WESSEX WATER

ACCOUNTING SEPARATION METHODOLOGY STATEMENT: 2015-16

The purpose of this methodology statement is to assist the reader of the company Annual Performance Report 2015-16, in particular to give information on how the company has met the requirements of the Regulated Accounting Guidelines (RAGs) for the attribution of costs between price control units and further subdivisions of costs by activity. It includes any material changes to the methodology from previous years.

Business structure – Background to the business

Wessex Water’s appointed operational activities are largely carried out on an insourced basis.

The major exception to this is the use of Bristol Wessex Billing Services Ltd (BWBSL) for billing, debt recovery and customer services. Just over 40% of total retail costs are invoiced to Wessex Water Services Ltd (WWSL) by BWBSL.

BWBSL has been functionally separating its non-household retail services into a division operating under the trading name “Water2Business”. From April 2016 Water2Business Ltd has replaced BWBSL as the appointed billing agent for WWSL although this has had no impact on this reporting year.

During the reporting year operational enquiries and developer services activities continue to be dealt with on an insourced basis within WWSL. Retail customer-side leak repairs and water efficiency promotional activities are undertaken by WWSL, predominantly using in-house resources.
**Principles Applied**

Our methodology is aligned with the RAG 2.05 and RAG 4.05 to the extent that they cover the principles, definitions and cost drivers to be used in pro forma tables 1A to 1D, 2B, 2C, 2D, 4D, 4E and 4F of the annual performance report between:

- Retail and wholesale services
- Household and non-household retail services
- Services for measured and unmeasured customers.

The Directors have confirmed that WWSL complies with the principles of RAG 5.06 – Transfer Pricing in the Annual Performance Report.

This statement explains the basis on which we have confirmed that we have drawn our accounts up in accordance with RAG2 as required by RAG3.

We confirm we have followed the general principles as set out in RAG 2.05 as follows:

Transparency: the attribution methods applied within the accounting separation system need to be transparent. This requires that the costs and revenues apportioned to each service and business unit should be clearly identifiable. The cost and revenue drivers used within the system should also be clearly explained to enable a review of their appropriateness.

Causality: cost causality requires that costs (and revenues) are allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution of costs and revenues to activities and services should be performed at as granular a level as possible.

Non-discrimination: the attribution of costs and revenues should not favour any business unit within the regulated company and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.

No cross subsidy between price controls: companies cannot transfer costs between price control units. Transfer prices for transactions should be based on market prices, or in the following circumstances they should be based on cost:

- No market exists
- The service or activity is company specific and is being provided internally to all price control units
- The service or activity is provided solely to both the appointed and non-appointed business.

Objectivity: the cost and revenue attribution criteria need to be objective and should not intend to benefit any business unit or service. Cost allocation must
be fair and reasonable and should be consistent between appointed and non-appointed activities

Consistency: the cost and revenue attribution criteria should be consistent from year to year. Changes to the attribution methodology from year to year should be clearly justified and documented.

Principal Use: Where an asset is used by more than one service it should be reported (capex and depreciation) in the price control unit where the service of principal use occurs with a recharge made to other services reflecting the proportion of the asset used by those services. The basis of recharges between services should reflect the nature of the asset being recharged.

**Material Changes to methodology for 2015-16**

We were pleased to be a part of the Targeted Review of Sludge and Water Resources and have incorporated the recommendations as below:

**Water resources reporting**

For sites where treated water has to be dechlorinated so that it can be returned to the river, a full opex and historic cost depreciation (HCD) charge has been passed from water treatment to water resources.

Labour and maintenance costs at integrated water treatment and resource sites are now allocated based on a management estimate rather than the GMEAV.

M&G HCD Allocation is now based on the same cost drivers as used for the allocation of opex for corresponding overhead departments.

**Sludge reporting**

The income from the cost of the tankerized waste operation is now offset against the opex of both sewage treatment and sludge treatment based on the separate elements of the Mogden formula when applied to the total organic waste income.

Labour and maintenance costs at integrated sewage and sludge treatment sites are now allocated based on a management estimate rather than the GMEAV.

Liquor treatment costs now include an opex charge and a depreciation charge.

We have transferred sludge costs to the water treatment business unit where sludge has been produced at a WTW and sent to a sludge site. We confirm that this approach covers both opex for transporting and treating the sludge and an estimation of HCD based on total assets and proportion of use.
We have reviewed the fixed asset register and reclassified assets. We can confirm that the specific assets outlined as part of the Targeted Review have been moved from sludge disposal to sludge treatment.

Other changes based on better information

We have made no significant changes to the accounting structure of the corporate finance system compared to 2014-15.

Operating Costs

All operating costs are booked against a cost centre with an owner that manages the costs.

All costs are given an account code that describes the type of cost that has been incurred.

All cost centres within the company General Ledger system are aligned to regulatory business units for accounting separation reporting purposes.

All account codes are linked to a regulatory account code that conforms to the cost types that companies are required to show separately in the accounting separation tables, e.g. local authority rates.

Each time a new account code or cost centre is created within the corporate finance system it is linked to the appropriate business unit or cost type with reference to the latest regulatory guidelines. In addition, where Ofwat guidelines change we review the linkages of existing cost centres. As a secondary review the management accounting function check all cost centre and account codes to ensure alignment.

The diagram below shows how costs booked against the corporate General Ledger system are attributed to the correct regulatory business category (Reglev) (In this instance – Sewage Treatment) and correct regulatory cost type (Regact).
We continue to develop our new work and asset management systems so that we make greater use of site process and asset codes within the General Ledger system to help automate the split of costs where certain sites undertake activities for more than one regulatory business category.

These codes each sit below the cost centre in the system hierarchy. For instance, within a sewage treatment works cost code the process codes would be primary treatment, secondary treatment, sludge treatment, sludge disposal and each asset code is allocated to one of these treatment processes depending on its function. In this way the costs of maintaining and operating assets can be collected at an asset level and charged automatically to the appropriate business category without (or with less) manual intervention.

Support functions require allocation to the published business units. In many cases we use the internal charges used in the management accounts as the basis for the allocations – in this way the accounting separation data most closely reflects how the business charges itself for use of support services. We carry out this analysis for Information Services, Scientific Services, Facilities Management, Fleet & Plant Services, Insurance and the Mechanical & Electrical departments.

In line with guidance we allocate the costs of the following activities based on full time equivalent employees: Human resources including training and payroll, Finance & treasury, Chief Executives office, Legal & estates and Public relations.

**Significant movements in the year**

We have identified significant cost movements from 2014-15 below:
• Water Service charges showed a real reduction by £1m due to a one-off credit from the Environment Agency for Abstraction charging

• Water third party services costs reduced by £0.7m reflecting the reduced volume of new connections being requested during 2015-16

• A decrease in Waste other operating costs of £6.4m follows a number of one-off costs incurred during 2014-15 (approx. £3m) and a re-organisation of the Operations directorate.

Compliance with RAG 2.05

We confirm we have applied the principles and guidance as set out in:

• Table 2.4.1. Cost drivers for allocating operating costs between retail and wholesale, with the exception of:

Executive and Non Executives Directors’ remuneration is not captured on a timesheet basis. It has been identified through the accounts as a support activity and therefore gets allocated to service by FTE’s.

Other business activities costs are allocated equally over eight wholesale business units (as we do not have a viable raw water business unit) and one retail business unit.

• Table 2.5.1. Cost drivers for allocating retail operating costs between household and non-household, subject to the following comments:

Some costs are not allocated to the Ofwat requirements in our corporate finance system and it has been necessary to make a small number of adjustments. We make such adjustments where we consider the initial analysis is materially inconsistent with Ofwat guidance e.g. all fisheries costs charged to third party services rather than direct costs of resources.

Power costs are booked within the company General Ledger system at a site level. Where sites conduct more than one activity then we make an adjustment to allocated power costs appropriately. For the wastewater services this is allocated based on ‘drive level’ data as detailed below. The allocation of power between the different water service activities is based on an average of three years pumping head data at a site level.

We have a small amount of raw water aqueduct and no customers supplied with raw water. As such we do not believe there is a viable separated raw water distribution business unit within our boundary. As identified above, we allocate ‘Other business activities’ costs equally across eight business units – seven Wholesale and one Retail.
Historically we have aimed to identify specific operating costs that are identifiable as raw water distribution; however the only material opex cost would potentially be power as we do have pumping costs for pumping raw water from sources to treatment works. Applying the rule that water is transferred to one business unit to another via a pump means that these power costs are actually included in the water resources business unit as the pumps are located at the water resources site.

**Attribution of BWBSL retail costs**

BWBSL has functionally separated its non-household retail services (under the brand name “Water 2 Business”) from its household retail services. This has lessened the need to make allocation of costs between households and non-households. Of the £1.9m BWBSL non-household customer service cost, £1.5m is now directly attributed to functionally separated departments.

**Billing**

The Water2Business cost codes within BWBSL were charged directly in 2015/16 for non-household bills. The calculation was based on the number of meter reads at a price per bill which equates to the number of bills raised.

**Payment handling**

Payment arrangements are analysed by using a Rapid billing system report. Frequencies are assigned to these arrangements to calculate the total volume of payments received in a year. The report gives the split between household and non-household, and between measured and unmeasured.

**Vulnerable customer schemes**

All vulnerable customer schemes administration is handled in one department, all of the costs are for household only.

**Non-network customer enquiries**

All the contacts dealt with by the call centre and all correspondence teams have been analysed into household and non-household contacts from the billing system by volume.

**Debt management**

Analysis of aged debt reports shows the household and non-household debt that is greater than 30 days as at 31 March 2016, this is used for percentage splits.
Meter reading

Non-household meter reads have been charged to Water2Business for 2015/16 based on the number of non-household meter reads at a price per read. This has been recharged from the meter reading areas to Water2Business in 2015/16.

Overheads- IT costs; Finance, HR, payroll, general management; Facilities maintenance

Water2Business have general management, finance and accommodation allocated directly and costs charged to non-household. Charges from BWBSL are apportioned to non-household, where Water2Business is supported by BWBSL, based on customer numbers.

Services for measured & unmeasured customers

All cost centre areas are considered separately by management to determine what service is provided to measured and unmeasured customers. All the other operating expenditure areas are split using a billing system report by customer numbers. Water2Business non-household activities are predominantly for measured customers, the split is based on non-household customer numbers. All the meter reading costs and leakage are 100% measured.

Non-BWBSL retail costs

The costs attributable to doubtful debts, £11.6m, is directly attributed to customer type (meaning household or non-household)

Operational customer services costs are included within the “Customer Services” cost type and allocated based on the volume of network customer enquiries and complaints (contacts).

Operational customer services costs include:

- The scheduling of jobs triggered by a customer contact by our control room schedulers
- The inspectors that visit a customer’s address to investigate a problem where it is found not to be a network issue
- Internally generated calls to the retail call centre to enable the customer contacts to be resolved.

The costs of our customer magazine are included as retail costs and are allocated to customer type on the basis of customer numbers.
Centrally incurred debt management charges are allocated in full to household and represent the payment made to independent debt advice agencies such as the Citizens Advice Bureau.

These payments support the agencies work in providing holistic debt advice. It enables our customers to have access to the Wessex Water’s “tap” programme of affordability assistance.

The retail element of developer services costs are charged in full to non-household and include the cost of customer contact and raising quotes for new connections. Developer services costs are split between the administration (retail function) and the physical works on the network (wholesale). This allocation is possible due to separate cost centres and management review of work activities.

Local authority rates are allocated between customer numbers. The overall cost of local authority rates within Retail is small as it relates solely to our offices occupied by BWBSL and an allocation for retail staff based at our head office.

Other operating expenditure includes the full cost of repairing and/or replacing customers’ service pipes where there are leaks and the costs associated with the provision of water efficiency initiatives. The costs of customer side leaks between household and non-household are based on the categorisation of jobs and is reported directly from the work flow system.

Both Customer-side leak repairs and Demand-side water efficiency are allocated in full to the retail business unit as we have no identified wholesale outcomes.

**Capital Expenditure**

Our asset management framework subdivides our asset base into multiple asset groups, all capex is the allocated to one of these. These are allocated as the scheme is set up and reviewed during the end of year reporting.

In most cases these asset groups align to the functional reporting areas required, as per the table below:

<table>
<thead>
<tr>
<th>Asset Group</th>
<th>Reporting Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impounding Reservoirs</td>
<td>Raw Water Storage</td>
</tr>
<tr>
<td>Raw Water Aqueducts</td>
<td>Raw Water Transport</td>
</tr>
<tr>
<td>Trunk Mains</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>Distribution Mains</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>Service Pipes</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>Boreholes</td>
<td>Raw Water Abstraction</td>
</tr>
<tr>
<td>Springs</td>
<td>Raw Water Abstraction</td>
</tr>
<tr>
<td>Water Treatment Works</td>
<td>Water Treatment</td>
</tr>
<tr>
<td>Service Reservoirs</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>Booster Pumping Stations</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Water Meters</td>
<td>Treated Water Distribution</td>
</tr>
<tr>
<td>Sewers</td>
<td>See note (1)</td>
</tr>
<tr>
<td>Rising Mains</td>
<td>Foul Sewers</td>
</tr>
<tr>
<td>Sea Outfalls</td>
<td>Foul Sewers</td>
</tr>
<tr>
<td>CSOs</td>
<td>See note (1)</td>
</tr>
<tr>
<td>Sewage Pumping Stations</td>
<td>See note (1)</td>
</tr>
<tr>
<td>Sewage Treatment Works</td>
<td>See note (2)</td>
</tr>
<tr>
<td>Sludge Treatment Centres</td>
<td>See note (3)</td>
</tr>
<tr>
<td>Transport &amp; Plant</td>
<td>See note (4)</td>
</tr>
<tr>
<td>Information Systems</td>
<td>See note (4)</td>
</tr>
<tr>
<td>Lab Equipment</td>
<td>See note (4)</td>
</tr>
<tr>
<td>Property &amp; FM</td>
<td>See note (4)</td>
</tr>
<tr>
<td>Monitoring &amp; Control</td>
<td>See note (4)</td>
</tr>
<tr>
<td>Retail</td>
<td>See note (5)</td>
</tr>
</tbody>
</table>

There are the following exceptions:

1. Sewers, CSOs & Sewage pumping station costs are allocated between foul, surface and highway drainage:
   a. For capital maintenance we analyse the risk profile of our sewer network, and look at the split of high risks between foul and surface sewers then pro rata the maintenance expenditure on that basis
   b. For enhancement expenditure each scheme is individually reviewed and allocated to the appropriate reporting area.

2. Costs relating to sewage treatment works are allocated between sludge liquors and sewage treatment.
   a. For the nine sludge treatment centres we have analysed the costs that should be allocated to returned liquor treatment based on the flows and load received during the year, this is the same as the basis for the allocation of opex. All capital maintenance costs at the sites are then allocated using this split.
   b. For enhancement expenditure each scheme is individually reviewed and allocated to the appropriate reporting area.

3. Costs relating to sludge treatment centres are allocated between sludge transport, treatment and disposal. Each scheme is reviewed and then allocated to the appropriate functional group.

4. Management and general (M&G) expenditure is split between water and wastewater based on the CCD charge of each subservice. This is to keep alignment with the allocation used at PR14 & the subsequent split of capex allowances. For consistency we then split the M&G expenditure by reporting area based on the CCD charge.

5. The allocation of capital costs between Retail Household and Retail Non-Household is by classification of individual projects into the Retail Fixed asset register.
DISAGGREGATION OF WHOLESALE ACTIVITIES - UPSTREAM SERVICES

The starting point for the analysis is to take the values as reported in Table 2B of the Annual Performance Report for 2015-16 and allocate to each upstream service.

Table 4D - Water supply analysis

Water resources

We separately identify the operating costs of abstraction licences within the corporate finance system and allocate the remaining balance to the costs of raw water abstraction. Abstraction charges are set by the Environment Agency and are designed to recover the costs incurred in ensuring water resources are managed effectively. This includes ensuring the rights of existing licence holders to abstract water are protected against the granting of new licences.

Raw water distribution

We have a small amount of raw water aqueduct and no customers supplied raw water. As such we do not believe there is a viable separated raw water distribution business unit within our boundary.

Historically we have aimed to identify specific operating costs that are identifiable as raw water distribution; however the only material opex cost would potentially be power as we do have pumping costs for pumping raw water from sources to treatment works. Applying the rule that water is transferred to one business unit to another via a pump means that these power costs are actually included in raw water abstraction as the pumps are located at the water resources site.

Water treatment

This activity is not required to be analysed further.

Treated water distribution

This activity is not required to be analysed further.

Depreciation costs

Each asset is allocated to the individual business unit as appropriate, based on principal use.

Support function HCD allocation is now based on the same cost drivers as used for the allocation of opex for corresponding overhead departments.
Table 4E - Waste water analysis

Sewage collection

Sewage collection has continued to prove particularly difficult to allocate to the required upstream services. We have however developed an approach to deriving an allocation and this is described below:

The starting point is Table 2B from the Annual Performance Report, Wastewater.

Operating costs are allocated based on the measured foul flow at works as a proportion of total measured flows. These values are taken from our sewage works information management system (SWIMS) which has been independently certified by MCERTS. The foul flows element is allocated to foul water sewerage consistent with data collected in previous years in Table 14 – Sewage collected: Volume of waste water returned with the balance being equally apportioned to surface water and highways drainage. This information is based on a three year rolling average basis.

<table>
<thead>
<tr>
<th>Foul flow at works</th>
<th>595 Ml/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional storm flow</td>
<td>319 Ml/day</td>
</tr>
<tr>
<td>Total SWIMS flow at works</td>
<td>914 Ml/day</td>
</tr>
</tbody>
</table>

Capital charges are allocated based on the length of sewers with a weighting to the likely use.

<table>
<thead>
<tr>
<th>Sewer length (km)</th>
<th>Foul only</th>
<th>Storm only</th>
<th>Combined</th>
<th>Rising Main</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,075</td>
<td>6,019</td>
<td>3,481</td>
<td>1,144</td>
<td>17,719</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foul proportion</td>
<td>100%</td>
<td>0%</td>
<td>80%</td>
<td>100%</td>
<td>11,004</td>
<td>62%</td>
</tr>
<tr>
<td>Storm proportion</td>
<td>0%</td>
<td>100%</td>
<td>20%</td>
<td>0%</td>
<td>6,715</td>
<td>38%</td>
</tr>
</tbody>
</table>

Sewage treatment and disposal

This activity is not required to be analysed further except to remove the costs involved in imported sludge liquor treatment as below.

Imported sludge liquor treatment

Liquors from sludge treatment arise from both thickening and dewatering. These liquors are returned to the head of the sewage treatment works (STW) associated with the sludge treatment centre (STC) for treatment with incoming
sewage. The proportion of STW costs associated with liquor treatment has been derived from an estimation of the sludge liquor volume and organic load and comparing it with the total load and flow treated by the STW.

To estimate sludge liquor volume and load, we calculate sludge production figures (mass and volume). This data originates from measured loads exported from each STC. These figures are shared between indigenous and imported sludge based on logger data for imported sludge (volume and thickness) and theoretically calculated figures for indigenous sludge. The costs of liquor treatment have been calculated and subtracted from the sewage treatment business unit.

The pipework to take liquors back to the head of the works are accounted for as non-infrastructure.

**Sludge transport**

The operating costs are captured separately within our corporate finance system as it is run as if it were a separate business entity. The internal business unit is fully responsible for tankering between STW and STC. The business unit includes running an internal fleet of tankers and using external tankers when operational requirements can’t be met by the internal facility. The cost types captured include staffing and fuel costs. This makes capturing costs at this disaggregated level more straightforward.

**Sludge treatment**

This activity is not required to be analysed further

**Sludge disposal**

This activity is not required to be analysed further.

Each asset is allocated to the individual business unit as appropriate, based on principal use.

Support function HCD allocation is now based on the same cost drivers as used for the allocation of opex for corresponding overhead departments.

**Depreciation costs**

Each asset is allocated to the individual business unit as appropriate, based on principal use.

Support function HCD allocation is now based on the same cost drivers as used for the allocation of opex for corresponding overhead departments.

**UPSTREAM SERVICES - Cost Drivers**
<table>
<thead>
<tr>
<th>Business unit</th>
<th>Unit cost driver description</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water resources – Abstraction licences</td>
<td>Licensed volume available (ML)</td>
<td>Consistent with the Water resource management plan</td>
</tr>
<tr>
<td>Water resources – Raw water abstraction</td>
<td>Volume abstracted (ML)</td>
<td>Equivalent to the Junes return 2011 Table 10b line 4 but on an annual rather than daily basis</td>
</tr>
<tr>
<td>Water treatment</td>
<td>Distribution input (potable) volume (ML)</td>
<td>Equivalent to the June return 2011 Table 10 line 26 but on an annual rather than daily basis</td>
</tr>
<tr>
<td>Treated water distribution</td>
<td>Distribution input (potable) volume (ML)</td>
<td>Equivalent to the June return 2011 Table 10 line 26 but on an annual rather than daily basis. Please note we have reported this as m3 rather than tonnes so it is consistent with all other measures in this table.</td>
</tr>
<tr>
<td>Sewage collection - foul</td>
<td>Volume collected (ML)</td>
<td>The foul element equivalent to the June return 2011 table 17 line 4 but on an annual rather than daily basis</td>
</tr>
<tr>
<td>Sewage collection – surface water drainage</td>
<td>Volume collected (ML)</td>
<td>The surface water drainage element equivalent to the June return 2011 table 17 line 4 but on an annual rather than daily basis</td>
</tr>
<tr>
<td>Sewage collection – highway drainage</td>
<td>Volume collected (ML)</td>
<td>The highway drainage element equivalent to the June return 2011 table 17 line 4 but on an annual rather than daily basis</td>
</tr>
<tr>
<td>Sewage treatment and disposal</td>
<td>Biochemical Oxygen Demand (BOD) tonnes</td>
<td>This is equivalent to the June Return 2011 definition table 15 line 5</td>
</tr>
<tr>
<td>Imported sludge liquor treatment</td>
<td>Biochemical Oxygen Demand (BOD) tonnes</td>
<td>This is an engineering estimate based on the sites that we capture costs for the liquor treatment processes</td>
</tr>
<tr>
<td>Sludge transport</td>
<td>Volume transported</td>
<td>This is the volume as captured by the in-house Sludge tankering team which transports sludge from sewage treatment works to sludge treatment centres</td>
</tr>
<tr>
<td>Sludge treatment</td>
<td>Dried solid mass in tonnes of dried solids (ttds)</td>
<td>This is equivalent to the June Return 2011 definition table 15 line 14</td>
</tr>
</tbody>
</table>
Sludge disposal  Dried solid mass in tonnes of dried solids (ttds)  This is equivalent to the June Return 2011 definition table 15 line 15

Table 4F – Disaggregation of the Household Retail analysis

We have reviewed the potential candidate cost drivers as a set out in the guidance: “Possible cost drivers for allocating household retail operating costs between measured and unmeasured”. We have used this as a guide to identify the cost driver used below:

<table>
<thead>
<tr>
<th>Heading per pro forma 4F</th>
<th>Cost</th>
<th>Cost driver used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer services</td>
<td>Billing</td>
<td>Number of bills raised to each of the 6 customer types</td>
</tr>
<tr>
<td>Customer services</td>
<td>Payment handling, remittance and cash handling</td>
<td>Number of payments received from each of the 6 customer types</td>
</tr>
<tr>
<td>Customer services</td>
<td>Vulnerable customer schemes</td>
<td>Number of customers in each of the 6 customer types in vulnerable customer schemes</td>
</tr>
<tr>
<td>Customer services</td>
<td>Non-network customer enquiries and complaints</td>
<td>Number of non-network customer enquiries made by each of the 6 customer types</td>
</tr>
<tr>
<td>Customer services</td>
<td>Network customer enquiries and complaints</td>
<td>Customer numbers</td>
</tr>
<tr>
<td>Customer services</td>
<td>Investigatory visits/first visit to the customer</td>
<td>Customer numbers</td>
</tr>
<tr>
<td>Customer services</td>
<td>Other customer services</td>
<td>Customer numbers</td>
</tr>
<tr>
<td>Debt management</td>
<td>Debt management</td>
<td>Debt outstanding for more than 30 days for measured and unmeasured split then allocated between the 3 measured and unmeasured customer types based on customer numbers</td>
</tr>
<tr>
<td>Doubtful debts</td>
<td>Customer doubtful debts</td>
<td>Direct attribution to measured and unmeasured then allocation between the 3 measured and unmeasured customer types based on number of services</td>
</tr>
<tr>
<td>Meter reading</td>
<td>Meter reading</td>
<td>Direct attribution to measured then allocated to</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>Demand-side water efficiency initiatives</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>------------------------------</td>
<td>----------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>Customer side leaks</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>Other direct costs</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>General and support costs (excluding Motor vehicles)</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>General and support – Motor vehicles</td>
<td>The costs of Meter reading vans are passed as part of the management fee. The vans are owned and maintained by BWBSL and allocated to Measured services.</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>Other business activities (regulation costs)</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>Local authority rates</td>
<td>Customer numbers used to allocate to the each of the customer types (Measured and unmeasured)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Depreciation</td>
<td>HCD is driven by assets allocated individually to household and non-household. The household measured/non-measured split is by customer numbers. “Support function HCD is recharged from Wholesale based on the same drivers as used for the allocation of opex overheads for corresponding overhead departments.”</td>
</tr>
</tbody>
</table>

**Assurance Processes**

The assurance process involves an internal review procedure that includes segregated roles and sign off of individual table certificates by data originators, data compilers and owners. This process is carried out to ensure compliance with Ofwat letter MD209 and a true and fair view of the performance of the company.
In this area the data owners are the company senior management accountant and the BWBSL Director of finance.

The analysis and methodology statement are compiled by the Regulatory finance manager (operating expenditure) and Financial accountant (capital charges and MEAV).

Both the analysis and methodology statement are scrutinised and challenged by the Head of economic regulation and Financial controller.

A version and change control process is used throughout the process and a “major” version is recorded when the table owner, in this case, the Financial controller is satisfied.

An external audit is carried out by our financial auditors, KPMG, with reference to current regulatory accounting guidelines and any annual specific guidance.

Following internal and external challenge the Regulatory accounts are presented in full to the company Audit Committee. The Audit Committee use the meeting as an opportunity to challenge specific areas and presentations made by senior managers. Feedback from the Audit Committee is acted upon before being approved by Board members prior to publication.

Through this challenge and signoff process the company’s management is satisfied that the attribution and allocation of costs is reasonable.