



Overhead Cost Reporting – revising RAG2

Southern Water response

August 2021



Introduction

Thank you for the opportunity to respond on the revisions to RAG2 in relation to overhead cost reporting. Our responses are detailed below:-

Question 1: Do you agree with the guidance that we propose adding to RAG2?

We agree in principle to the guidance being added to RAG2.

Question 2: Are the 'general and support' categories carried over from RAG 2.08 still appropriate? If not then what should we use instead?

Yes, we believe the categories carried over are still appropriate.

Question 3: Are there any areas that we have not covered by these proposals that we should?

We are required to separate out other business activities (regulation costs) down to business unit level in Tables 4J and 4K. We would welcome guidance on how that allocation should be made?

Further to the consultation on regulatory reporting 2021-22 we believe it would be more appropriate to use GBV or NBV for the allocation of local authority rates/cumulo rates between wholesale price controls or for co-located assets within wastewater, details from the actual rating assessment of the site as opposed to MEA values.

Question 4: 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 costs 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 submissions?

We understand that Ofwat needs to assess the impact ahead of the new approaches ahead of PR24 business plan submissions.

We believe that this assessment could be accurately made by companies restating tables 2B and 2C to Ofwat as a standalone exercise outside the APR production process. This would avoid the unnecessary complexity and risk of error from maintaining two sets of allocations and versions of the tables during the annual reporting cycle