	4%
Debt management	0.5	(0.1)	0.4	8%	(15%)	7%
Doubtful debts	1.1	0.1	1.2	4%	5%	4%
Meter reading	(0.3)	(0.1)	(0.4)	(14%)	(18%)	(15%)
Services to developers	-	-	-	-	(21%)	(21%)
Other operating expenditure	0.1	(0.1)	-	2%	(6%)	1%
Local authority rates	-	-	-	(14%)	(26%)	(15%)
Exceptional item	3.8	0.4	4.2	-	-	-
Total operating expenditure	**5.7**	**0.2**	**5.9**	**10%**	**4%**	**10%**
Capital maintenance						
Current cost depreciation	1.2	-	1.2	78%	7%	63%
Total capital maintenance	**1.2**	**-**	**1.2**	**78%**	**7%**	**63%**
Total operating costs movements	**6.9**	**0.2**	**7.1**	**12%**	**4%**	**11%**

Movements compared to last year are as follows:-

- Within customer services billing costs have decreased by £0.2m as a result of contract and stationery negotiations. This is offset by an increase in non-network customer complaints and enquiries of £0.5m which reflects the expansion of the offshore contract together with the increase in call centre staffing to facilitate loss of experienced staff working on the new billing system.
- Increase in litigation activity during the year has resulted in Debt management costs increases of £0.2m. Also included in the charge for the year is £0.2m of costs previously shown as disconnection costs.
- Doubtful debts are 4% higher than last year which is due to the continued recession in Wales. As well as the increase in charge since last year , the bad debt split has also changed from the previous H:NH split of 91%:9% to 93%:7%. This has meant that the amount included within household has increased with a corresponding decrease in non-households. During the year we implemented a new billing system, RapidXtra, which now provides us with a detailed breakdown of debt write off between household and non-

household customers. We have used this information to allocate our bad debt accounting charge which is different to the sampling approach used previously.

- Meter reading costs are lower than last year which reflects lower calls requesting inspectors to attend customer premises for billing and meter queries.
- Services to developers has seen a decrease in the year of £24k. These costs relate to the administration and providing advice to developers.
- Other operating expenditure has increased:
  - Disconnection charge has reduced by £0.2m and reflects debt management costs previously included as disconnection charge.
  - Customer side leaks relate to the cost of repairing leaks on the customer's side of the stop-tap that have originated from a request by the customer. The increase in cost of £0.3m reflects increased activity. The costs have been allocated to retail based on job type information resulting in the household: non household split of 86%:14%.
  - Pension actuarial credit due to the IAS19 and FRS17 accounting adjustment have reduced by £1.1m.
  - General and support costs have reduced by £1m. £0.2m relates to lower IT charge reflecting reductions in contract price and staff working on the new billing system and lower facilities cost amounting to £0.2m. During the year a review took place of the cost allocation of the communication department. Following this, the communication costs charged to retail is £0.4m lower than previous year.
  - Other Business activities relate to the cost of the Economic Regulation department, the Ofwat licence fee, Water UK. And the economic regulation team. These costs are allocated equally across 9 business units (4 for water services, 4 for sewerage services, and 1 for retail services, which is split equally between household and non-household). The increase in the year reflects increase in Ofwat fees and economic team activity.

- Capital maintenance costs have increased in the year. These costs reflect the current cost depreciation charge for the year and are consistent with the retail fixed asset table in the regulatory accounts. The reason for the increase in depreciation relates to demand side water efficiency schemes included in depreciation and being fully written off in the year; depreciation on the replacement billing system and increase in depreciation in telephony.

Appendix 3 Retail- wholesale cost allocation

	Cost driver used 2014-15
Customer Services	
Billing	Wholly in retail
Payment handling and remittance	Wholly in retail
Non - Network customer enquiries and complaints	Wholly in retail
Network customer enquiries and complaints	
Dwr Cymru Operational call centre	Wholly in retail
Dwr Cymru Waste Operations	
Scheduling jobs	Managers estimate of time spent on scheduling the intial job after a customer contact.
Aborted jobs	Report from SAP to show cost of all aborted jobs as a result of customer contact
Call to customer for call to be resolved	Previously costs were allocated based on direct allocation as unique cost centre for this team, however for 2014-15 we have used management estimate for the time spend on contacting the customer to resolve the call as the team do have some wholesale activities associated with their role
Dwr Cymru Water Operations	
Scheduling jobs	Managers estimate of time spent on scheduling the intial job after a customer contact.
Inspectors first visit	Number of jobs depatched from OAC that require visit and then filtered by cause types to establish the costs of non network visits
Call to customer for call to be resolved	Managers estimate of time spent on calling customer to advise that work has been completed
Other customer services	
Debt management	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru Council Commissions	Wholly in retail
Customer doubtful debt	
Local authority bad debt	Wholly in retail
Dwr Cymru doubtful debt	Wholly in retail
Meter reading	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru water inspectors	Customer liaison for meter queries - extracted all the jobs that the inspector went out to visit following a customer contact which related to a billing query
Other operating costs	
Disconnections and reconnections	Decision and administration costs only
Demand- side water efficiency initiatives	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru water efficiency	Wholly in retail
Customer side leaks	
jobs raised after customer call	Type of jobs raised as result of a customer contact
Other direct costs	
Dwr Cymru Customer Services	Wholly in retail (apart from some compensation payments)
Dwr Cymru insurance costs	Previously these costs were recharged direct to DCCS, but for 2014-15 this has been based on the estimate provided by the insurance broker.
Dwr Cymru Actuarial costs	Scheme numbers
General and support expenditure	
IT costs	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru IT dept	Allocated using headcount , number of computers and system type
Motor vehicle costs	Wholly in retail
Finance	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru Finance	FTE
Dwr Cymru income and tarriff team	Previously this was wholly in retail, however for 2014-15 we have used management estimates to allocate the time spent within business activites as the tarriff team are involved with wholesale and retail activities
HR	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru HR	FTE
Executive team	
Dwr Cymru MD and FD	FTE
Dwr Cymru - Company Secretarial, Executive , Non executive Directors and Members costs	Previously allocated using FTE, however for 2014-15 we have allocated equally over the nine business units . This is a more approriate cost driver as this is a corporate activity and should be spread equally.
general management	
Dwr Cymru Customer Services Ltd	Wholly in retail
Facilities	
Dwr Cymru Customer Services Ltd	Wholly in retail
Dwr Cymru	Floor space and FTE
Other general and support costs	
Dwr Cymru Customer Services Ltd	
Meter reading	Wholly in retail
Training and quality	Wholly in retail
Web	Wholly in retail
Business change	Wholly in retail
compliance	Wholly in retail
Key and business customers	Wholly in retail
Dwr Cymru	
Communication team directly allocated	Some cost are directly allocated due to type of spend and management allocation. The remainder has been allocated based on FTE
Quality and assurance	Management time spent on audit work
Health and safety	FTE
Tax and capital markets	FTE
Finance planning	FTE
Scientific Services	No costs in retail following IN 13/10
Other business activities (regulation costs)	1/9th to retail
Developers services	Cost apportionment by manager
Local Authority rates	
Local Authority rates	Floor space

Appendix 4: Wholesale cost allocation

Allocation bases

cost Driver A- direct costs can be mapped directly from a cost centre to the relevant Accounting separation business unit.

Cost Driver B-In cases where the mapping is not direct but a specific cost driver is used to allocated the cost to the Appropriate Accounting separation business unit

Cost Driver C-In cases where the mapping is not direct, allocations are worked out using appropriate judgements based on available data and an undertanding of the business

	Resource (Water Processes)	Raw Water Distribution	Treatment (Water Processes)	Water Distribution (Networks)	Sewerage	Sewage Treatment	Sludge Treatment	Sludge Disposal
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
	A/B	A/B	A/B	A/B	A/B	A/B	A/B	
Power	This cost includes all energy costs (including climatechange levy costs) and income from energy generation .The cost consists of electricity costs , income received , gas and climate change levy. Electricity costs are allocated to assets via DC's electricity management system (ARIES) which receives electronic power bills from the energy providers and by reference to the supply point, charges the cost to the asset's cost centre via an interface with SAP.Each Water and Sewerage service asset has a unique supply point allowing the actual power costs to be charged directly to the asset and its associated activity. Where a supply point provides power for more than one activity,(e.g a sewage treatment works which also contains a sludge treatment facility) sub-meter data is used where possible. Where sub-meter data is not available, the amount attributable to each activity is determined by reference to the location of equipment, the output of that item, it's frequency of use and the pumping head involved.							
	A	-	A	-	A	A	-	-
EA Service Charges	Abstraction charge received from the Environment Agency is allocated to water resources. Discharge consent payments to the Environmental Agency are supported by a site-by-site breakdown and this is used to allocate the cost to the appropriate activities and processes.							
	A	-	-	A	-	-	-	-
Bulk Supply Imports	Bulk supply imports relate to the purchase of potable water and non-potable water . The non-potable element is allocated to water resources. The potable element is allocated to water distribution.							
Other operating expenditure								
	A/B	A/B	A/B	A/B	A/B	A/B	A/B	A/B
Employment costs	Following the introduction of the above SAP work management systems, the majority of operational staff's workload and the related allocation of cost is automated. As a consequence, the need for manual allocations of people's time is minimised. Furthermore, many operational staff and their associated cost centres can be attributed to one particular activity and instances of staff working across more than one activity are relatively low. For example, Water Distribution employees rarely work on Water Resources, Raw Water Distribution or Water Treatment assets., while Water Treatment operatives rarely carry out any work within Water Distribution. The situation is similar within the sewage business, where sewerage operatives, rarely work on sewage treatment and sludge treatment activites. Managers' estimates are used to allocate any under or over-recoveries in operatives' home cost centres. In 2014/15, £25.9m of water services operational labour costs were allocated across opex and capex activities. This comprised £12.2m of work management systems allocations, £1.3m of authorised timesheet allocations, and £12.4m of labour costs allocated on the basis of managers' estimates. £1.8m of the managers estimated transfers were to opex, of which £0.2m (or 0.8% of total allocated salaries) was allocated outside of the home cost centre's activity. Like wise for waste :In 2014/15, £24.9m of waste services operational labour costs were allocated across opex and capex activities. This comprised £16.0m of work management systems allocations, £0.3m of authorised timesheet allocations, and £8.6m of labour costs allocated on the basis of managers' estimates. £0.6m of the managers estimated transfers were to opex, of which £0.3m (or 2% of total allocated salaries) was allocated outside of the home cost centre's activity. Non-operational staff generally support one activity. Where they support more than one activity, their costs are allocated on the basis of staff costs or managers' estimates.							
	A	A	A	A	A	A	A	A
Hired and Contracted Services	Hire and contracted services are charged directly to business units by procurers who are generally dedicated to that activity. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job. These works orders settle costs to the cost centres or capital internal orders associated with the asset, job type and location.							
	A	A	A	A	A	A	A	A
Chemicals	Chemicals are charged directly to assets and activities by procurers who are generally dedicated to those activities. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job. These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.							
	A	A	A	A	A	A	A	A
Materials & Consumeables	Materials and consumables are charged directly to assets and activities by procurers who are generally dedicated to those activities. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job. These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.							
	C	C	C	C	C	C	C	C
Other	Other costs include insurance costs , customer side leaks funded by wholesale and customer compensation payments relating to wholesale activities. Insurance costs have been allocated based on FTE for employers liability and for uninsured provision based on claims history . Customer side leaks have all been allocated to water distribution and compensation to the business activity that it relates to .							
	C	C	C	C	C	C	C	C
General and support expenditure	The cost allocation for General and support is shown in Appendix 5							
	B	B	B	B	B	B	B	B
Scientific services	The laboratory services costs are allocated across the various activities on the basis of volume of samples. The cost of taking samples at the customer tap is included in wholesale in accordance with Ofwat's information notice IN 13/10.							
	B	B	B	B	B	B	B	B
Other business activities	This includes the cost of regulation, including all incremental managerial costs of regulation associated with a periodic review, licence fees payable to Ofwat in respect of regulation, certification fees associated with the Licence requirements and staff and associated costs incurred in the preparation of submissions to, and liaison with, regulators.Costs are allocated equally across nine activities (four for water services, four for sewerage services and one for retail services.							
	B	B	B	B	B	A/B	B	B
Local Authority rates	This relates to the cost of local authority rates and includes both local authority rates and cumulo rates Cumulo (water-only) rates are allocated across activities in proportion to the gross MEA value of assets assigned to the business. Cumulo rates associated with the Environment Agency operating agreement are charged to third party services. Non-domestic rates relating to sewerage sites are allocated primarily to the sewage treatment activity. Where there is a sludge treatment activity at a sewage treatment site, a percentage (based on rateable values) is charged to the sludge treatment activity. Non-domestic rates relating to offices are allocated to activities where possible. Where this is not possible, the costs are allocated to activities on the basis of employment costs or floor space.							
	B	B	B	B	B	B		
Infrastructure renewals charge (excluding third party services)	This infrastructure charge is taken from Table 33 which we still prepare as part of the June return process. This methodology has not changed from last year and is consistent with the previous June return guidance.For Accounting separation,the water and waste costs are allocated to the seperate business activities based on IRE spend.							
	B	B	B	B	B	B	B	B
Current cost depreciation	For the assets that were revalued at 31 March 2104, the current cost depreciation has been derived from the conditioning matrix that the revaluators prepared during their revaluation. For the other assets the current cost depreciation has been calculated by applying rpi to the previous charge and applying CCD to the additions							
	B	B	B	B	B	B	B	B
Amortisation of deferred credits	The allocation across activities is based on the current cost depreciation figures quoted in the analysis of fixed assets, This treatment is consistent with last year.							
	C	C	C	C				
Third party services - opex	Third party services includes costs associated with the supply of non-potable water,standpipes, ships water, bulk supply, reservoir agreements, rechargeable works, external tranport activities, rent received from properties , new connections and recreation activities are treated as appointed costs							
				A				
Third party services - current cost depreciation	The costs are calculated by taking the CCD figures for Raw and treated water distribution, as quoted in analysis of fixed assets (Water) table, reducing it by the CCD value of short life assets and applying the percentage associated with non-potable. The non-potable percentage is calculated by comparing the MEA values from the 2009 revaluation exercise for DCWW assets, less short life assets, and the MEA values from revaluation exercise for non pots pipelines and asset values, less the CCD associated with impounding reservoirs which is transferred to IRE.This treatment is consistent with last year,							
			A	A	-	-	-	-
Third party services - infrastructure renewals charge	The costs are calculated by taking the Infrastructure renewals charge and applying the percentage associated with non-potable. The non-potable percentage is calculated by comparing the MEA values from 2009 revaluation exercise for DCWW assets, less short life assets, and the MEA values from revaluation exercise for non pots pipelines and asset values, plus the CCD associated with impounding reservoirs which is transferred to IRE. This treatment is consistent with last year.							

Appendix 5: General and support		14/15 basis of allocation				
Department	**Directly attributed**	**direct to business units**	**Apportioned**	**Apportionment basis**	**G & S included in wholesale**	**G & S included in retail**
Managing Director	0%	Any costs directy attributed have gone direct to the relevant business activity	100%	Water UK costs and PR14 Financing costs are included in other business activities and are allocated over each business activity equally with retail counting as one business unit. The remaining costs are apportioned on headcount .	80%	20%
Company Secretary, Executive and non Executive Directors, Members and legal costs	0%	no costs directly attributable	100%	Regulatory Compliance team are included in other business activities and are allocated over each business activity equally with retail counting as one business unit.For the remaining costs, wholesale- retail split is based on FTE. For those costs apportioned to wholesale this is further split between business activities based on headcount.	88%	12%
Human Resources department -DC	3%	Training costs directly attributable to waste or waste water business activities	97%	For the remaining costs, wholesale- retail split is based on FTE. For those costs apportioned to wholesale this is further split between business activities based on headcount.	93%	7%
Quality & Assurance department	0%	no costs directly attributable	100%	Managers allocation based on nature of work	95%	5%
Communications department excluding Education	18%	Communication team allocated to retail by going through each line of spend to identify retail costs	82%	For the remaining costs, wholesale- retail split is based on FTE. For those costs apportioned to wholesale this is further split between business activities based on headcount.	78%	22%
Environment department	0%	Costs allocated direct to waste and waste water. For allocation between business units managers assessment is used based on nature of work that that have carried out in the year.	100%	For the remaining costs , managers allocation of time spent within wholesale activities only. No retail activity.	100%	0%
Waste Water	36%	All wholesale activites no retail activity . These costs have been directly allocated to business units	64%	The following costs within DC's waste water department are apportioned over different business units as follows: business efficiency team allocated over wholesale business units based on managers assessments;head of waste allocated over direct costs of the waste water department;planning and scheduling team allocated over waste water activities by managers assessment based on the work carried out in different areas; Sludge disposal G & S allocated over sludge treatment and sludge disposal based on direct cost split of that department; G & S support and catchment managers costs allocated across waste business activities based on managers judgements	100%	0%
Energy Manager	0%		100%	Allocated on basis of direct power costs to wholesale activities	100%	0%
Finance Director	0%		100%	Wholesale- retail split is based on FTE. For those costs apportioned to wholesale this is further split between business activities based on headcount.	79%	21%
Income & Billing- DC	0%		100%	Income and tarriff team allocated across business activities based on managers estimate. This treatment was different to previous years when all costs were included in retail. The change in basis of allocation reflects that the team are involved mainly in wholesale tarriffs with some time spent on social and retail tarriffs	65%	35%
Finance treasury, tax & capital markets department	44%	Costs directly attributed to wholesale relates to local authority rates management and advice.There are some direct costs attributed to retail which relates to professional advice on retail activities.	56%	For the remaining costs, wholesale- retail split is based on FTE. For those costs apportioned to wholesale this is further split between business activities based on headcount.	92%	8%
Financial Accounting Department excluding Income Accounting department & Audit Fees	0%		100%	Costs apportioned beween wholesale and retail based on FTE . Allocated to wholesale business activities based on heacount.	97%	3%
DC income accounting	100%	All these costs are allocated to retail	0%		0%	100%
DCCS IT costs	100%	All these costs are allocated to retail	0%		0%	100%
DCCS motor vehicle costs	100%	All these costs are allocated to retail	0%		0%	100%
DCCS finance	100%	All these costs are allocated to retail	0%		0%	100%
DCCS HR	100%	All these costs are allocated to retail	0%		0%	100%
DCCS general management	100%	All these costs are allocated to retail	0%		0%	100%
DCCS facilities	100%	All these costs are allocated to retail	0%		0%	100%
DCCS other general and support	100%	All these costs are allocated to retail	0%		0%	100%
Planning & Regulation Director	0%		100%	Majority relates to wholesale with very little impact on retail. Costs allocated to wholesale split across business activities based on headcount.	98%	2%
Legal Services - DC	57%	Majority of costs relate to wholesale activities as DCCS has own legal department. Directly attributedcosts relate to employment costs for those working on water or waste water activities . This is further split between business activites based on direct costs .	43%	Majority of costs relate to wholesale activities and allocated across business activites based on headcount. The amount allocated to retail relates to costs of competition solicitor which has been split between wholesale and retail based on managers assessment	94%	6%
Operations IT costs	13%	Direct costs allocated relate to IT , telecomms and outsourced contract	87%	Apportionement method used to allocate to water , waste and retail is dependant on the nature of the spend and varies from headcount to no of laptops within specific offices. Allocation to business activites within water , waste and retail based on headcount . Allocation of support service IT costs included in the split	85%	15%
Operations director	0%		100%	All wholesale activity and allocated across wholesale activities based on headcount.	100%	0%
Health & Safety	0%		100%	Costs apportioned to beween wholesale and retail based on management allocation . Allocated to wholesale business activities based on heacount.	94%	6%
Operations...New Developements	0%		100%	Managers allocation.	100%	0%
Water services	64%		36%	The following costs within DC's water department are apportioned over different business units as follows: general and support allocated over water wholesale business units based on managers assessments;production allocated using direct costs of the water department; water quality allocated over water department using management allocation	100%	0%
Procurement & Commercial	0%		100%	Procurement costs allocated to wholesale only and apportioned using hired and BIS costs. Head of procurement costs allocated using managers allocation where some costs have been allocated to retail based on contract renewals.	92%	8%
Facilities & Property	0%		100%	Costs apportioned using analysis provided by the Facilities team identifying the numbers of people, by department, at each non-operational site. Facilities costs for DC are recharged directly to DCCS. Other Facility costs included in retail relate to employees employed by DC who carry out retail activities.	91%	9%
	30%		76%		76%	20%

Appendix 6: household:non household split	Cost driver used for Regulatory 2014 Accounts- H: NH split	Cost driver used for Regulatory 2015 Accounts H:NH split	H : NH split	
			H	NH
Customer services			%	%
Billing			93%	7%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Dwr Cymru Council Commissions	This relates to costs for councils and water companies collecting monies on our behalf . A notional charge of £2.88 per customer number has been used to calcuate the cost of billing . The customer numbers is the driver for allocation of household:non household split for water companies commission and billing. Councils commission and billing only relates to household	unchanged from 2014 basis used	96%	4%
Payment handling and remittance			92%	8%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Non - Network customer enquiries and complaints			92%	8%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Network customer enquiries and complaints			85%	15%
Dwr Cymru Operational call centre	based on call data	unchanged from 2014 basis used	86%	14%
Dwr Cymru Waste				
Schedulers	Volume and type of network customer enquiries passed to scheduler	unchanged from 2014 basis used	86%	14%
Aborted jobs	based on call data	unchanged from 2014 basis used	82%	18%
Call to customer for call to be resolved	Volume and type of network customer enquiries passed to scheduler	unchanged from 2014 basis used	85%	15%
Dwr Cymru Water				
Scheduling jobs	Volume and type of network customer enquiries passed to scheduler	unchanged from 2014 basis used	83%	17%
Investigation of problem	This is based on actual Household: Non household activity	unchanged from 2014 basis used	82%	18%
Call to customer for call to be resolved	Volume and type of network customer enquiries passed to scheduler	unchanged from 2014 basis used	83%	17%
Debt management			95%	5%
Dwr Cymru Customer Services Ltd	household and non household debt outstanding data from table 6a of June return	unchanged from 2014 basis used	93%	7%
Dwr Cymru Council Commissions	The agreement is based on customer numbers not on debt outstanding and this is basis of this split	unchanged from 2014 basis used	98%	2%
Customer doubtful debt			91%	9%
Local authority bad debt	All household	unchanged from 2014 basis used	0%	100%
Dwr Cymru doubtful debt	Customer numbers based on a sample of customers . Methodology applied is included in the methodology statement	Used bad debt write off . THe previous splits cannot be used as we are curently unable to get this information out of the new billing system	93%	7%
Meter reading			84%	16%
Dwr Cymru Customer Services Ltd	Number of metered customers	unchanged from 2014 basis used	84%	16%
Dwr Cymru water inspectors	Volume and types of calls raised	unchanged from 2014 basis used	81%	19%
Other operating costs				
Disconnections and reconnections	Entirely in non-household	unchanged from 2014 basis used	0%	100%
Demand- side water efficiency initiatives		directly attributable	0%	100%
Customer side leaks			86%	14%
jobs raised after customer call	job types from SAP and Business Warehouse report	unchanged from 2014 basis used	86%	14%
Other direct costs			57%	43%
Dwr Cymru Customer services team	Cost identified that could be directly attributed and remaing costs split using customer numbers	unchanged from 2014 basis used	85%	15%
Dwr Cymru insurance costs	Costs recharged to DCCS and included in admin charge	customer numbers	85%	15%
Dwr Cymru compensation		customer numbers	85%	15%
Dwr Cymru Actuarial costs	Direct employment costs	DB splits used in PR14	86%	14%
General and support expenditure			88%	12%
IT costs			90%	10%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Dwr Cymru IT dept	headcount and nature of support	unchanged from 2014 basis used	86%	14%
Motor vehicle costs	Customer numbers	unchanged from 2014 basis used	92%	8%
Finance			91%	9%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Dwr Cymru Finance	Customer numbers and part managers assessment	unchanged from 2014 basis used	90%	10%
Dwr Cymru income and tarriff team	customer numbers	unchanged from 2014 basis used	92%	8%
HR			90%	10%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Dwr Cymru HR	employment costs	Customer numbers for HR director; remainder using operational costs allocated to retail	88%	12%
Executive team			91%	9%
Dwr Cymru MD and FD	Customer numbers	Customer numbers for MD; using operational costs allocated to retail for FD	89%	11%
Dwr Cymru - Co Sec	Customer numbers	unchanged from 2014 basis used	92%	8%
general management			92%	8%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Facilities			88%	12%
Dwr Cymru Customer Services Ltd	Customer numbers	unchanged from 2014 basis used	92%	8%
Dwr Cymru	Headcount and includes share of support services facilities costs allocated to retail	unchanged from 2014 basis used	85%	15%
Other general and support costs			73%	27%
Dwr Cymru Customer Services Ltd			64%	36%
Training and quality	Customer numbers	unchanged from 2014 basis used	92%	8%
Web	Customer numbers	unchanged from 2014 basis used	92%	8%
Business change	Customer numbers	unchanged from 2014 basis used	92%	8%
compliance		unchanged from 2014 basis used	92%	8%
Business customers	Customer numbers	Non household only	0%	100%
Dwr Cymru			88%	12%
Comminication team directly allocated	Customer numbers	External comms and billing info split using customer numbers , the remainder using employment cost based on type operational jobs received from call centre	91%	9%
Quality and assurance	Managers assessment on time spent on audit work	unchanged from 2014 basis used	60%	40%
Health and safety	Managers assessment	employment cost split based on type of operational jobs received from OAC	86%	14%
Tax and capital markets	Employment costs	unchanged from 2014 basis used	86%	14%
Legal		customer numbers	92%	8%
Procurement	Hired and BIS split	unchanged from 2014 basis used	89%	11%
Finance planning	Customer numbers	unchanged from 2014 basis used	92%	8%
Other business activities (regulation costs)	Customer numbers	unchanged from 2014 basis used	92%	8%
Developers services	Entirely in non -household	unchanged from 2014 basis used	0%	100%
Exceptional item		customer numbers for DCCS reorganisation costs , other reorganisation costs split in line with operational employment split.	91%	9%
Regulatory Accounts 2014-15			**90%**	**10%**