Overhead Cost Reporting – Revising RAG2 (Consultation) 2021-22

United Utilities response to the Ofwat consultation

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Introduction

United Utilities welcomes the opportunity to comment on Ofwat's consultation on overhead cost reporting – revising RAG2.

We have responded to each of the questions set out in the consultation.

Consultation questions

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

United Utilities welcomes additional guidance on the allocation of overhead costs between wholesale price controls in order to aid comparable and cost reflective reporting.

The proposed split of regulation costs within RAG 2.09 appears sensible and we agree it will improve consistency of reporting across the industry. Given the capital nature of developer services activity, we currently report minimal operating expenditure for this activity, as such, other than the specific requirement to allocate 1/10th of regulation costs to developer services, we do not expect a material change in reported operating expenditure as a result of the updated RAG2 guidance.

We note reference to the possibility of the creation of a separate price control for developer services, within paragraph 1.5 of 'Overhead cost reporting – revising RAG2' consultation. Whilst we understand this may be required for AMP8, for AMP7 reporting we believe developer services performance should continue to be reported on a consistent basis to that set at PR19. Importantly, if a new developer services price control was intended to be say separately (shadow) reported for APR 2021-22 reporting, the proforma tables issued as part of the 'Consultation on regulatory reporting for the 2021-22 reporting year' would require a significant overhaul to accommodate this - however, no changes were reflected in this consultation document. Any proforma table changes should be signalled early in the reporting year to allow companies time to accommodate this.

Q2. Are the 'general and support' categories carried over from RAG 2.08 still appropriate? If not then what should we use instead?

Consistent with RAG 2.08, we believe the general and support categories detailed within RAG 2.09 are still appropriate for costs of this nature.

For completeness, we also identified the following additional categories of G&S spend within our 2020/21 accounting methodology statement.

Expenditure line item	Allocation to price control
Learning & Development	Allocation to price control based on a management assessment of time spent.
General Counsel	Directly attributable to price control where possible. Remaining costs allocated to price control by FTE.
Corporate Affairs	Costs allocated to price control using default FTE driver.
Asset Management	Directly attributed where possible. Otherwise allocated based on management assessment using the most appropriate driver.

The general and support categories could reasonably be expanded to also include the above categories although, as shown above, we do not believe these require any specific drivers so could reasonably argue these are already adequately covered by the 'other general and support costs' category.

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

United Utilities has no other areas to comment on with regards to these proposals.

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 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?

United Utilities understands Ofwat may want to quantify the impact additional cost allocation guidance has had on the allocation of costs across price controls. The impact of such additional guidance could be a new requirement, under RAG 3.13 A2 Accounting methodology statement, whereby companies bridge the actual costs by price control reported under RAG 2.09 to those that would have been reported previously under RAG 2.08. This would provide a clear and simplistic view of the impact of changes in cost allocation, and the drivers of such variances. We do not consider it necessary to submit two sets of APR tables, as this would create unnecessary administrative burden on companies for limited added value.