

Our Ref: PK/LAT/Ofwat

Your Ref:

2 August 2021



Ofwat
4th Floor
21 Bloomsbury Street
London
WC1B 3HF

SES Water
London Road
Redhill, Surrey,
RH1 1LJ
Telephone: 01737 772000
Facsimile: 01737 766807
Website: www.seswater.co.uk
Email: contactus@seswater.co.uk

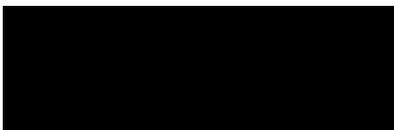
Dear Ofwat

Response to the consultation on overhead cost reporting

Many thanks for the opportunity to respond to the above consultation.

Please find attached SES Water's response and we welcome your comments and are happy to engage further with you to improve the methodology in this area.

Yours faithfully



Paul Kerr
Group Chief Financial Officer

Q1. Do you agree with the guidance that we propose adding to RAG2?

Response:

We agree that the guidance for cost allocation between wholesale and retail price controls should be further developed to allow consistency in reporting. The current guidelines are too vague about which cost drivers to use for cost allocation, resulting in inconsistent reporting practice and a distorted cost profile across the industry. Where possible, the allowed costs and their proportion in comparison to total cost should be considered as a guide. For example, if retail accounts for 10% of total allowed cost, but 30% of the labour force, due to its labour-intensive nature of customer service, it would be inappropriate to use FTE as cost driver to allocate general and support cost between retail and wholesale.

Q2. Are the general support categories carried over from RAG2.08 still appropriate? If not, what should we use instead?

Response:

We consider that the general support categories are still appropriate. However, wherever possible, treatment and content of such support categories should be made more specific or be accompanied with further guidelines. The questions to answer include, but by no means are limited to, the following:

- Does the cost incurred by a business unit/department also benefit the rest of the business and is not just incurred for the functioning of the cost centre?
- Is the cost incurred due to a regulatory duty that happens to sit with that specific cost centre? If it does, the cost should be allocated to the rest of the business in a reasonable way.

Q3. Are there any other areas that we have not covered by these proposals that we should?

Response:

Regulation costs account for a growing share of the “general support” cost and it has not been specifically analysed how companies allocate costs to this function. External consultancy that helps companies comply with regulatory requirements or challenge regulatory decisions is an example of widely varying cost element across companies. With the growing regulatory requirements, this type of cost should also be considered as part of the cost assessment or efficiency benchmarking in the industry.

Q4. For 2021-22 we are considering asking companies to report costs on both their existing approach and the new approach so that we can understand the impact that this has on the allocation of cost across controls. Would you agree with this approach? If not, then how could we assess the impact of this in advance of the PR24 business plan submission?

Response:

We do not agree with the proposed “double-reporting” requirement of such data. Data calculation and reporting, cost data included, is an evolving process with improvement

over time. We would advocate use of a transition calculation that allows a conversion from the previous to the current methodology as opposed to further data reporting requirements.