



South Staffs Water

incorporating



Accounting Separation Methodology Statement

July 2017

1. High level overview

Purpose

Each year, the Company publishes an Annual Performance Report (APR) which contains various tables of regulatory information across price control units (APR section 2) and wholesale upstream services (APR section 4).

This document sets out the Company's methodology for the allocation of costs contained within the following APR tables:

- 2A – Segmental income statement
- 2B – Totex analysis – Wholesale
- 2C – Operating cost analysis – Retail
- 2D – Historic analysis of fixed assets
- 4D – Wholesale totex analysis
- 4F – Operating cost analysis – Household retail

The Company confirms that it has followed the principles and guidance set out in Regulatory Accounting Guideline (RAG) 4.06. The Company believes that in preparing its Accounting Separation information, appropriate allocations and cost drivers have been used and where possible we used costs drivers suggested by Ofwat. The allocations and costs drivers are reviewed each year, and our accounting separation methodology has been enhanced to reflect these changes and systems have been modified to capture additional information.

Systems

The Company uses data captured in its financial system, ORACLE. The Company has 80 departments (Business Units) in which costs are coded. The financial information is captured at a location and activity level. Account Codes (also known as subjective codes) are used to classify the expenditure within the relevant lines. Several excel models are then used to allocate expenditure and each of these models are described in more detail later in this document. Where necessary, information is split between its two operating regions; South Staffs and Cambridge.

Assurance

In line with Ofwat requirements, tables in section 2 of the APR are audited by Deloitte LLP, our statutory auditor and their audit opinion is contained within the APR document. In addition, for tables 4D and 4F, we have engaged Deloitte to undertake additional agreed upon procedures due to the importance of reporting cost allocations correctly and in line with current RAGs. This work covered the following:

- Perform a walkthrough of the process used to prepare the cost allocation tables (tables 2B, 2C, 4D and 4F) in the Annual Performance Report to confirm that it is in accordance with the Company's methodology statement.
- Enquire of management the methodology used in compiling table 4F of the Schedule and document whether this table has been prepared in accordance with the cost drivers set out in RAG 2.05.
- Agree cost allocations within tables 1A to 1D, 2B, 2C, 2D, 4D of the Schedule have been prepared in accordance with the methodology statement.
- For each row presented within the Annual Performance Report and pro forma tables 1A to 1D, 2B, 2C, 2D, 4D and 4F, understand the basis of allocation between different segments (such as retail and wholesale) and re-perform the calculation using the cost drivers set out in the methodology statement for any balances above 10% of the total balances.

Allocation of costs

Costs are allocated between operating and capital expenditure in accordance with the company's accounting policies and applicable accounting standards.

The deminimis for capitalisation is:

Minor purchases (e.g. office equipment)	£1,000
Buildings Expenditure	£5,000

These limits are consistent with those applied in previous years.

Provisions

The only provision included in operating costs are for the purposes of bad debts, where the debts identified as being irrecoverable have not yet been physically written off the billing file. This is consistent with previous years.

The level of bad debt provision is calculated on a formula basis and reviewed by the financial auditor to ensure that it is appropriate.

2. Allocation by price control unit

The Company uses data predominately taken from its financial system, Oracle, through downloads into a number of models in excel. These models are outlined in the following sections:

Model 1

Oracle downloads have been written in a standard format within the following headings.

DIRECT COSTS

Employment Costs

Power

Hired and Contracted Services

Associated Companies

Materials and Consumables

Service Charges

Bulk Supply Imports

Other Direct Costs

Total Direct Costs

OPERATING EXPENDITURE

General and Support Activities

Scientific Services

Other Business Activities

Total Business Activities

Local Authority Rates

Exceptional Items

Total Opex Less Third Party Services

Third Party Services - Opex

Total Operating Expenditure

Intercompany Costs

Provisions and Charges

Own Work Capitalised (OWC)

Costs are expanded out in more detail for each heading to allow data interpretation and accurate allocation.

The analysis for the 80 departments (Business Units) in which costs are coded have been reviewed and have been classified as either:

- Water Resources (3)
- Raw Water Distribution (0)
- Water Treatment (5)
- Treated Water Distribution (26)
- Retail (3)

Departments (Business Units) which do not fit in the above categories have been classified as

- Direct Allocation (8) - Sub split based on Location or Activity
- Direct Allocation calculated (6) - Reallocated based on Management Judgement
- Support Allocation (28) - Reallocated based on Cost Driver
- Scientific Allocation (1) - Reallocated based on split of data reported to DWI

Adjustments

Reorganisation costs are held centrally within the accounts. However, for accounting separation, these are recharged back to the relevant department.

For management accounts purposes vehicle depreciation is cross charged as equipment rent. As the depreciation is split direct this charge has been reversed.

Some costs that are unallocated are recharged to departments (Business Units). These include fuel costs (allocated over fuel spend) and power costs (split between production areas).

All of buildings and site maintenance costs are allocated between regions and sites.

Supply Departments (Business Units) (5)

The Company captures the costs of its supply stations in five Departments (Business Units)

- **South Staffs Region**
 - Hampton Loade Treatment Works
 - Northern Treatment Works
 - Pumping Group South
 - Pumping Group North
- **Cambridge Region**
 - Pumping Group East

However as each station has its own discrete location code the company has split these 5 departments (Business Units) out on a station by station basis. In order to ensure that stations are allocated correctly to

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution

These 5 Departments (Business Units) now become 211 locations. 124 supply station (sites) locations and 4 general running costs locations within the South Staffs region and 82 supply station (sites) locations and 1 general running costs location within the Cambridge region models

Not all expenditure is booked to each station as there are some general running costs for pumping group north and pumping group south. General Running costs include

- Mobile Phones
- Vehicles
- Other

This has had to be reallocated to each station. The methodology for this reallocation is based on expenditure incurred at the station or on direct labour wages.

All general running costs have been allocated to the relevant pumping group department.

Building Costs (Business Units) (1)

The cost of the building department is captured on a location basis on individual activity. Therefore the company is able to identify what buildings and grounds maintenance work has taken place at each site. The building department is then split out to 133 site locations, of which 124 are the supply stations for the South Staffs Region. The Cambridge Region has 87 site locations of which 82 supply stations.

Not all expenditure is booked to each location as there are some general running costs for the building section. General running costs for the building section include:

- Salaries of Management
- Mobile Phones
- Vehicles

This has had to be reallocated to each location. The methodology for this reallocation is based on expenditure incurred at each location or on direct wages hours, dependant on the type of expenditure.

Site Maintenance Team Costs (Business Units) (1)

The cost of the Site maintenance department is captured on a location basis on an individual activity.

Not all expenditure is booked to each station as there is some general reservoir expenditure. This has had to be reallocated to each reservoir station. The methodology for this reallocation is based on expenditure incurred at each location or on direct wages hours.

Training (Business Units) (1)

The cost of the Training courses and the department is captured on a location basis on an individual activity.

The Training department includes costs for organising training events and general training expenditure requested by the company. This expenditure is captured on a central code. General Training costs held on the central training location have been reallocated in General and Support. This has been reallocated further on in the model

Model 2

Distribution Costs

Costs relating to these activities are booked on a job by job basis in Maximo (the Company's works management system) and include wages, materials and contractor costs. These costs are for both planned and reactive works and the Company does not distinguish between them in the accounting system. The works management system the Company uses automatically allocates the location and activity within Oracle based on location and type of work being undertaken. The job by job costs are summarised within Oracle on a location and activity level.

These job by job costs are captured based on whether work was undertaken by.

- Customer liaison Officers (CLO)
- Direct Labour Operatives (DLS)
- Contractors (CON)

Admin costs are prorated over CLO, DLS and CON for South Staffs Region. Cambridge Region Admin costs are split evenly between CON and CLO Running Costs

Within CLO and DLS and CON, if the activity is unallocated then these costs are prorated over the activities within the relevant area.

Planning & Streetworks

The Planning and Streetworks department support the work undertaken by customer liaison officers, direct labour operatives and contractors.

For the South Staffs Region, management judgement has determined that this department equally supports customer liaison officers, direct labour operatives, and contractors. Therefore it has been allocated based on a third of the total running costs to these areas.

The basis for allocation of these planning and streetwork costs to the type of work, activity is based on the following allocations methods:

- | | |
|-----------------------------|------------------------------|
| • Customer liaison Officers | Direct Wages by Activity |
| • Direct Labour Operatives | Direct Wages by Activity |
| • Contractors | Contractor spend by Activity |

For the Cambridge Region, it has been estimated that this department equally supports customer liaison officers and contractors.

Model 2A

There are a number of adjustments that are made to reallocate certain costs. For example, fluoride management fees are moved from finance & chemicals to fluoride. The wholesale element of the Echo contract has been transferred from customer services retail to customer services wholesale.

Own Work Capitalised & 3rd Party Operating Expenditure

Own Work Capitalised (OWC)

The Company capitalises the work undertaken by some departments (Business Units). This is classified as OWC. There is no line in the OFWAT table for OWC therefore this has been reclassified into the relevant lines.

The own work capitalised costs of these departments (Business Units) have been removed based on the percentage of the departments (Business Units) that have been capitalised.

For example.

The company capitalises 70% of its purchasing Costs, therefore 70% of the costs have been removed from:

- Employment Costs
- Power
- Hired and Contracted Services

- Associated Companies
- Materials and Consumables
- Service Charges
- Bulk Supply Imports
- Other Direct Costs

This just leaves the net cost within the lines.

Vehicle depreciation is not included.

3rd Party Operating Expenditure

A number of Departments (Business Units) undertake work for 3rd Parties. This includes the following departments (Business Units):

- Fluoridation
- Customer Rechargeables
- Distribution Rechargeables
- Supply Pipe Repairs
- Leakage Operations work on Supply Pipes
- Customer Liaison Officers work on Supply Pipes
- Direct Labour Operatives work on Supply Pipes
- Bulk Supplies

These costs have been removed from the expenditure lines and classified as 3rd Party operating expenditure, as per the OFWAT Table

Where salaried employees work on 3rd party opex their proportion of time is reallocated to 3rd party opex.

Model 3

Moving Costs from other Departments (Business Units) to Regulation

As well as the regulation department, other costs are allocated. These are:

- 50% of Managing Director
- 20% of Finance Director
- 1 Customer Services FTE
- 20% of Group management recharges to cover involvement of Group Board Directors.

Supply Sites Allocation

Since the introduction of Maximo, costs are captured against water resources, raw water distribution, water treatment and treated water distribution for the South Staffs sites.

All the costs captured at this level at each supply site have been allocated to

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution

Any unallocated costs are allocated based on the % of spend on the 4 units.

Power costs are allocated based on the Average Pumping Head of the station. (In 2015/16 South Staffs region allocated power costs based on asset values.)

The Company has undertaken extensive work in splitting out the value of the assets held at each station. Where no asset value is available it is allocated on management judgement, based on the station type.

The 124 Supply sites for the South Staffs Region, from Model 1 have now been classified as either:

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution

All Cambridge Region Supply Site Costs are split using average pumping head for each station.

The 82 Supply Sites, for the Cambridge Region from Model 1 have now been classified as either:

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution

98% of Power Costs are directly coded and 2% are allocated.

Computer Development

Computer development is allocated between the 5 business units based on direct FTE's.

Model 4

Allocation of Direct Support Departments (Business Units) Calculated

The following departments (Business Units) have been allocated as a direct allocation

- Control & Automation (C&A)
- Control & Development (C&D)
- Control & Support (C&S)
- CLO Running costs

Since the introduction of Maximo, costs for C&A, C&D and C&S are captured against Water Resources, Raw Water Distribution, Water Treatment and Treated Water Distribution in Maximo based on the hours captured against work on assets. These allocations are used to calculate the percentage time on sites.

They have been allocated as follows:

Departments (Business Units)	Control Automation, Development and Support
<i>Allocation Method</i>	<i>% of time on sites</i>
Water Resources	50.27%
Raw Water Distribution	0.18%
Water Treatment	22.50%
Treated Water Distribution	27.05%
Retail	0.0%

CLO Running costs for South Staffs Region are either directly allocated to Retail or Distribution or allocated based on the allocated FTE's to Retail and Distribution.

CLO Running Costs for Cambridge Region are directly allocated to Treated Water Distribution.

Allocation of General and Support Expenditure

The following Cost Drivers have been identified for allocation of the support departments (Business Units)

- FTE's Salary at Green Lane
- FTE's Wages at Green Lane
- FTE's Total Salary
- FTE's Total Wages

- No of Vehicles
- No of Salary WCPS (Final salary pension scheme)Members
- No of Wages WCPS (Final salary pension scheme)Members
- No of Children in Nursery
- Percentage of power costs
- FTE's Salary at Fulbourn Road

Given that Pumping Group North, Pumping Group South, Building, Site Maintenance, and Streetworks and Planning have been reallocated the relevant cost drivers have had to be reallocated to each location. These Cost Drivers have been reallocated based on Direct Employment Costs.

General and Support Costs

General and Support Costs are split as follows:

- Water Resources 8%
- Raw Water Distribution 1%
- Water Treatment 13%
- Treated Water Distribution 61%
- Retail 17%

The following departments (Business Units) have been allocated as General and Support:

- **Childcare facilities**
Allocated first over direct business units and support departments (Business Units) based on the number of children of employees in each area.
- **Capital Investment Delivery and Overground Asset Management**
Allocated based on the percentage of capital additions for the year in each wholesale business unit
- **Energy and Carbon Management**
Allocated based on percentage of direct energy costs on each business unit
- **Fleet Services**
Allocated based on number of vehicles in each business unit.
- **Estates**
Split 50:50 based on Treated Water Distribution and Resources.
- **Health and Safety and Health and Safety Training**
Allocated based on management estimate of time. 40% of all the costs for Health and Safety and Health and Safety Training has been allocated across each

business unit to cover companywide policy reviews, training, and audits. This has been allocated on the number of FTE's in each business unit.

- **Service Development**

Allocated 100% to Treated Water Distribution.

- **Site Central**

Green Lane has been split into the following areas using the approximate M²:

- Childcare facilities– 86m²
- Echo – 2,574 m² (Note 1)
- Fleet – 853 m²
- Group – 650 m²
- IWS – 1,858 m² (Note 2)
- Restaurant – 347 m²
- Stores – 1,821 m²
- Water Company – 3,044 m²

Note 1: Echo provide customer contact, billing and debt collection for South Staffs Water

Note 2: IWS (Integrated Water Services provide pump refurbishment activity for South Staffs Water)

Based on the actual running costs for Green Lane a cost per M² is calculated.

The costs for Site Central are allocated to these areas using floor space multiplied by the m² unit rate. The costs in each area are then allocated to the business units based on the following cost drivers:

- Busy Bees – No of Busy Bees members in each business unit.
- Echo – 100% Retail
- Fleet – No of vehicles in each unit
- Group – FTE's in each unit
- IWS - Percentage of spend with IWS in each business unit
- Restaurant – FTE at Green Lane in each business unit
- Stores – Material Spend without chemicals in each business unit
- Water Company – FTE at Green Lane in each business unit

Rates for the Echo building and Fleet Services building are charged direct, therefore no rates allocation has been made to Echo (100% Retail) or Fleet (Allocated on the number of vehicles in each unit)

- **Stores**

Allocated based on the value of materials spend exclusive of chemicals in each business unit.

- **Procurement**
Allocated based on the value of total materials spend in each business unit.
- **Training and Development**
For those costs not allocated directly the split is based on the number of employees in each business unit.
- **Water Quality**
The 3 Site Treatment Chemists are directly allocated to Water Treatment (net of fluoride cross charge). Third Party Costs are split by percentage of supply site spend by fixed asset in the year. *These costs are now allocated to wholesale as per the revised Ofwat guidance; previously the remainder of costs were split on the types of samples per business unit. This was in line with the previous Ofwat guidance, the data required to apply this cost driver is currently reported to the DWI.*
- **Blithfield Project and Education centre**
100% Water Resources.
- **Restaurant**
Allocated based on the number of head office employees in each business unit.
- **Social Club**
Allocated based on the number of employees in each business unit
- **HR**
Allocated based on the number of employees in each business unit
- **Site Central Fulbourn Road**
Allocated based on FTE's at Fulbourn Road
- **Merlot Project Team (Readiness for Open Water)**
Allocated 100% Retail Non Household
- **Finance**
The costs have been allocated as follows:

Cost	Allocation methodology
(Billing)	Treated Water Distribution (Predominately chasing rechargeable works)
(Manager)	FTE's
All other finance costs (excluding Ofwat license and bad debt)	FTE's
Bad Debts for rechargeable works	100% Treated Water Distribution

- **Water Board**

Having adjusted for Regulation transfers the allocation of Water Board is based on the following:

Cost	Allocation methodology
Executive Team members and other Senior managers	Business unit responsible: 50% Managing Director – Split equally between Resources, Treatment and Distribution. Operations Director – 100% Distribution Customer Services Director –100% Retail Wholesale Services Delivery Director – 100% Treated Water Distribution 80% Finance Director – FTE's Director of HR – FTE's
Water Companies Pension Scheme (Final Salary Pension Costs)	. The Fund Deficit payment has been allocated based on the total number of FTE's in each business unit during financial year 2011/12
Group IT charges	Number of FTE's per business unit
Group communication costs	Number of FTEs per business unit
Group Finance / HR	Number of FTEs per business unit
I/C Cross charges out	Bottling Plant – Resources Echo Building – Retail
Water UK costs	Split equally over business units
Cumulo Rates	Split on Gross MEA value (Modern Equivalent Asset Valuation) of business units. All rates costs are included within the Local authority rates lines.
Local rates	Allocated the same as Site Central. (Based on M ²). All rates costs are included within the Local authority rates lines.
Insurance Premiums	The insurance premium is split as allocated based on the elements of the insurance policy. The premium element and cost driver allocation are as follows: Material Damage/Business Interruption – MEA per business unit MD/BI Terrorism – MEA per business unit

	<p>Combined Liability- 100% Treated Water Distribution</p> <p>Employer's Liability – based on FTE's</p> <p>Excess Layer – 100% Treated Water Distribution</p> <p>Trustees Liability – WCPS members per business unit</p> <p>Crime – MEA per business unit</p> <p>Engineering Inspection – MEA per business unit</p> <p>Chlorine Leakage (SUD) – 100% Water Treatment</p> <p>Contract Works, Machinery Movement and Hired in Plant – Percentage of plant hire spend within each business unit</p> <p>Fish Farm – 100% Water Resources</p> <p>Motor Trade – No of vehicles per business unit</p> <p>Broker Fees – allocated to each business unit based on the total splits above plus Motor Fleet insurance split by number of vehicles per business unit. (The actual Motor Fleet insurance premium is charged to each individual department using the number of vehicles and is therefore allocated to the business units along with the other costs of the department).</p>
Insurance Excess	100% Distribution
Group Management Fee's and Non Exec Director Fee's	This has been apportioned based on the splits for the Water Board Directors. (Supply Director, Managing Director, Network Management Director, and Customer Operations Director):
B2B (Non-household customer engagement)	100% Retail (Non-Household)
All other costs	Split on number of FTEs per business unit.

- **Unallocated**

Unallocated contains a small value of costs that are not allocated to departments (Business Units) within the finance system. These costs are reviewed as part of the accounting separation process and any costs that are able to be reallocated have been journalized within the models. Any remaining costs are allocated on a FTE's basis, percentage of total spend, or relevant costs drive in areas to

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution
- Retail

- **Central Admin**

Central Admin includes the cost of the secretarial support and stationary. This has been apportioned based on the splits used for the Water Board Directors. (Supply Director, Managing Director, Network Management Director, and Customer Operations Director):

○ Water Resources	7.34%
○ Raw Water Distribution	2.35%
○ Water Treatment	9.66%
○ Treated Water Distribution	57.26%
○ Retail	23.40%

Of the total General and Support costs 72% of Other Operating Costs are directly coded and 28% are allocated

Allocation of Scientific Services

- **Appointed Crypto**

Allocated 100% Water Treatment

- **Water Quality**

Allocated to wholesale in accordance with the revised OFWAT guidance.

Allocation of Other Business Activities

- **Regulation**

Costs have now been allocated equally over the five areas based on the revised OFWAT methodology.

Model 5

The majority of retail costs are in relation to Echo, the Company's customer contact, billing and debt collection contractor. Echo provided a detailed breakdown of their costs split into the following elements:

- Billing
- Payment Handling, remittance and Cash
- Debt Management
- Vulnerable Customer
- Non Network Customer Enquiries
- Network Customer Enquiries
- Disconnections.

Where retail costs cannot be allocated directly the following apportionment is used:

- The time for Customer Liaison Officers which is allocated to Retail is then split on a management judgement percentage between meter reading, void inspections and non-network customer enquiries and complaints for costs collected on the old works management System. Following the introduction of Maximo, time for Customer Liaison Officers allocated to Retail under the new works management system is allocated to lines based on the activity the costs were booked against
- The licence for the customer billing software (RAPID) is allocated on users within retail.

The split of retail costs between household and non-household has been based as follows:

Cost	Allocation methodology
<i>Billing</i>	<i>Number of bills</i>
<i>Payment handling, remittance and cash handling</i>	<i>Number of payments</i>
<i>Debt management</i>	<i>Household and non-household debt outstanding >90 days.</i>
<i>Doubtful debts</i>	<i>Calculated based on the level of Debt Outstanding to reflect the whole life cycle cash collections</i>
<i>Charitable trust donations</i>	<i>Wholly attributable to household</i>
<i>Vulnerable customer schemes</i>	<i>Wholly attributable to household</i>
<i>Non network customer enquiries and complaints</i>	<i>Number of Contacts</i>
<i>Other direct costs</i>	<i>Number of Billed properties</i>
<i>Meter reading</i>	<i>Number of meter reads</i>

<i>Network customer enquiries and complaints</i>	<i>Number of contacts</i>
<i>Disconnections</i>	<i>Allocated according to type of disconnection</i>
<i>Demand side water efficiency initiatives</i>	
<i>Services to developers</i>	<i>Wholly attributable to non-household</i>
<i>Customer side leaks</i>	<i>Allocated to wholesale as per revised OFWAT guidance, as forms part of achieving the leakage performance commitment.</i>
<i>Scientific services</i>	<i>Allocated to wholesale as per revised OFWAT guidance</i>
<i>Local authority rates</i>	<i>Number of billed properties</i>

The Individual lines above have been charged directly to the new table format or aggregated to complete the revised accounting separation table

Where General and Support costs can't be allocation directly to HH or Non Household they are allocated based on customer numbers. The allocation of General and Support expenditure recorded in line 18 is allocated across the Retail activities using the allocation methodology of number of customers.

Exceptional Items

The company has no exceptional items included within the accounting separation tables

Billing & Collection

The company does transfer to a third party Income billing and collection where there is a risk of collection. All collections activities are undertaken by Echo or DCA's

The Company no longer carries out unmeasured billing in the name of "The Occupier", however where consumption has been measured and the identity of the customer is not known, the property will be billed for the full charges in the name of the Occupier. Charges raised in the name of The Occupier are realised as revenue in the same way as other measured income.

The Company's policy on bad debt is to provide where the debt is likely to be unrecoverable but to only write-off the debt when either the customer is no longer resident in our area and cannot be traced or the debt is uneconomic to collect. This policy is reviewed on an annual basis. The level of write offs have been disclosed within the retail tables

The primary assumption driving the provision for bad debt is the anticipated amount of cash ultimately that will be collected by Echo against the amount billed for any year

based on past experience. Historically Echo takes an average of 14 years to reach their measured collection target and 14 years to achieve their unmeasured targets.

The Company's policy on bad debt is to provide where the debt is unlikely to be recovered, but to only write-off the debt when either the customer is no longer resident in our area and cannot be traced or the debt is uneconomic to collect.

Changes in cost allocation methodology from the previous year

The Company has changed the methodology for allocating power costs in the South Staffs region and are now allocated based on the average pumping head of the station. This is now consistent with approach used in the Cambridge region. In 2016 South Staffs region allocated power costs based on asset values.

	Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution
	£'000	£'000	£'000	£'000
Power Costs for previous allocation methodology, based on asset value	1,373	35	6,388	1,550
Power Costs for revised allocation methodology, based on Pumping Head	1,405	870	378	6,692
Movement due to change in methodology	32	835	(6,009)	5,142

Analysis of significant (greater than 10%) movements between 2016/17 and 2015/16

Wholesale

Other Operating Expenditure £1.209m increase

- £0.6m movement for Power costs in the year predominately driven by higher pass through charge rates.
- £0.6m movement in laboratory supplier service costs due to the company's enforced change in moving laboratory supplier.

Retail

Debt Management £0.377m decrease

- Further efficiency savings have been made this year through transferring some non-voice back office functions offshore, along with reduced reliance on external agencies has reduced the cost base.
- In 2015/16 restructuring costs were incurred.

Doubtful debts £1.078m increase

- Doubtful debt costs were higher due to collections performance in the year.

Other operating expenditure £1.127m decrease

- Mainly due to a reduction in Echo's cross charge of General and Support costs £0.91m

Fixed asset tables

The fixed assets and depreciation in the cost allocation tables use historical cost information. With all fixed asset information taken directly from the fixed asset register within Oracle. Each asset is coded directly to a department which identifies the business unit it is used in, with the exception of Water Resources. Water Resources assets have been identified by taking the balance sheet figures for boreholes and assets for Blithfield. These have identified from the fixed asset register for South Staffs Region. For Cambridge Region all assets with the description "Boreholes" is extracted from the fixed asset register.

All retail fixed assets are coded directly to one department and can therefore be identified separately to wholesale assets. These assets are then allocated between households and non-household based on the number of customers.

The Company confirms that it has followed the principle use rules set out in RAG 4.06. Shared assets between wholesale and retail are wholly recorded in the business unit of principal use. All shared assets identified are principally used by wholesale and a proportion of the depreciation cost is recharged between wholesale and retail.

The recharge from wholesale to retail in the year of £0.035m relates to the use by retail of the Company's Works Management System. Around 10% of the system use is in relation to customer contact, customer appointments and updating the Company's billing system, RAPID.

3. Wholesale upstream services

This methodology statement sets out how the company has allocated costs between Water resources and Network+. The companies accounting Separation methodology statement above has been used as a basis for separating these costs.

Allocation of costs

Water Resources

- **Abstraction Licence** - Abstraction Licence costs have been directly coded to this activity and this has been taken from the Accounting Separation Model 4.
- **Raw Water Abstraction** - This is the total Water Resources Costs from the company's Accounting Separation less Abstraction Licence costs as outlined above.

Raw Water Transport and Storage

- **Raw water storage** - This is the cost of operating and maintaining the company's Reservoir and this has been taken from accounting Separation model 3. The two main reservoirs that hold raw water are Blithfield and Chelmarsh
- **Raw Water Transport** - This is the total Raw Water costs taken from the company's Accounting Separation tables less the costs of raw water Storage

Water Treatment

- This is the total Water Treatment costs taken from the company's Accounting Separation.