



TW response to Ofwat consultation on RAG 2 amendments

2 August 2021



Section 1

Response to consultation questions 1 - 4

1 Do you agree with the guidance that we propose adding to RAG 2?

- a) We are supportive of the changes and welcome greater consistency across the industry. We are supportive of the re-layout of RAG 2 to more easily identify in tabular form the allocation guidance. We agree that there are legitimate reasons for company variations in “overhead burden rates”.
- b) Within the June 2021 consultation entitled “Gathering data about developer services – a consultation” Ofwat identified two options for the future regulation of Developer Services being:
 - An adaptation of the current regulatory approach – continuing to include developer services within the network + price control.
 - Excluding contestable developer services from the network + price controls but introducing a capped regulatory margin.

The proposed approach applied by RAG 2.09 introduces a third option, the allocation of developer services into a separate price control which looks to be in conflict with this previous consultation. In particular RAG 2.09 presents the separate price control as the default option. Can Ofwat provide greater clarity on how they are intending to regulate Developer Services in PR24?

- c) Can Ofwat provide further guidance on which assets Ofwat are intending to be capitalised & depreciated within the Developer Services price control?
 - We would expect assets constructed by DS (including service connections, new mains/sewers & network reinforcement) to form part of the relevant network + price control, however this is unclear in the current guidance received.
 - Where these assets are intended to sit within the DS price control are Ofwat requiring prior period reclassification of these assets (which would also inform any applicable depreciation charge) or for this to only capture newly constructed assets from the 2021/22 financial year onwards.
 - If these assets do sit in the DS price control, then would associated future maintenance/repair activities also sit within the DS price control.
- d) We agree with the decision to remove the allocation of certain developer services activities from retail.



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

We feel that these categories are still appropriate.

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

Can Ofwat provide further guidance on the activities intended to form part of the Developer Services price control, for example is this intended to also include activities to support build over and adoptions processes?

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?

Whilst we understand Ofwat's intent to capture data under both approaches for the 2021/22 financial year we do not feel it is feasible to produce this within the established APR timescales. Instead, we would strongly propose this information forms the basis of a separate data request to be supplied at a date, at least two months after the APR publication date. Our current systems and processes are not designed to report costs under both methodologies simultaneously and so the production of information compliant with the new approach will require significant manual intervention. We also note that reporting this detail under the two approaches in our main submissions would make the APR a significantly longer document and confusing to stakeholders.

