

Wessex Water Response: Overhead cost reporting – revising RAG2

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

We agree that adding more guidance to RAG2 will help in ensuring consistent reporting of overheads across the industry, and thus support adding in additional guidance.

However, the goal should be to ensure that costs are reported correctly. Consistency should not be placed over getting the allocations correct and so any guidance should retain flexibility to ensure that company specific circumstances can be reflected.

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

We largely agree with the proposed categories of general and support that are proposed.

However, we think that they could be further expanded by considering legal and public relations separately. These areas could have materially different cost allocations and so we would support separation of these to use more reflective cost allocation methods.

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

We do not think there is anything not covered by 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?

We think that it is imperative that any changes that are imposed mid-price control are done in a completely value neutral way. With asymmetric totex sharing rates varying across controls we would expect that annual reporting and thus 2020-25 reconciliations will use the old cost allocation methods, unless any changes are immaterial.

Preparing separate data alongside the APR to see the difference will then pose additional workload at an already congested time of annual reporting. To this end we would favour a separate one-off exercise outside the annual reporting timeframes. This will help ensure that the data collected is of the highest quality.