

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

By email only to: OfwatPandO@ofwat.gov.uk

02/08/2021

Dear Rob,

Consultation on Overhead cost reporting – revising RAG2

Thank you for the opportunity to review and comment on the proposed changes to how overhead costs are reported and the revising of RAG2.

Please find attached our responses to the questions posed along with some clarifications/questions we would like to raise.

Yours sincerely,

Chris Offer
Head of Regulation

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

We welcome the proposal for additional guidance for overhead allocation in RAG2.09.

However, to allow us to meet the proposed implementation of the new guidance for the 2021-22 annual performance report, we would like to emphasise the need for early finalisation of RAG2.09, our view is this should be finalised by the end of September 2021.

This would enable alignment of our internal reporting systems to be able to meet the new guidance.

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

We believe that the categories are still appropriate, however any further guidance to achieve comparability across the industry could be considered.

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

We currently have no areas to flag.

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 and agree that the impact of any proposed changes needs to be assessed, as any significant movements in allocation will make it harder for comparisons to historical reporting years.

However, we would like clarification on the proposal for dual reporting, as this could, depending on the method proposed, potentially add a significant regulatory burden to the existing APR process.

We would appreciate consideration being given to the additional regulatory burden being created when you consider the timeline of submission of the APR.

We would also like clarification of the level of assurance that you would require to be undertaken on the dual reporting.