

Accounting Methodology Statement 2020/21





Section	Page
1: Overview	
1.1: Company structure	2
1.2: Systems	2
1.3: Structure underlying core customer services activity	3
1.4: Capitalisation policy	4
1.5: Additional analysis or adjustments the company has made to data extracted from systems	5
1.6: Changes to the company's systems year-on-year	6
2: Price control segments	
2.1: How the company has applied the principles set out in RAG 2.08 and RAG 4.09	7
2.2: Cost drivers used for allocating costs between price control segments	8
2.3: Changes in the methodology compared to previous year	9
2.4: Significant changes in costs at price control level compared to previous year	9
2.5: Significant changes in a particular cost type between price control segments	17
2.6: Percentage split of power costs and other operating expenditure	17
2.7: Disaggregation of power costs when consumed at sites with more than one price control unit	17
2.8: Management and general costs split across price control units	17
2.9: Planned improvements for future years	18
2.10: Principal use rules applied	19
2.11: Recharges to non-appointed activities	19
3: Wholesale upstream services	
3.1: Disaggregation of operating costs across upstream services	19
3.2: Disaggregation of power costs across upstream services	19
3.3: Bulk supply imports	19
3.4: Significant changes in costs at upstream service level compared to previous year	19
3.5: Significant movement in a particular cost type between upstream service level compared to previous year	21
3.6: Completion of tables 4D and 4E	21
3.7: Methodology for the derivation of sludge liquor treatment costs	21

Section	Page
Appendices	
Appendix 1: Disaggregation of Wholesale activities – upstream services	22
Appendix 2: Retail: Wholesale cost allocation	31
Appendix 3: Wholesale cost allocation	33
Appendix 4: General and support allocation	36
Appendix 5: Retail: household/non-household split	40
Appendix 6: Retail (household): measured/unmeasured split	43



1: Overview

Each company must produce and publish an accounting methodology statement alongside its Annual Performance Report (APR). The purpose of this statement is to enable Ofwat and other stakeholders to understand the systems, processes and allocation methodologies used to populate the totex and operating cost analysis tables in Parts 2 and 4 to 9 of the Dŵr Cymru Cyfyngedig (DCC) 2020/21 APR.

This report has been prepared in accordance with the following Regulatory Accounting Guidelines (RAGs) and Information Notices:

- RAG 1.09: Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime;
- RAG 2.08: Guideline for classification of costs across the price controls;
- RAG 3.12: Guidelines for the format and disclosures for the APR;
- RAG 4.09: Guideline for the table definitions in the APR;
- RAG 5.07: Guideline for transfer pricing in the water and sewerage sectors
- Information Notice 20/08: Regulatory accounting guidelines 20/21
- Information Notice 21/01: Expectations for monopoly company annual performance reporting 20/21; and
- Information Notice 21/02: Further guidance on reporting of greenhouse gas emissions

1.1: Company structure

DCC is a 'not-for-profit' company which has been wholly owned by Glas Cymru since 2001. Glas Cymru does not have shareholders, and any financial surpluses are reinvested in the business for the benefit of customers. DCC is the group's principal trading company. Its principal activity is the supply of water and treatment and disposal of wastewater under the instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

The group purchased two companies in 2017/18, Welsh Water Organic Energy Ltd and Welsh Water Organic Energy (Cardiff) Ltd. Welsh Water Organic Energy (Cardiff) Ltd operates a waste recycling plant generating energy which is sold to DCC for use at its co-located waste water treatment works in Cardiff. Power is charged at commercially negotiated arm's length prices and therefore adheres to the principles set out in RAG 5.07.

In March 2019 a new group company, Welsh Water Organic Waste Ltd, started trading, offering trade effluent disposal facilities to new business customers through existing DCC assets. Trade effluent charges to this company are levied by DCC at published rates. Other cost recharges follow the principles set out in RAG 5.07.

There are no other associated companies that trade with DCC.

Structure

DCC is split into two reporting areas: Chief Executive Officer and Chief Financial Officer which are the responsibility of Executive Directors of the Company. The Chief Executive Officer is responsible for operations which comprises the Water, Wastewater and Retail services, headed by a Managing Director of Water, Wastewater and Retail respectively (none of whom is an Executive Director of the company).

The finance team provides dedicated support to the operational teams and support functions. Monthly management accounts are prepared which highlight variances against budget; the finance department and the budget holder work together to identify reasons for the movement. Following this, at the department's team meeting, cost performance against budget is reviewed.

At year end, the finance team, working with the operational and support teams, extracts income and cost data from SAP and formats this into the regulatory reporting table structures for each area of the business, primarily using Excel spreadsheets. These spreadsheets are consolidated and their outputs are used to populate the APR. The processes used to generate the regulatory reporting allocations are reviewed each year to reflect any organisational and regulatory changes.

There are governance review processes to ensure that all the information within the regulatory financial statements is consistent with the latest regulatory guidance before the financial statements are published. Further details can be found in our Data Assurance Plan which is published at the same time as the APR and can be found at www.dwrcymru.com. There is no change to this process from last year.

1.2: Systems

DCC uses SAP as an integrated financial and business management system. SAP information is either downloaded into spreadsheets or extracted using Business Warehouse. All operating costs are recorded in SAP against an account code and a cost centre and are aligned to regulatory business units and their relevant regulatory cost group, as shown below. Each time a new account 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 RAGs.

- Power
- Power income/income treated as negative expenditure
- EA service charge
- Bulk supply



Accounting Methodology Statement 2020/21

- Employment cost
- Hired and bought-in services
- Materials and consumables
- Other direct costs
- Doubtful debts
- General and support costs
- Rates

Further adjustments are made for third party and non-appointed costs following a full analysis of costs and with reference to guidance in the income categorisation table in RAG 4.09.

For the population of the APR a cost centre hierarchy has been created in SAP which is different from the internal management accounting structure (which is based on budget holder accountability). This means that directly coded Water, Wastewater and Retail operational costs can largely be assigned to the appropriate regulatory unit and cost headings. Where costs cannot be directly allocated, allocations are used which are summarised in the following appendices:

- Appendix 2 - Retail: Wholesale cost allocation
- Appendix 3 - Wholesale cost allocation
- Appendix 4 - General and support allocation
- Appendix 5 - Retail: household/non-household split
- Appendix 6 - Retail (household): measured/unmeasured split

We use the RapidXtra billing system which was designed specifically for the water sector and is currently used by a number of UK water companies. We are continuing to improve our debt collection system, Tallyman, which interfaces with RapidXtra, and will continue to develop new strategies into AMP7. In 2018/19 we upgraded our SAP operational customer platform by introducing C4C, the cloud version of SAP. In 2019/20 we leveraged the functionality in previous upgrades to our website to deliver an improved online interface to customers. This development continued into 2020/21 when we launched a full 'My account' online service to customers, improving the user interface and automation of underlying system data. In early 2020 we also implemented a major upgrade to the contact centre telephony platform, enabling all of our front-line agents to work remotely (in response to the pandemic).

Power costs include all energy costs (including climate change levy costs). Electricity costs are allocated to assets using DCC's energy management system in SAP, which receives electronic bills (EDI's) from the

energy suppliers and, by reference to the Meter Point Administration Number (MPAN), charges the cost to an asset's cost centre. As this is the second year this system was used (replaced ARIES in 2019), extensive checks have been carried out by comparing the billed charges for each MPAN with the backing data supplied by the energy supplier, similar to last year.

Where an MPAN provides electricity for more than one price control unit, a percentage split is applied that is specific to the associated MPAN. The percentage split is determined by estimating the electricity cost per price control unit by undertaking site audits. These involve cataloguing all the electrical equipment on site. The running hours and loading of each piece of equipment are estimated/determined to calculate annual electricity consumption and this is allocated to regulatory cost accounting areas. The equipment's electricity use as a proportion of the total site's electricity consumption is used to establish the cost centre splits. The Power costs category also include fuel costs, which are allocated to the cost centres where the asset which consumes the fuel is located. For assets that support more than one price control segment, the costs are allocated based on the most appropriate cost centres based on Ofwat's hierarchy of cost drivers.

We also have SAP work management systems (including SAP Work Manager). The systems recognise the asset upon which we are working, its geographical location and the type of work being performed. Based on this information the system charges costs to predetermined revenue or capital cost collectors.

1.3: Structure underlying core customer services activity

The structure is as follows:

- Income collection and billing services are provided by the Retail service (RETL). This part of the business is independent of the Wholesale activities and has its own Managing Director, support staff and a unique SAP company code. Support service costs such as HR, IT and finance which are provided at group level are allocated across price controls based on the most appropriate cost driver (as shown in appendix 4);
- DCC also has outsourced arrangements with local authorities and water companies for billing and collection which are all reported within RETL. The risk of collection is transferred to the local authority/water company and a commission is paid to them to reflect this arrangement; and
- The company does not issue bills addressed to 'the occupier'. Our policy is to write off debt when it has been established that a debt is not collectable. A debt is regarded as not being collectable when one of the following conditions has been satisfied:
 - the debtor has been declared bankrupt;
 - the debtor cannot be traced;
 - the debtor has died without an estate;



- all reasonable legal remedies have been exhausted and two collection agencies have failed to recover the debt; or
- the debt is too small to pursue beyond specified recovery action.

All debt that has gone through the full recovery process listed above is held in a ring-fenced account pending write-off. Write-offs are scheduled as part of a routine procedure. However, initiatives continue to be taken in respect of debt with a low likelihood of recovery to review the probability of collection and debts are currently only written off post completion of these initiatives. Generally when debt is deemed irrecoverable, the debt will have been fully provided for in the bad debt provision. As a result the timing of the write-off has little impact on the overall charge for bad debts in any year – and the level of write-offs throughout the year is therefore not monitored in isolation but as a component of the overall movement in collections when considering the level of bad debt provision required.

- DCC operates an operational call centre which is part of RETL. Calls which require a visit to a customer are passed to schedulers who make the appropriate arrangements for an initial visit.
 - For calls relating to the water network the costs within Retail also include inspectors' time if after investigation it is found that the fault was not a network issue. For those that did relate to a network issue the costs of the customer liaison team (who call the customer advising that the issue has been resolved) are treated as Retail costs; and
 - For calls relating to the Wastewater network, a team is despatched so that any network issue can be resolved as soon as possible. If, when attending the site, they find that this is not a network issue then the call is aborted and these costs are included as Retail. For those that do relate to a network issue the costs of the customer liaison team (who call the customer advising that the issue has been resolved) are treated as Retail costs;
- DCC has inspectors who attend customer premises in relation to metering billing queries. The costs included in Retail relate to visits made in relation to the following activities resulting from a customer's request:
 - final meter reading;
 - check meter reading;
 - customer billing meter query; and
 - meter-reading work - abortive; determine property supplied by meter and site meeting to show location of meter.

The latter two relate to billing and customer-facing activities hence they are treated as Retail costs;

- Support costs: all of RETL direct costs are allocated to Retail, along with a proportion of support costs which are incurred by DCC. DCC support costs are allocated to Retail based on various costs drivers, as shown in appendix 4; and

- Other business activities include Ofwat fees, Water UK costs and regulation department costs; 1/9th of these costs has been allocated to Retail in line with the RAG guidance. The split between household and non-household is based on customer numbers.

This is the same approach as for the 2019/20 report year, with no changes made for 2020/21.

1.4: Capitalisation policy

Costs charged to capital follow the company's accounting policy. This states that capital expenditure includes the following categories of cost:

- Property, plant and equipment;
- Infrastructure assets (i.e. mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- Other assets (including properties, over ground operational structure and equipment, and fixtures and fittings).

The cost of property, plant and equipment additions includes a provision for a contractual "pain/gain" share. Forecast final expenditure associated with completed, or substantially completed, Capital Alliance-delivered projects is compared to either the business plan or unit cost database-derived value, with significant differences being provided for in accrued "pain" or "gain"-share calculations at half-year and year-end.

For accounting purposes, the Water and Wastewater system is segmented into components representing categories of assets with similar characteristics and useful lives. In accordance with RD 06/02, all leakage monitoring and reporting costs are treated as operating expenditure. The cost of maintaining the level of leakage is also classified as such, unless it falls clearly into other areas e.g. replacement of capital items. The costs of leak detection and repairs which contribute to achieving the economic level of leakage are treated as infrastructure renewals expenditure and are expensed in the income statement. Any leakage spend incurred which reduces the level of leakage is included as capital additions.

Additions are recorded at cost, and reflect the purchase price together with any expenditure directly attributable to bringing the asset into use, including directly-attributable internal costs. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met.



Accounting Methodology Statement 2020/21

Capitalisation of salaries

The cost of employees working directly on capital projects is calculated using an hourly recharge rate which is reviewed by management annually. Each set of rates is broken down by bands based on average salary and overhead costs.

Individuals can charge time to capital projects either by submitting timesheets or by recording time on handheld devices (“toughbooks”). The planned maintenance and Switch systems, as well as Field IT are integrated in SAP and they record labour, materials and bought-in services costs at asset level. Job-types determine the classification of work as operating or capital expenditure using predefined settlement tables held within SAP.

Capitalisation of overheads

DCC’s internal costs incurred in supporting the capital programme are capitalised as overheads using an appropriate recovery rate (normally a percentage of annual salary costs). The percentage recovery rate is generated from a review undertaken to identify costs which demonstrate a clear link to the capital programme. The assumptions and the recovery rate used are reviewed annually by the finance team.

1.5: Additional analyses or adjustments that the company has made to data extracted from systems

Fixed assets overview

Additions

The principal data source for the fixed asset tables is the capital expenditure regulatory reporting database which is extracted from SAP. This information source provides sufficient information to allocate most costs directly to the accounting separation business units.

The regulatory reporting and accounting separation databases hold scheme information analysed by asset type. For the purpose of completing the regulatory accounts, they also identify whether the assets are ‘infrastructure’ or ‘non-infrastructure’ and categorise Retail assets separately.

- Infrastructure assets include the following: underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Some information about infrastructure assets (general mapping and updating of network records) is also regarded as an infrastructure asset;
- Operational assets include the following: intake works, pumping stations, treatment works, boreholes, operational land, offices, depots, workshops, residential properties directly connected with Water and Sewerage services. Land which is not currently in operational use but is expected to come in to use in the foreseeable future is included, as is plant, machinery and telemetry inherent

in the nature of the works. Also included are non-operational plant, non-operational machinery, vehicles, surplus land and all assets not previously listed; and

- Retail operational assets include the following: buildings and offices, fixtures and fittings, IT systems and other operational assets directly involved in providing the Retail service.

New expenditure incurred during the year is added to the database and is analysed as follows: costs are recorded at scheme level and are allocated to business type based on an analysis of the scheme design and target costs. This is the same principle for allocation of capital expenditure to business units that has been used in previous years. The aim is to map expenditure incurred to either a one-to-one relationship, or on a proportional allocation basis as directed in the RAGs.

On the assumption that the Quality, Base, Enhancement and Growth (QBEG) analysis continues to be a regulatory requirement, the asset categories are further extended to allow for those four descriptions of asset purpose. For the purpose of our systems’ data capture, the above translates to an asset classification list of eight-digit codes.

Example: 0946Q50S

The first two digits denote asset type and follow the requirements of the previous June Return table 32 line item:

- 09 = Sewage treatment works

The third and fourth digit represents business activity areas as shown below:

Code		Description - Water
11	12	Abstraction licence
21	22	Raw water abstraction
31	32	Raw water transport
41	42	Raw water storage
-	52	Water treatment
61	62	Trunk treated distribution
71	72	Local treated distribution
81	82	Management and general



Code		
Infra	Infra	Description - Waste
15	16	Foul
25	26	Surface water drainage
35	36	Highway drainage
-	46	Sewage treatment and disposal
55	56	Sludge transport
-	66	Sludge treatment
-	76	Liquor treatment
85	86	Sludge disposal
95	96	Management and general

The fifth digit denotes the purpose:

- M = Base/maintenance
- E = Enhanced service level
- N = New development
- G = Growth
- Q = Quality

The sixth to eighth digits denote purpose-type drivers:

- 50S = NEP – Reduction in sanitary parameters.

The database queries use the data contained in the classification code to sort and group the year-end figures to allow grouping by asset type, business activity and QBEG classification as necessary. Some 87% of expenditure in the year was suitable for this classification method. The remaining 13% is for items of IT and management and general costs that cannot be directly allocated to a specific business unit. This expenditure has been proportionally allocated across the business activities using FTE numbers as the cost driver.

The IRE programme is included in the above costs and analysed across price controls accordingly. DCC's (IFRS-based) policy is to expense IRE to the income statement unless there is an enhancement element to the cost; these costs are adjusted out of capital and included within other operating expenditure, renewals expensed in year (infrastructure).

Fixed asset register

The company maintains its fixed asset register in the SAP accounting system. The assets are split by service type using evaluation class. For assets under construction, this is allocated to price controls using the capital expenditure regulatory reporting database. Management and general assets are split using FTE numbers as a cost driver.

The majority of the fixed asset and depreciation data in the APR use the IFRS basis of reporting, adjusted for the reversal of borrowing cost capitalisation (IAS 23) as required by the RAGs.

Asset lives

ChandlerKBS provide an asset life assessment service to DCC. Assessments are carried out at project level based on detailed cost records, and DCC's accounting policy is followed to assign appropriate asset lives. Whilst undertaking this service, ChandlerKBS maintains a record of each individual assessment. The assessments are then compiled into an overall summary database. The database generates asset life models which can then be used where appropriate.

The following are examples of the project types produced using the database:

	Sample size	Sample value
Water treatment works	38 Projects	£348m
Wastewater treatment works	258 Projects	£390m
Combined sewer overflows and untreated intermittent discharges	225 Projects	£423m
Sludge treatment advanced digestion	5 Projects	£166m
Water ultra violet treatment projects	20 Projects	£16m

ChandlerKBS also produce asset life assessments for several other water and sewerage companies. Using this knowledge and experience, the models are checked and reviewed to ensure that they are consistent across the industry in general.

1.6: Changes to the company's systems year-on-year

During the last year we have changed our employee expense solution by implementing SAP Concur. Concur is part of SAP's Business Network Group and is a cloud-based, expense software solution which allows employees to capture receipts and submit claims in real time.

The aim of implementing Concur was to increase automation which then speeds up the review, processing, payment and auditing of expense claims, making it easier for finance to manage expenses and budgets effectively.

We have also sought to improve our Human Capital Management system by implementing SAP SuccessFactors. SuccessFactors provides powerful, cloud-based solutions for core HR and payroll, talent management and employee experience management. We have replaced our on-premise payroll system with the Cloud-based Employee Central Payroll (from SAP).



Accounting Methodology Statement 2020/21

We continue to roll out SAP Work Manager as our mobile work management application, providing a single platform for our mobile employees. When the roll out is complete this will have allowed the retirement of two legacy systems, AGA2 & MAU. As well as consolidating all mobile workers onto one platform, new functionality will allow real time work tracking through status transitions and improved collection of work activity and asset data. This facilitates the capture of accurate data and will allow mobile colleagues to work more flexibly and view historical data. Over 1000 operational colleagues use Work Manager to view and record details of work undertaken to maintain assets. New features include more information about our assets, historical information and the ability to upload photographs. Work is ongoing to extend the Work Manager solution to more colleagues and also to extend the benefits of this solution to partners as a part of our Digitising the Supply Chain project. Further planned functionality extensions will allow asset and work instruction reference documents to be made available to the mobile operative via the hand-held device.

Following a successful pilot in 2019, we went live with “Track My Job” in 2020. This is used by our teams and contractors in water and waste services to provide customers with automated text updates regarding engineer visits, enabling them to track the engineer for an exact time of arrival and to collect customer feedback. This has helped to reduce our chase calls and gives customers the information that they need. We are now looking to roll out this functionality to wider areas of the business and to integrate this with our backend systems to make our processes more efficient.

There have been no other changes to the DCC’s systems.

2: Price control segments

2.1: How the company has applied the principles set out in RAG 2.08 and RAG 4.09

RAG 4.09 details the guidelines for the table definitions in the APR.

RAG 2.08 covers the principles and cost drivers to be used to attribute and allocate capital and operating costs in the APR between:

- Appointed and non-appointed activities within the appointee (APR parts 1 and 2);
- Price control units (APR part 2);
- Household and non-household Retail services (APR parts 2 and 4); and

We have applied the principles and guidance as set out in these RAGs to prepare the APR.

RAG 2.08 states that the cost allocation principles need to comply with the following general principles:

- **Transparency:** the cost attribution and allocation methods applied to allocate costs within the APR need to be transparent. The costs and revenues apportioned to each service and business unit should be clearly identifiable, with clear explanation of cost and revenue drivers:
 - As part of DCC’s overall accounting separation cost centre group, alternative cost centre structures have been created in SAP in a format that facilitates the completion of the APR data tables. These contain specific cost centre groups for the business activities. A number of ‘work management systems’ result in greater accuracy of cost allocation and reduced reliance on manual allocations across activities. Asset-related cost centres and most operational support staff can be attributed directly to a business activity. Non-operational staff costs are allocated directly to activities where possible. Where this has not been possible cost drivers have been used to apportion departmental costs in line with Ofwat’s hierarchy of cost drivers.
- Each business area prepares its costs in the accounting separation format and forwards to the Regulatory Accountant for consolidation. The consolidated spreadsheet details the costs for each business area which can be traced back to SAP. The costs drivers used are shown in the following appendices:
 - Retail: Wholesale cost allocation *Appendix 2*
 - Wholesale cost allocation *Appendix 3*
 - General and support allocation *Appendix 4*
 - Retail: household/non-household split *Appendix 5*
 - Retail (household): measured/unmeasured split *Appendix 6*Transparency is provided by the production and publication of this methodology statement.
- **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.
 - In respect of costs that are directly attributable to a business activity, costs are allocated to these activities; and
 - Where any costs are not directly attributable, the most appropriate cost drivers are used relating to that specific cost.
- **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.
 - Transport activities are recorded in a standalone SAP company code where costs are recharged to price control units using predetermined rates for the assets based on asset



value deterioration and maintenance costs. We do not have any other internal transfer charges. Any general and support costs that are allocated over price control units are based on cost drivers shown in appendix 4;

- Rental charges for the use of our operational appointed assets are calculated on an arms length basis in line with RAG 5.07;
 - Power from other group companies is purchased at market value in line with RAG 5.07; and
 - Cost allocation is made on an objective basis without any intention of discrimination.
- **No cross-subsidy between price controls:** following the introduction of separate binding price controls at the 2014 price review, companies cannot transfer costs between the price controls in setting prices and preparing the APR. The revenue allowance for each price control is determined by the costs specific to that particular price control.
 - There is a separate SAP company code for Retail activities. This means that the majority of Retail costs can be directly attributed;
 - Head office costs such as human resources, IT and finance activities require allocation across all business areas. The allocation methods used are shown in appendix 4;
 - All costs allocated such as power are based on cost and not on market price; and
 - For water used at sewage works, the appropriate tariff has been used by Water to recharge to Wastewater.
 - **Objectivity:** the cost and revenue allocation criteria need to be objective and should not intend to benefit any price control unit or appointed/non-appointed business. Cost allocation must be fair, reasonable and consistent.
 - The allocation methods that we have used are not intended to benefit any business unit or service and have been applied objectively.
 - **Consistency:** costs should be allocated consistently from year to year to ensure meaningful comparison of information across the sector and over time; regulatory incentives from comparative analysis apply fairly across companies and enable monitoring of companies' performance against price control assumptions. Changes to the attribution methodology from year to year should be clearly justified and documented in the Accounting Methodology Statement.
 - We aim to be as consistent as possible. However, if we identify an opportunity to use another cost driver that is more appropriate then we will use this and explain our rationale for the change in this Methodology Statement; and
 - Any changes in treatment of costs included in the RAGs will affect the consistency of our treatment of costs. These will also be disclosed in this Methodology Statement.

- **Principal use:** where possible, capital expenditure and associated depreciation should be directly attributed to one of the price control units. Where this is not possible as the asset is used by more than one service, it should be reported in the service of principal use with recharges made to the other services that use the asset reflecting the proportion of the asset used by the other services.
 - Assets that are used by more than one service such as IT costs are attributed to the service of principal use. Recharges made to the other services are based on depreciation.

2.2: Cost drivers used for allocating costs between price controls

- Where costs relate explicitly to a specific business unit, the expenditure has been coded directly to the business unit that consumed the good or the service. Where direct coding is not possible, an appropriate allocation has been made using specific cost drivers;
- The Retail/Wholesale cost allocation table (appendix 2) provides an explanation of how operating costs have been allocated to Retail for each line of the table;
- Wholesale cost allocation is included in appendix 3;
- General and support costs allocation is included in appendix 4; and
- The Retail household/non-household table (appendix 5) provides detail of cost drivers used to allocate costs.

Why these allocations are considered appropriate

- We consider that the allocations are appropriate as, in most cases, we have used the cost drivers mentioned in the RAGs: in certain cases other costs drivers have been used, i.e. where we believe that these are more appropriate;
- A high proportion of employment costs is allocated directly to business units, however some costs are allocated using assessment cycles. In the majority of cases these are cycled to the same business unit, however there is a small amount that is allocated to other business activities. These cost assessment cycles are monitored on a regular basis, and a thorough review takes place every six months;
- We have discussed the RAGs with the business to ensure that we are adhering to the guidance with regard to network customer enquiries and complaints. For the split between household and non-household we have used job types or customer numbers;
- We have confirmed that the customer numbers that we are using in the household/non-household split is in line with the definition set out in the RAGs;
- Where management judgement has been used we have examined the rationale to satisfy ourselves that it is reasonable; and



Accounting Methodology Statement 2020/21

- In allocating the bad debt charge (households 97.1%: non households 2.9%) we have used the customer specific aged debt profile and the bad debt write-offs. This approach is in line with previous years.

How the company's management are satisfied that they are reasonable

- Most cost drivers are applied on a consistent basis, however where there has been a change this is discussed with the relevant department to ensure that it is reasonable. Any changes are disclosed in the Methodology Statement.
- Managers are rewarded on their performance and this includes financial performance. Monthly reports are produced by the finance team which they and the budget manager examine closely to highlight any cost variances and to identify any costs that should not be included in that area. This will include extraneous cost assessment cycles. Any costs that should not be included within a particular area will be transferred out. Therefore, due to this rigorous system, management is satisfied that the costs are being reported in the correct area.

Assurance process

All data reported in the APR is subject to a structured three-tier assurance process:

- In the first line of assurance management has accountability for identifying risks and managing these by developing and maintaining sound processes, systems and controls (in the normal course of operations);
- In the second line of assurance the Regulation and Finance teams have accountability for providing the framework and governance for regulatory reporting; and
- The third line of assurance provides independent audit and assurance activity through our Business Assurance team, who both review the assurance framework and provide risk based assurance on individual elements. The information contained within this document is also reviewed by our independent external auditor or the Technical Auditor.

The auditors' findings are reported to the Dŵr Cymru Executive team, the Audit Committee and the Board of Directors, each of which reviews and approves documents prior to their publication.

2.3: Changes in the methodology compared to previous year

There has been no change to the methodology.

2.4: Significant changes in costs at price control level compared to previous year

Totex analysis - Wholesale Water and Wastewater (Table 2B)

Totex (including cash items) for Wholesale activities is £97m (13%) lower than last year; lower net operating expenditure (£5m), pension deficit recovery payments (£11m) and lower net capital expenditure (£81m).

Wholesale Water: Totex including cash items is £24m (7%) lower than last year; decreases in Water Resources (£5m) and Water Network+ (£18m). The decrease relates to lower net capex spend (£2m), lower net opex costs (£15m) and a reduction in the pension contribution (£6m).

Wholesale Wastewater: Totex including cash items is £73m (20%) lower than last year; £52m relates to a decrease in Wastewater+ and £22m a reduction in Bioresources. An opex costs increase of £10m offsets in part a reduction in capex by £79m and pension deficit contributions being £5m lower than last year.

Movements and explanations are shown in the tables overleaf.



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)			Movements (%)		
	Water resources	Wholesale water network+	Total	Water resources	Wholesale water network+	Total
	£m	£m	£m	%	%	%
Base Operating expenditure						
	(0.029)	0.889	0.860	-	4%	3%
Power	As part of our continuous improvement way of working we have identified that an element of power costs relating to our Felindre site should have been reported as water network+, and as a result £0.5m has moved from water resources to water network+ (for further detail see section 2.5). The total movement in power for water relates to a £2.3m increase in atypical costs; £0.4m adverse weather and £1.9m Covid-19 impact of increased distribution input. The majority of this (£1.9m) has impacted wholesale water network+ (Water Treatment £0.6m and Treated Water Distribution £1.3m).					
Income treated as negative expenditure	0.183	(0.091)	0.092	(4%)	3%	(1%)
	No material change compared to last year.					
Abstraction charges/discharge consents	0.293	0.007	0.300	3%	3%	3%
	Increase in NRW abstraction charges.					
Bulk supply	0.007	0.051	0.058	7%	7%	7%
	No material change compared to last year.					
Other operating expenditure – renewals expensed in year (infra)	(5.240)	(9.011)	(14.251)	(30%)	(20%)	(23%)
	Water resources spend last year was a lot higher as it related to some large MITIOS schemes in a continuous programme of work on making our reservoirs safe that was delivered at the end of AMP6. In addition, there were some large schemes last year relating to a discontinuance (£4m) and tower rehabilitation schemes (£3m). The same applies to water network+ where the acceptability of supply programme of work was coming to an end, and as a result there was a higher cost of mains cleansing last year, with one scheme being £6m lower this year. This is offset in part by increased costs (by £3m) as a result of atypical costs from the impact of Covid (£2m) and adverse weather (£1m).					
Other operating expenditure	2.127	(1.915)	0.212	30%	(2%)	-%
	Overall other operating expenditure is in line with last year. The atypical costs of Covid-19, restructuring provision and adverse weather account for an increase of £5m (£0.2m water resources and £5m water network+). In addition, lower capitalisation (£1.5m) reflecting a smaller capital programme spend in the year has resulted in an increase in operating costs (£0.5m water resources and £1m Water network+). These increases have been offset by a principal use net recharge credit of £8.1m in water network+, as well as a recharge cost on water resources of £0.7m which was not reflected in the upstream tables in previous years. The cost driver that we use to apportion some of the general and support costs is revenue and the % allocated to water resources on this basis has increased from 4% to 7%, with a reduction in wholesale water network+ from 37% to 35%.					
Local authority and cumulo rates	(0.038)	0.226	0.188	(5%)	2%	1%
	Relates to cumulo inflationary increase offset by rates refunds.					
Total base operating expenditure	(2.697)	(9.844)	(12.541)	(7%)	(6%)	(6%)



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)				Movements (%)		
	Water resources	Wholesale water network+	Total		Water resources	Wholesale water network+	Total
	£m	£m	£m		%	%	%
Other operating expenditure							
Enhancement operating expenditure	-	-	-		-	-	-
	There has been no reported enhancement in the year.						
Developer services operating expenditure	-	(2.422)	(2.422)		-	(21%)	(21%)
	This mainly relates to lower requisitions which reflects the restrictions imposed during the pandemic.						
Total operating expenditure excluding third party services	(2.697)	(12.266)	(14.963)		(7%)	(7%)	(7%)
Third party services	(1.337)	(1.154)	(2.491)		(24%)	(43%)	(31%)
	Water resources movements relate to non-potable and bulk supply decreases of £0.6m together with a reduction in renewals expensed in the year decrease by £0.8m relating to our s20 EA agreements. The Network+ decrease relates in part to old rechargeable invoices written off last year of £0.4m, together with lower rechargeable costs and lower third party infrastructure renewals expenditure.						
Total operating expenditure	(4.034)	(13.420)	(17.454)		(10%)	(7%)	(8%)
Grants and contributions	(0.532)	(1.888)	(2.420)		(21%)	(26%)	(25%)
	The reduction in water resources relates to a reduction in our s20 recharge reported as third party. The reduction in water network+ reflects diversions and other contributions (in price control) being fully netted off capex in this report year.						
Total operating expenditure after grants and contribution	(3.502)	(11.532)	(15.034)		(9%)	(7%)	(7%)



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)				Movements (%)		
	Water resources	Wholesale water network+	Total		Water resources	Wholesale water network+	Total
	£m	£m	£m		%	%	%
Capital expenditure							
Base capital expenditure	(0.630)	(6.513)	(7.143)		(10%)	(8%)	(8%)
	The lower base capex of £7m a higher spend last year as it was the end of the AMP and schemes were being finalised. The decrease in network+ relates to lower costs as a result of scheme finalisation in the customer meter programme, lower above ground leakage activities and some cost reductions in large schemes.						
Enhancement capital expenditure	1.550	9.310	10.860		6%	64%	26%
	The water resources increase reflects bringing forward expenditure on our Dam Safety programme, together with expenditure on our visitor centre at Llys-Y-Fran of £2.4m - these increases more than offset reductions in spend at our Llanishen reservoir (£1m), Prioress Mill intake screen (£2m), spillway schemes (£0.3m) and our catchment and resource programme (£0.7m). Network+ increase relates mainly to treated water distribution; higher costs relating to the leakage reduction scheme at Cartref than those allowed at PR19 (£3.6m) together with increased spend on our AMP7 acceptability of supply schemes.						
Developer services expenditure	-	(1.453)	(1.453)		-	(20%)	(20%)
	This reduction reflects the restrictions imposed by the Covid-19 pandemic.						
Total gross capital expenditure (excluding third party)	0.920	1.344	2.264		3%	1%	2%
Third party services	(2.528)	(0.542)	(3.070)		(84%)	(84%)	(84%)
	The cost movements relate mainly to the s20 operating agreements in water resources and for non-potable movements in water network+, where the costs were lower than last year.						
Total gross capital expenditure	(1.608)	0.802	(0.806)		(4%)	1%	(1%)
Grants and contributions - capital expenditure	(0.303)	1.814	1.511		(57%)	26%	20%
	The decrease in Water Resources relates to income received from the NRW for work carried out on impounding reservoirs under the s20 operating agreement which is lower than last year. The increase in Network+ reflects the reporting of Diversions and other contributions (price control) which have been fully netted of capex.						
Net totex	(4.807)	(12.544)	(17.351)		(6%)	(5%)	(5%)
Cash expenditure							
Pension deficit recovery payments	(0.357)	(5.831)	(6.188)		(100%)	(100%)	(100%)
	Additional pension deficit recovery payments were made during 2019/20. There were no payments in this report year.						
Totex including cash items	(5.164)	(18.375)	(23.539)		(7%)	(7%)	(7%)



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)				Movements (%)		
	Wastewater network+	Bioresources	Total		Wastewater network+	Bioresources	Total
	£m	£m	£m		%	%	%
Base Operating expenditure							
	0.266	0.957	1.223		1%	47%	4%
Power	The increase relates to price increases as well as an increase in consumption due to severe weather in the early part of the year, resulting in increased pumping activity. In addition, power generation was lower as a result of several Covid-related restrictions. The pricing movement related to the effect of our increased contribution towards the wholesaler minimum price for energy agreements following a lower UK demand for power on non-commodity charges.						
	(0.627)	(0.287)	(0.914)		31%	7%	15%
Income treated as negative expenditure	Network+ increase relates to increase in Gas-to-Grid as our AAD site at Five Fords became fully operational.						
	0.123	-	0.123		3%	-	3%
Abstraction charges/discharge consents	No material change from last year.						
	(6.936)	-	(6.936)		(21%)	-	(21%)
Other operating expenditure – renewals expensed in year (infra)	The decrease in the year in network+ reflects a decrease in reactive maintenance schemes together with lower spends overall as there were more schemes being completed last year at the end of the AMP.						
	10.206	0.448	10.654		18%	2%	14%
Other operating expenditure	Network+ increase relates mainly to principal use recharge of shared assets (£5.4m) as the recharge is included in other operating expenditure in line with the business plan as well as atypical cost increases (£5.5m) relating to Covid-19 (£4.6m) and adverse weather costs (£2.8m) offset by a reduction in restructuring charges (£2.7m). In addition, general and support costs apportioned using a revenue cost driver have increased from 39% to 48% for wastewater network+ and reduced from 12% to 4% for bioresources. There have also been further reductions in bioresources costs reflecting strategic improvements to the management of sludge thickness which reduced transportation costs.						
	2.029	0.264	2.293		33%	70%	35%
Local authority and Cumulo rates	Last year's charge included rates refunds of £2.6m, mainly relating to Swansea Bay WWTW; there is no material rebate in this report year.						
Total base operating expenditure	5.061	1.382	6.443		4%	8%	4%



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)				Movements (%)		
	Wastewater network+	Bioresources	Total		Wastewater network+	Bioresources	Total
	£m	£m	£m		%	%	%
Other operating expenditure							
Enhancement operating expenditure	1.251	0.253	1.504		-	-	-
	These costs were not reported last year and relate to additional costs from enhancement schemes.						
Developer services operating expenditure	0.415	-	0.415		44%	-	44%
	This increase relates to increased diversion costs. In addition, diversions NRSWA costs of £0.2m previously included as third party are now being reported in this line.						
Total operating expenditure excluding third party services	6.727	1.635	8.362		5%	9%	6%
Third party services	(0.094)	-	(0.094)		(6%)	-	(6%)
	NRSWA diversion costs previously included as third party are now included within developer services operating expenditure.						
Total operating expenditure	6.633	1.635	8.268		5%	9%	6%
Grants and contributions	(1.884)	-	(1.884)		(73%)	-	(73%)
	The increase in Network+ reflects the reporting of diversions and other contributions (price control) as fully netted of capex.						
Total operating expenditure after grants and contribution	8.517	1.635	10.152		7%	9%	7%



Changes compared to last year: Wholesale

(For further details see appendix 1)

	Movements (£m)				Movements (%)		
	Wastewater network+	Bioresources	Total		Wastewater network+	Bioresources	Total
	£m	£m	£m		%	%	%
Capital expenditure							
	(19.727)	(20.710)	(40.437)		(23%)	(49%)	(32%)
Base capital expenditure	The decrease in network+ mainly relates to sewage treatment where the capex spend is £12m lower and relates to large treatment work and continuous discharge schemes coming to an end last year. The decrease in expenditure for sludge mainly relates to the reduction in the sludge strategy schemes where there was a higher spend last year at the end of the AMP as the schemes were completed.						
	(32.594)	(1.944)	(34.538)		(38%)	(40%)	(38%)
Enhancement capital expenditure	Network+ decrease reflects that last year was the end of the AMP resulting in completion of schemes; decrease in sewer flooding (£10m), intermittent discharges (£11m) and continuous discharges (£22m). The reduction in bioresources relates mainly to four schemes classed as enhancements due to an element of growth attached to the schemes - these costs were lower as a result of most of the work being completed last year.						
	(6.725)	-	(6.725)		(58%)	-	(58%)
Developer services expenditure	Lower requisitions, adoptions and new connections than last year as a result of the restrictions imposed during the Covid-19 pandemic.						
Total gross capital expenditure (excluding third party)	(59.046)	(22.654)	(81.700)		(32%)	(48%)	(36%)
	(0.379)	-	(0.379)		(99%)	-	(99%)
Third party services	The previously reported third party costs relating to Developer Services activities are now included within Developer Services operating expenditure .						
Total gross capital expenditure	(59.425)	(22.654)	(82.079)		(32%)	(48%)	(36%)
	(3.058)	-	(3.058)		(30%)	-	(30%)
Grants and contributions - capital expenditure	The decrease in income from the previous year is mainly due to some large requisition schemes included last year, such as East Bonvilston (£1m), Sainsbury Surface Water (£1.7m), Coed Ely (£1.5m) and Churchlands (£0.6m).						
Net totex	(47.850)	(21.019)	(68.869)		(16%)	(33%)	(19%)
Cash expenditure							
	(3.808)	(0.714)	(4.522)		(100%)	(100%)	(100%)
Pension deficit recovery payments	Additional pension deficit recovery payments were made during 2019/20. There were no payments in this report year.						
Totex including cash items	(51.658)	(21.733)	(73.391)		(17%)	(33%)	(20%)



Changes compared to last year: Operating cost analysis - Retail (Table 2C)

Total operating costs for Retail activities are £6.4m (10%) higher than last year; increase of 11% household and 3% non-household.

Operating expenditure	Movements (£m)			Movements (%)		
	Household	Non-household	Total	Household	Non-household	Total
	£m	£m	£m	%	%	%
Customer services	(0.6)	(0.1)	(0.7)	(5%)	(5%)	(5%)
	Total customer services costs decreased by £0.7m, predominantly driven by reduced recharges from wholesale as a result of lower operational activities due to Covid-19.					
Debt management	(0.4)	(0.1)	(0.4)	(7%)	(7%)	(7%)
	Debt management costs continue to fall with 2020/21 costs 7% lower than 2019/20 (19/20 recorded a 16% reduction on 18/19). The reduction in 2020/21 can be attributed to lower litigation activities as a result of Covid-19.					
Doubtful debts	9.4	0.4	9.8	43%	64%	43%
	Total doubtful debt costs have increased by 43%, mainly the result of an additional £12.7m doubtful debt provision made as a consequence of Covid-19. Excluding this adjustment, underlying collections performance has declined in 2020/21, resulting in underlying doubtful debt increase of £0.8m (3% increase).					
Meter reading	-	(0.1)	(0.1)	(1%)	(10%)	(3%)
	The proportion of metered customers increased marginally in 2020/21 to 51% (from 50% in 2019/20), whilst costs decreased by 3% in the same period. This is despite increased spend in year on the roll-out of new meter-reading software and devices. This increase is more than compensated for by the reduction in costs of lower meter query jobs being completed due to Covid-19.					
Services to developers	-	0.1	0.1	-	46%	46%
	No material increase from last year.					
Other operating expenditure	(2.3)	(0.2)	(2.5)	(19%)	(20%)	(19%)
	Excluding the £0.7m of Covid-19 atypical costs, other operating expenditure has decreased by £3.9m (31%). £2.4m of this can be attributed to a one-off cost in 2019/20 relating to AMP7 restructuring, with the remaining reduction being in the general and support allocation using revenue as the cost driver which has reduced from 7% to 6%..					
Total operating expenditure	6.2	0.2	6.4	11%	3%	11%
Depreciation - tangible	0.1	-	0.1	21%	(32%)	15%
	No material change from last year.					
Depreciation – intangible	(0.9)	(0.2)	(1.1)	(14%)	(33%)	(16%)
	Cost reduction as a result of a one off impairment in 2019/20.					
Total operating costs	5.3	(0.1)	5.2	9%	(1%)	8%
Debt written off	15.3	(0.4)	15.0	77%	(28%)	71%
	£15m increase in total write-offs as a result of higher accounting write-offs in year. The HH/NH write-off split has moved by 3%, from 94%/6% to 97%/3%. The allocation of total write-off between HH and NHH is based upon actual write-offs per internal data records.					



2.5: Significant movement in a particular cost type between price control segments

As part of our continuous improvement we have reviewed some power costs allocations between water resources and water network+ which has resulted in a movement of £0.5m costs from water resources to water network+, mainly relating to our site at Felindre.

There have been no other movements of cost types between price control segments

2.6: Percentage split of power costs and other operating expenditure

- The percentage allocation split of power costs between directly coded and indirectly coded (allocated based on consumption) is as follows:

Power	Water Resources	Water network	Wastewater network	Bioresources
Directly coded	87%	84%	58%	50%
Indirectly coded	13%	16%	42%	50%
	100%	100%	100%	100%
Savings from power generation	-	-	-	100%

The percentage allocation split of other operating expenditure between directly and indirectly coded excluding renewals expensed in the year is as follows:

Other operating expenditure - excluding renewals	Water Resources	Water network	Wastewater network	Bioresources	Retail
Directly coded	59%	60%	59%	79%	80%
Indirectly coded	41%	40%	41%	21%	20%
	100%	100%	100%	100%	100%

The allocation split of other operating expenditure after including renewals expenditure in year (infrastructure) is as follows:

Other operating expenditure - including renewals	Water Resources	Water network	Wastewater network	Bioresources	Retail
Directly coded	59%	60%	59%	79%	80%
Indirectly coded	41%	40%	41%	21%	20%
	100%	100%	100%	100%	100%

2.7: Disaggregation of power costs when consumed at sites with more than one price control segment.

This is covered in section 1.2 above

2.8: Management and general costs split across price control segments

Capital expenditure: Management and general costs for those that cannot be directly allocated are allocated across price control segments using FTE as the cost driver. The cost splits are as follows:

Capital expenditure - management and general	Water Resources	Water network+	Wastewater network+	Bio resources	Retail	Total	% split
Allocated by:	£m	£m	£m	£m	£m	£m	%
FTE	1.5	12.4	7.6	2.5	1.0	25	82%
Direct					5.5	5.5	18%
Total	1.5	12.4	7.6	2.5	6.5	30.5	100%

Capital expenditure - management and general	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
Split:						
FTE	100%	100%	100%	100%	15%	100%
Direct	0%	0%	0%	0%	85%	100%
Total	5%	41%	25%	8%	21%	100%

Operating expenditure: Management and general costs (including other business activities) for those that cannot be directly allocated are allocated across price control segments using cost drivers as reported in appendix 4.



Operating expenditure- General and support and other business activity costs	Water Resources	Water network+	Wastewater network+	Bio-resources	Retail	Non-appointed	Total	% split
Allocated by:	£m	£m	£m	£m	£m	£m	£m	%
Allocated using cost drivers ¹	3.8	26.1	22.5	3.9	4.5	3.4	64.3	81%
Directly allocated	0.4	0.8	1.1	0.0	9.7	0.1	11.9	15%
Other Business Activities	0.3	1.0	0.7	0.6	0.3	0.0	3.0	4%
total	4.5	27.9	24.3	4.5	14.5	3.5	79.3	100%

¹ Cost drivers used are shown in appendix 4

	Water Resources	Water network+	Wastewater network+	Bio-resources	Retail	Non-appointed	Total
Split:							
Allocated using cost drivers	85%	94%	93%	86%	31%	99%	81%
Directly allocated	8%	3%	4%	0%	67%	1%	15%
Other Business Activities	7%	4%	3%	14%	2%	0%	4%
	5%	35%	31%	8%	16%	5%	100%

2.9: Planned improvements for future years

Planned improvements for future years (Retail)

In 2020/21 the following capabilities were delivered resulting in improved customer service and a reduction in underlying costs:

- Project Connect – following on from the move to homeworking in 2019/20, work has since commenced to consolidate all contact channels which will allow us to better serve customers;
- Continued automation of online transactions, including move journeys, report an issue and our vulnerability flagship social tariff, ‘HelpU’. This will reduce manual effort significantly and, alongside the new ‘MyAccount’ service allow us to manage customer demand through online engagement. Both initiatives will deliver significant efficiencies to the processing of transactions with customers;
- Continued utilisation of RPA (Robotic Process Automation) technology we have automated a large volume of back office manual processes, reducing the cost of processing within the customer services team;

- Delivered many changes suggested by our colleagues through our ideas portal (‘Dwr Eka’) set up in 2019/20 to drive innovative ideas from across the business, improving customer service processes, the wellbeing and engagement of colleagues and identifying opportunities to reduce costs;
- Introduced Covid-19 relief for businesses closed due to the pandemic, in line with the competitive market in England;
- Fully launched our new ‘My Account’ service, providing greater levels of functionality around online billing, allowing customers the option to self-serve online at their own convenience;
- Utilised apps developed in-house to automate many unstructured customer emails to improve transaction times;
- Implemented an enhanced digital debt solution which has further increased our debt collection efficiency within our early arrears teams;
- Deployed new meter reading data management software and meter reading devices improving efficiencies and integration with web services reducing the need for unnecessary visits post customer submission of reads; and
- In response to Covid-19 we temporarily added 341,000 customers who were either shielding, elderly or on disability benefit on to the Priority Services register. We worked with Welsh government to share our PSR data to local resilience forums to prepare for flooding responses.

In 2021/22 we will focus on delivering the following planned improvements:

- Implementation of a natural language IVR and call steering to ensure customers and routed quickly to the required department;
- Automating ID&V processes allowing agents more time to focus on the needs of the customer;
- Additional welsh language provision to be added to our ‘My Account’ customer online portal; and
- Automation of yearly audit processes for PSR and social tariff applications, reducing the number of manual tasks performed by our vulnerability team.

Planned improvements for future years (Wholesale)

Planned improvements for Wholesale are:

- Improved site optimisation by embedding ‘lean’ ways of working and best practice to focus on assets, chemicals, energy and reactive efficiencies;
- Replacement of legacy IT software and hardware with more appropriate intuitive solutions, improving the user experience and supporting smarter ways of working to enhance productivity;
- Continued collaboration and alliance with Morrison’s Utility Services to operate, maintain and upgrade our water networks in the most efficient manner;



- Continued focus on minimising the amount of energy used to deliver compliance and customer service objectives, whilst increasing levels of self-generated energy wherever feasible and economic to do so;
- Continued enhancement of an asset-specific, risk-based maintenance strategy to improve performance, reducing costs by moving from a reactive way of working by increasing levels of preventative maintenance plus a more considered approach to strategic spares availability;
- Retendering of third-party contracts where applicable to ensure access to the latest technologies and working practices at competitive rates;
- Continued advancements in the latest “SMART” operational technology and predictive data analytics to improve controls and preventative modelling to minimise incidents; and
- Ensuring lessons learnt from Covid-19 in relation to remote working are exploited fully to keep operating costs of offices and travel expenses low.

2.10: Principal use rules applied

Principal use applies where an asset is used by more than one service: it should be reported in the service of principal use with recharges made to other services that use the asset, reflecting the proportion of usage by those other services. In 2020/21 we have applied the principal use rule as follows:

- £16.7m of capex spend in the year has been reported in the service of principal use and relates to IT and other ‘management and general’ items.
- Recharges made to the other services are reported in table 4J and 4K and is included in other operating expenditure. This recharge is based on the depreciation on these assets with no financing adjustment. The amount recharged in the year amounts to £8.7m (2020: £6.9m).

Principal use recharge	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Recharges from	(0.7)	(0.6)	(5.9)	(1.5)	(0.5)	(9.2)
Recharges to	-	8.7	0.5	-	-	9.2
Net impact	(0.7)	8.1	(5.4)	(1.5)	(0.5)	-

- The recharges made to other services use FTE numbers as the cost driver as the assets are “management and general” in nature. The split between household and non-household has been based on customer numbers; and
- For tables 2B (Totex analysis Wholesale), 2C (Operating cost Retail), 4D (Totex Water), 4E (Totex Wastewater), 4J (Base expenditure water) and 4K (base expenditure waste water) assets are included in the service of principal use and recharges are included in other operating expenditure. The reason for this treatment is that this aligns with the treatment of these costs

in the PR19 submission. This is different to previous years where the costs were reported in the business area where they were being used, i.e. not on a principal use basis. The reason for this treatment was to reflect the PR14 submission.

2.11: Recharges to non-appointed activities

Costs relating to tankered Wastewater and property searches and restaurant and visitor centres are allocated directly to non-appointed activities with no recharges made for these costs. Tankered Wastewater costs are allocated to non-appointed activities using the Mogden formula.

3: Wholesale upstream services

3.1: Disaggregation of operating costs across upstream services

This is detailed in appendix 1.

3.2: Disaggregation of power costs across upstream services

This is covered in section 1.2 above.

3.3: Bulk supply imports

Bulk supply import costs of £0.9m have been allocated across the regulatory units using the average cost of the exporting company (as reported in their APR).

3.4: Significant changes in costs at upstream level service compared to previous year

The costs below are included as atypical costs in table 4D and 4E

Restructuring costs

Last year we recognised exceptional items totalling £10.5m. These related to a provision for restructuring costs during the next price control period 2020 to 2025 (AMP7) based on a planned headcount reduction and the cost of one-off payments to colleagues affected by changes to working patterns. Following on from this, we have increased the provision by a further £4.1m in the report year so the net year on year movement in restructuring costs is a reduction by some £6.4m. The regulatory provision has been split over the regulatory areas based on restructuring plans and the impact of this over the price controls is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Other operating expenditure	0.19	3.66	0.69	0.14	(0.58)	4.10



The year on year movement is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Other operating expenditure	(0.04)	(0.06)	(2.74)	(0.58)	(2.96)	(6.38)

Atypical weather costs

In February 2019 the weather had a significant impact on our water and wastewater networks and major incidents were declared across Wales and England. In the Waste business, 26 treatment works, 18 pumping stations and seven sewer pipe bridges were put out of action by the storm. Challenges included flooding, landslides and power outages and our colleagues worked around the clock to maintain service to customers with the number of calls a day reaching 750 (four times more than normal). The overall cost of Storm Dennis included as atypical costs in 2019/20 amounted to £2m for waste and £3m for water and these were reported in table 4K and 4J respectively. The costs associated with this weather incident has continued into 2020/21 amounting to £7m. In addition to this the dry spring was the highest on record for May and the prolonged spells of hot, dry weather presented challenging operating conditions and associated cost pressures (mainly power and tankering). The cost associated with this amounted to £2m.

The cost movement relating to atypical weather conditions is an increase of £3.5m (£1.7m water and £1.8m waste). The movement of costs at price control levels and cost types is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Power	0.02	0.52	0.10	0.06	-	0.70
Other operating expenditure (IRE)	0.03	1.12	2.96	-	-	4.11
Other operating expenditure	0.06	2.23	0.90	0.09	-	3.28
Total opex	0.11	3.87	3.96	0.15	-	8.09
Base maintenance	-	0.76	0.02	-	-	0.78
Totex	0.11	4.63	3.98	0.15	-	8.87

The year on year movement is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Power	0.02	0.40	(0.53)	0.06	-	(0.05)
Other operating expenditure (IRE)	0.03	1.12	2.96	-	-	4.11
Other operating expenditure	0.09	0.41	2.72	(0.48)	-	2.74
Total opex	0.10	0.81	2.19	(0.42)	-	2.69
Base maintenance	-	0.76	0.02	-	-	0.78
Totex	0.10	1.57	2.21	(0.42)	-	3.46

Rates refund

In 2019/20 rates refund of £2.5m was reported as atypical costs in table 4D relating to our Swansea WWTW (split £2.350m sewage treatment and £0.150m sludge treatment). As a result, as we do not have a similar rate refund this year, the local authority rates charge has increased.

Covid-19

During the year the company has incurred significant additional costs as a direct result of the Covid-19 pandemic. The costs include additional bad debt charges (£13 million), personal protective equipment (£8 million), additional National Grid charges (£3 million) and the incremental cost of putting in place increased hygiene measures and deep cleaning (£6 million).

The movement at costs over price control levels and cost types is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Power	0.35	1.52	1.39	0.12	-	3.38
Other operating expenditure (IRE)	-	1.91	0.44	-	-	2.35
Other operating expenditure	0.16	5.09	4.73	0.20	13.32	23.51
Total opex	0.51	8.52	6.57	0.32	13.32	29.24
Base maintenance	-	0.11	0.45	-	-	0.57
Totex	0.51	8.63	7.02	0.32	13.32	29.80



The year on year movement is shown below:

	Water Resources	Water network+	Wastewater network+	Bioresources	Retail	Total
	£m	£m	£m	£m	£m	£m
Power	0.35	1.52	1.39	0.12	-	3.38
Other operating expenditure (IRE)	-	1.91	0.44	-	-	2.35
Other operating expenditure	0.15	4.83	4.65	0.19	13.32	23.15
Total opex	0.50	8.26	6.49	0.30	13.32	28.88
Base maintenance	-	0.11	0.45	-	-	0.57
Totex	0.50	8.37	6.94	0.30	13.32	29.44

See appendix 1 for further detail on significant changes in cost at upstream level.

3.5: Significant changes in a particular cost type at upstream level compared to previous year

Principal use basis in line with the guidance in RAG 2.08 we have used the principal use method in Part 4 of the APR for consistency with our PR19 final business plan. The principal recharges are included in other operating expenditure – see 2.10 for further details

There have been no other movements of particular cost types at upstream level compared to previous year

3.6: Completion of Tables 4D and 4E

The cost allocations used to complete tables 4D and 4E are included in the attached Appendices.

3.7: Methodology for the derivation of the sludge liquor treatment costs

The means of determining the mass of BOD in dewatering liquors returned to the treatment process at the Sludge Treatment Centre (STC) depends on data available at that site. Three methods were therefore developed therefore to cover all STCs to determine the flow.

The first method uses the mass of sludge cake produced for each STC which is measured at weighbridges at our AAD advanced digesters using data stored on DCC's database. This is used to determine an estimate of liquors generated from the dewatering of the raw sludge (assumed at 2.5% dried solids) against an assumed concentration of the sludge cake (25% dried solids). Using a sludge cake density of 1.1 tonnes/m³ the volume of liquors can be calculated.

The second method uses total flow meter readings available on site to measure the actual liquor total flow.

The third method is used for a small minority when neither of the other methods can be used and uses the sludge imports from the database together with an estimate of the indigenous sludge produced from a population equivalent for the site, allowing for losses from storm spills etc. The total sludge treated and the volume of return liquor are determined as in the first method.

Typical BOD values determined from previous liquor sample analysis are used depending on the source of the sludge (e.g. surplus activated, raw primary or digested) to calculate the total BOD in the sludge liquors for the specific STC. However, in many cases, if actual samples have been taken for that STC, these are used for BOD concentration. The total BOD for all the STCs in DCC is determined by adding the mass of BOD in return liquors for each STC.

To calculate the costs of liquor treatment the % ammonia at each works (calculated above) is applied to the total % load treated at each works and multiplied by the cost of the works to derive the cost of sludge liquor.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Introduction

RAG 4.09 requires companies to disaggregate their totex costs further in tables 4D ,4E, 4J and 4K into the following upstream services:

Wholesale Water

Upstream services

Water Resources	Abstraction Licence
Network +	Raw Water Abstraction
Network +	Raw Water Transport
Network +	Raw Water Storage
Network +	Water Treatment
Network +	Treated Water Distribution

Wholesale Wastewater

Network+	Sewage Collection - foul
	Sewage Collection - surface water drainage
	Sewage Collection - highway drainage
Network +	Sewage Treatment and Disposal
	Sludge Liquor Treatment
Bioresources	Sludge Transport
	Sludge Treatment
	Sludge Disposal

The following details each individual upstream service and assumptions applied.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Water Services: operating expenditure

Abstraction Licence

Guidance

This service has been identified separately from the Raw Water Abstraction service because of the potential for a market to emerge in the future, which would enable abstraction licences to generate a separate income stream.

This service includes activities related to negotiating with third parties to obtain abstraction rights and to agree charges, as well as the annual cost of the licence itself. This service should not include activities that are incurred in choosing abstraction sites, optimising abstraction or ensuring compliance with licence conditions. All such abstraction planning activities and licence administration activities should be included in the Raw Water Abstraction service. This also includes transfer licences where they are to support another transaction.

Methodology

There are no changes to the methodology from last year.

Raw Water Abstraction

Guidance

The water abstraction service includes activities related to the operation of existing water resource sites, identification of new sources, catchment management, licence management, management of schemes in accordance with Acts of Parliament and other legal obligations, and the abstraction infrastructure which may include pre-treatment where it is upstream of Raw Water transport.

Pre-treatment processes can vary, from a relatively simple physical separation of the largest impurities, to more complex chemical treatments.

In some circumstances, transport from the water abstraction site is included within the abstraction service rather than in Raw Water Transport. Where raw water is transported between Water Resources assets, the assets supporting this transport should also be included in Water Resources – Raw Water Abstraction.

The activities relating to the inspections, operation and maintenance of assets in this price control unit are included in this service.

Methodology

There are no changes to the methodology from last year.

Raw Water Transport

Guidance

This service includes the activities related to transporting the raw water or pre-treated water from the boundaries of the abstraction site/assets or pre-treatment assets through a transport network to a treatment works, a Raw Water Storage facility (balancing reservoirs/tanks), or to customers that require untreated or non-potable water (including third party water companies). It can also include blending of water from different sources.

Where a water abstraction site and water treatment works are co-located on the same site, then the raw water effectively 'by-passes' the Raw Water Transport stage.

The activities allocated to this service primarily include the development and maintenance of the physical Raw Water Transport network. This includes pipelines and aqueducts.

Methodology

There are no changes to the methodology from last year.

Raw Water Storage

Guidance

This service includes activities related to the construction, operation and maintenance of Raw Water Storage facilities. In general, no Raw Water Transport costs should be allocated to this service, since the cost of Raw Water Transport should be included within the Raw Water Transport service.

Associated activities, such as inlet flow control to prevent overfilling and outflow control (which ensures continuity of availability of supply) and planned and emergency drawdown and discharge facilities (with associated permitting) are included in this service.

Activities related to determining losses due to leakage and to ensuring security of the site from contamination are also included.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Reservoirs/other storage assets that are not covered by the definitions in Raw Water Abstraction and have less than 15 days' usable storage should be included as Raw Water Storage.

Where pre-treatment is downstream of Raw Water Storage it should be included in Raw Water Storage. (Note the location of pre-treatment determines whether it should be accounted for as Raw Water Abstraction or Raw Water Storage).

Methodology

There are no changes to the methodology from last year.

Water Treatment

Guidance

Receive raw or partially treated (non-potable) water from the raw water transport network and undertake treatment processes. This may include water softening.

Inputs: Raw water and pre-treated (non-potable) water from raw water distribution network.

Outputs: Treated water (potable and non-potable) fed into the distribution network or directly to an end user customer. Waste by-products from treatment processes into the sewerage network.

Methodology

There are no changes to the methodology from last year.

Treated Water Distribution

Guidance

Treated Water Transport includes activities related to distributing treated water from the treatment works to the customer and includes secondary disinfection and other chemical dosing. This includes all trunk and distribution network repair and maintenance activities, as well as activities associated with any new network development.

Inputs: Treated (potable) water from treatment sites and third parties.

Outputs: Supply of treated (potable) water to customers and new appointees.

Methodology

There are no changes to the methodology from last year.

Sewerage services: operating expenditure

Foul, surface water and highway drainage

Foul

Guidance

This service is for the collection of foul sewage from customers' properties. This includes development, repair and maintenance of the Sewage Collection infrastructure. Other specific activities are the provision and maintenance of ancillaries such as overflows, screens, on-line and off-line retention tanks, rising main wells and pumps and flow measurement.

Surface water drainage

Guidance

This service is for the collection of surface water from exterior areas of customers' properties. This includes development, repair and maintenance of the Sewage Collection infrastructure. Other specific activities are the provision and maintenance of ancillaries such as overflows, screens, on-line and off-line retention tanks, rising main wells and pumps and flow measurement.

Highway drainage

Guidance

This service includes the activities related to collection of surface water that runs off roads and pavements. The activities included in this service relate to the development, repair and maintenance of the Sewage Collection infrastructure. Other activities that should be considered within this service may include the provision and maintenance of ancillaries such as overflows, screens, on-line and off-line retention tanks, rising main wells and pumps and flow measurement.

Methodology

Prior to 2015, the split between surface water and highway drainage was based on a study prepared in 1999 by external consultants. This study was used as the basis for setting our tariff charges.

During 2014/15 we commissioned a further study by external consultants to update the findings of this original report, and to produce a model that could be used to split the costs between the upstream activities. This report incorporated the following improvements compared to the original study:



Appendix 1

Disaggregation of Wholesale activities – upstream services

- Increasing the number of modelled catchments from two to sixteen. The hydraulic modelling capability has improved significantly since the original report. The hydraulic modelling of all 16 chosen catchments had been reviewed under the Sustainable Drainage Planning programme. A mix of small, medium and large catchments was chosen, to provide understanding about how each could impact on the flows. The sixteen catchments were also chosen to include two catchments from each of the eight DCC operational areas, to ensure that the overall average would be representative of the range of DCC's catchments;
- The method for applying a flow split between surface water flows that derive from customers' properties, and those that derive from highways and footpaths, was previously based on small sample areas. With the improvements in technology, we reviewed the entire catchment using data included within OS mapping layers on ArcGIS. This gave a far greater confidence in the split between surface water drainage and highway drainage;
- The updated hydraulic modelling review used the latest verified data for DWF, plus it also used the diurnal flow profile which had previously been ignored;
- The hydraulic model simulations have been run with the typical year dataset rather than estimates for the 1997/98 flows that had been used in the 1999 report (based on proportioning from the 1985 rainfall data);
- CSO spills were previously ignored, with the 1999 report only considering storm flows spilling at the treatment works. With advances in hydraulic modelling we have additional data to understand the storm flow discharged from the system in a typical year; and
- The cost split in 1999 included the cost of treatment, whereas the requirement for Ofwat in 2015 was to provide the split for sewerage costs only.

Quality assurance of model

- The criteria for inclusion within the study were that the hydraulic models had to show reasonable accuracy, be geographically spread across the operating area and also show a mix of catchment sizes. To assess what could count as 'reasonable', all selected hydraulic models had been utilised on modelling schemes within the last five years which would indicate a reasonable level of confidence in modelling methodology and best practice. The majority of the catchments have had Sustainable Drainage Plans (SDP) completed in AMP5. The total population equivalent represented by the chosen catchments equated to over half a million people;
- The model data was sense checked by our external consultants (Mouchel). In addition, further checks were undertaken by our Asset Capability team, including re-running three of the 16

models to verify the results. The outputs from the analysis were also compared to other catchments to determine whether the results were sensible; and

- One of the areas that was identified to improve on was the confidence in the assigned split of 'Other operational expenditure' as these splits were based on engineering estimates and did not reflect the nature of the work. An exercise was carried out to determine the most accurate method of splitting out these costs between foul, surface water and highway drainage. Working alongside network managers and taking samples of incidents to record the nature of the work, a new split was derived as follows and applied in this report year.

Other operating expenditure splits used for report year	2019/20	2020/21
Foul	75%	75%
Surface water	19%	19%
Highway drainage	6%	6%

The % allocation is updated annually and as a result the % changes within areas are as follows:

Operating expenditure (excluding IRE) splits used for report year	2019/20	2020/21
Foul	73%	73%
Surface water	19%	19%
Highway drainage	8%	8%

In addition the capital spend in Sewerage has been analysed between the three business units for 2020/21 resulting in the following allocation:

Capital expenditure	Maintenance	Other capital expenditure
Foul	58%	62%
Surface water	27%	25%
Highway drainage	15%	13%

There are no changes to the methodology from last year.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Sewage Treatment and Disposal

Guidance

This activity comprises the receipt of untreated sewage from the Sewage Collection system into treatment works, undertaking treatment processes and the discharge of treated wastewater into rivers, etc., and the transport of sewage sludge to sludge treatment processes. This includes all direct costs associated with Sewage Treatment including terminal pumping costs. The activities of emptying septic tanks or very small sewage works, by transporting the contents periodically to the inlet of a larger sewage treatment works, are also Sewage Treatment activities.

Inputs: Untreated sewage from the Sewage Collection network.

Outputs: Treated wastewater into receiving watercourses, discharge of sewage sludge for transporting to sludge treatment processes.

Excludes imported liquor treatment.

Methodology

There are no changes to the methodology from last year.

Sludge Liquor Treatment

Guidance

This includes all activities in transporting and treating liquors at a sewage treatment plant that have been generated during the Sludge Treatment process. This includes transporting and treating liquors that have been partially treated and are returned for final treatment at a sewage treatment plant.

It excludes liquor treatment which is carried out at a stand-alone liquor treatment plant (which will be included in the Sludge Treatment upstream service).

Methodology

There are no changes to the methodology from last year.

Sludge Transport

Guidance

This service includes the transport of sludge from the sewage treatment plant to the sludge treatment plant. All types of transport, and associated fuel costs, are included within this service. However, transport within the sludge treatment plant or between sludge treatment plants is not included in this service, which is instead an activity of the Sludge Treatment service.

Methodology

Costs of our internal and contracted Sludge Transport service are used to manage routine haulage work and these costs are separately identifiable.

There are no changes to the methodology from last year.

Sludge Treatment

Guidance

All Sludge Treatment activities including;

- Thickening of treated sludge;
- De-watering of thickened sludge;
- Incineration of non-treated sludge; and
- Treatment of sludge liquors in a stand-alone liquor treatment plant.

While different technologies exist for sludge treatment, Sludge Treatment is defined as a technology-neutral service for the purpose of the APR. Where income is received for energy generation then this should be shown as 'negative expenditure' in table 4E.

Methodology

There are no changes to the methodology from last year.

Sludge Disposal

Guidance

The collection of treated sludge from collection point, onward transport and disposal to landfill, agricultural land, land reclamation sites and to other end users in various forms including:

- Treated sludge;
- Incinerated sewage sludge ash (ISSA);
- Composted sludge; and
- Sludge cake.

If incineration of completely treated sludge takes place, then this should be included in Sludge Disposal.

Where income is received for treated sludge, then this should be shown as 'negative expenditure' in table 4E.

Methodology

There are no changes to the methodology from last year.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Upstream Services: capital expenditure

As mentioned earlier, the majority of capital expenditure can be allocated directly to the business areas as a result of its coding structure and model.

Management and general assets are allocated using FTE numbers split based on direct labour (see section 2.8 for further information)

Explanation of cost movements from prior years

In RAG 3.12 there is a requirement to report costs that have significantly moved from last year.

The commentary below provides explanations for all significant movements (above 10% or £0.5m) compared to 2019/20.

Water Resources		Operating expenditure		
Service		Abstraction Licence	Raw Water Abstraction	Total
Total cost 2019/20	£m	10.6	31.7	42.3
Movements	£m	0.0	-4.1	-4.1
Total cost 2020/21	£m	10.6	27.6	38.2
Movement since last year		0%	-13%	-10%

Significant movements (>10% or £0.5m) compared to last year are summarised below.

Abstraction licence opex costs have remained in line with last year

Raw Water Abstraction operating costs have decreased by 13% (£4.1m). The reasons include:

- Other operating expenditure: renewals expensed in the year – infra has reduced by £5.2m; which reflects that last years costs were high as schemes were being completed
- Other operating expenditure has increased by £2m; atypical costs (see 3.4 for further detail) amount to £0.2m, principal use recharge £0.7m and reduction in staff capitalisation as a

result of lower capex schemes as well as an increase in general support allocation for those costs that use revenue as the cost driver.

- Third party services have reduced by £1.2m, relating to lower bulk supply (£0.2m). In addition renewals expensed in the year reduced by £0.8m relating to our s20 EA agreements due to lower activity.

Capex has reduced by £1.6m, from £36.5m to £34.9m. Capital maintenance has increased by £0.6m, enhancement has seen an increase of £1.6m whilst this offsets the reduction in third party services (£2.5m).

- Capital maintenance costs include £0.8m relating to adverse weather conditions.
- The third party reduction of £2.5m relates to less work being carried out at reservoirs which will be recharged to NRW under the s20 operating agreement.

In summary, Raw Water Abstraction totex (including cash items) has decreased by £5.2m (7%); a £4.0m reduction in opex and £1.6m lower capex offsets the lower grants and contributions (£0.8m) due to lower s20 NRW rechargeable schemes.

Table 5B

Water Resources costs are further disaggregated into the following asset type in table 4V:

- impounding reservoir;
- pumped storage;
- river abstraction;
- ground water excluding MAR water supply schemes;
- artificial recharges water supply schemes;
- aquifer storage and recovery water supply schemes; and
- other.

Direct costs that are coded to sites are allocated directly to asset type. The cost driver used for costs that cannot be directly allocated are:

- Cumulo rates - MEAV;
- Scientific services - asset allocation;
- Water recharged to waste – EA licences; and
- Other costs - direct cost proportions.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Raw water distribution		Operating expenditure		
		Raw Water Transport	Raw Water Storage	Total
Service				
Total cost 2019/20	£m	4.8	1.1	5.9
Movements	£m	0.0	0.1	0.1
Total cost 2020/21	£m	4.8	1.2	6.0
Movement since last year		0%	9%	2%

Significant movements (>10% or £0.5m) compared to last year are summarised below.

Raw Water Transport operating costs and raw water storage have remained in line with last year. Raw Water transport capex has increased by £0.6m which mainly reflects the increased spend in maintaining the long term capability of the assets – non-infra relating to management and general assets. In addition, the increased expenditure also relates to an AMP7 early release scheme at Llysy-Fran Reservoir.

Totex (including cash items) for raw water storage has increased by £0.4m (8%); £0.1m decrease in opex and £0.5m reduction in capex.

Water Treatment		Operating expenditure
Total cost 2019/20	£m	40.3
Movements	£m	5.1
Total cost 2020/21	£m	45.4
Movement since last year		13%

Significant movements (>10% or £0.5m) compared to last year are summarised below.

Water Treatment operating costs have increased by 13% (£5.1m). Reasons include:

- Power costs have increased by £0.8m (13%). £0.6m of this increase relate to impact of Covid-19 on power prices; and
- Other operating expenditure (excluding renewals) has increased by £4.8m (14%) which reflects atypical costs of £2.3m as well as the principal use recharge of £0.6m and increased contractor costs of £0.6m.

Capex has decreased by £9.4m (27%): base maintenance has decreased by £7.7m (25%) to £23m and enhancement has reduced by £1.7m (47%) to £1.9m. Capital costs vary depending on the programme of work carried out in the year; the enhancement reduction reflects a large credit following a reallocation of the accrual brought forward from last year and the maintenance reduction relates to four large schemes completed last year (£4m) as well as less activity in the year which was mainly due to the Covid pandemic.

In summary, Water Treatment totex (including cash items) has decreased by £6.9m (9%); £5.2m increase in opex offsets in part the reduction of capex of £9.4m and pension deficit recovery payment of £2.4m

Treated Water Distribution		Operating expenditure
Total cost 2019/20	£m	134.9
Movements	£m	-18.6
Total cost 2020/21	£m	116.3
Movement since last year		-14%

Significant movements (>10% or £0.5m) compared to last year are summarised below.

Treated Water Distribution operating costs have decreased by 14% (£19m). The reasons include:

- Other operating expenditure – renewals expensed in the year - infra has decreased by £11.8m (24%): last year's spend was high as we were completing schemes at the end of the AMP;
- Other operating costs excluding renewals have decreased by £5.6m (10%): increases in atypical cost (£1.5m), new connections (£0.7m) and employment costs (£0.5m) have offset in part the principal use recharge of £8.7m (further details are included in 2.10).



Appendix 1

Disaggregation of Wholesale activities – upstream services

Capex has increased by £9.7m (14%). Base maintenance has increased by £1.1m to £49.8m whereas enhancement has increased by £9.1m to £27.2m. The enhancement scheme increase is a result of works at Project Cartref, a leakage enhancement scheme together with additional work on acceptability of supply schemes. The base maintenance increase reflects the inclusion of the principal use asset of £16m relating to M&G and IT assets that were previously included in other upstream services, this is offset by lower spends as a result of the new AMP and the Covid 19 impact of delayed schemes.

In summary, totex (including cash items) for treated water distribution has decreased by £11.9m (6%); reduction in opex of £18.6m and pension contribution deficit payment of £3m is offset in part by increase in capex spend of £9.7m.

Sewage Collection		Operating expenditure			
		Foul	Surface water	Highway drainage	Total
Service					
Total cost 2019/20	£m	44.7	15.9	7.7	68.3
Movements	£m	0.3	-0.4	-0.3	-0.4
Total cost 2020/21	£m	45.0	15.5	7.4	67.9
Movement since last year		1%	-3%	-4%	-1%

Significant movements (>10% or £0.5m) compared to last year are summarised below.

Overall total Sewage Collection operating costs have remained in line with last year

- Renewals expensed in the year (infrastructure) at £27.1m are £7.2m lower than last year; foul (£4.5m), surface water drainage (£1.8m) and highway drainage (£0.9m). Costs incurred will vary on a year-by-year basis as this is dependent on the weather and the condition of the assets. In addition schemes were delayed due to the Covid restrictions.
- Other operating expenditure has increased by £6.9m; atypical cost increases of £3.0m, principal use recharges £2.5m, together with increased other support costs such as IT and increased insurance premiums.

Capex overall has decreased by £31.6m to for Sewage Collection; foul (£11.1m), surface water drainage (£12.7m) and highway drainage (£7.7m). Enhancement spend has decreased by £27.3m and maintenance by £3.9m. The enhancement reduction reflect higher costs having been incurred

last year at the end of the AMP on specific investment areas such as reducing the number of spills to river courses as well as two large schemes: Pwll SPS (£3.6m) and Weycock Cross SPS (£1m). The reduction for base maintenance and enhancement schemes is also a result of a lower level of capex programme investment in AMP7 as well as delays incurred due to the Covid restrictions

Sewage Collection totex (including cash items) has decreased by £29.6m (22%); £31.6m capex, £1.5m pension deficit payments and lower grants and contributions (£3.9m).

Sewage Treatment		Operating expenditure		
		Sewage Treatment	Imported Sludge Liquor	Total
Service				
Total cost 2019/20	£m	58.4	5.6	64.0
Movements	£m	8.8	-1.9	6.9
Total cost 2020/21	£m	67.2	3.7	70.9
Movement since last year		15%	-34%	11%

Significant movements (>10% or £0.5m) compared to last year are summarised below:

Sewage Treatment operating costs have increased by £7.0m (11%); the main reasons for this are:

- Power costs have increased by £0.4m overall, but sewage treatment has increased by £1.9m with a reduction in sludge liquor costs of £1.4m. The increase reflects the atypical cost movements of £0.6m as aforementioned.
- Income treated as negative expenditure has increased by £0.6m, from £1.9m credit to a £2.6m credit reflecting that our AAD site at Five Fords is now fully operational;
- Other operating expenditure (excluding renewals) has increased by £5.1m (15%); £0.9m of this relates to atypical costs, £2.9m principal use recharge together with increases in other support areas such as IT and insurance.
- Local authority rates for Sewage Treatment sites have increased by £2m (33%) reflecting that a large rebate was received last year of £2m.



Appendix 1

Disaggregation of Wholesale activities – upstream services

Capex has decreased by £27.8m (41%); this is broken down between a base maintenance reduction of £15.8m and an enhancement decrease of £12m. Capex will change on an annual basis, based on the programme of work scheduled in the year and is particularly relevant here as last year was the end of the AMP where capex was higher due to schemes being completed. Other reasons for the overall reduction are that the AMP7 plan for enhancement schemes contains a lower level of investment than for AMP6, and there is also normally a slow start in the first year of the AMP as schemes go through early feasibility and design stages, in addition the Covid restrictions have delayed schemes planned to start in the year.

A grants and contribution decrease of £1.1m relates to developer contributions.

In summary, Sewage Treatment totex (including cash items) has reduced by £20.1m (12%); £8.9m higher opex and lower grants and contribution (£1.1m) are offset by reductions in capex (£27.8m) and pension deficit payments (£2.2m).

Imported Sludge Liquor totex has reduced by £1.9m (34%) mainly relating to lower power (£1.4m) and higher income (£0.8m) offset by higher other opex costs (0.5m). The reasons for the decrease are improved quality and lower strength of concentrate at some sites.

Sludge		Operating expenditure			
		Sludge Transport	Sludge Treatment	Sludge Disposal	Total
Service					
Total cost 2019/20	£m	6.0	6.8	4.6	17.4
Movements	£m	-0.7	2.4	-0.2	1.5
Total cost 2020/21	£m	5.3	9.2	4.4	18.9
Movement since last year		-12%	35%	-4%	9%

Significant movements (>10% or £0.5m) compared to last year are summarised below:

Overall Sludge operating costs have increased by 9% (£1.5m).

Sludge Transport costs have decreased by £0.7m relating to other operating expenditure.

Capex has decreased by £0.8m and reflects fewer vehicle purchases as well as the allocation of 'management and general' additions to areas of principal use.

In summary, totex (including cash items) for Sludge Transport has decreased by £1.6m (23%); £0.7m opex, £0.8m capex and £0.1m lower pension deficit contribution.

Sludge treatment opex costs have increased by £2.4m (35%) and reflect:

- Power (fuel) increase £1m (45%); this includes all the fuel costs of the sludge transport fleet as well as an increase in external consumption due to reduced self-generation.
- Income increased by £0.3m (7%) from £3.9m to £4.2m, mainly in North Wales due to operating the new AAD plant during the year.
- Other operating expenditure increased by £1.4m (16%) reflecting the principal use recharge of shared assets of £1.5m.

Sludge treatment capex costs have decreased by £21m (47%); £19m maintenance and decrease of £2m in enhancement schemes reflecting high capex spend in prior years as it was the end of the AMP.

In summary, Sludge Treatment totex (including cash items) has decreased by £19.3m (37%); a £2.4m increase in opex offsets in part the reduction in capex of £21.3m and pension deficit contribution reduction of £0.5m.

The Sludge Disposal costs decrease of £0.8m (15%) in capex relates to lower base maintenance costs; shared assets are now being reported in the area of principal use (£0.4m) together with lower spend on vehicles.

In summary, Sludge Disposal totex (including cash items) has decreased by £0.8m (15%) which relates mainly to capex reductions.



Appendix 2

Retail: Wholesale cost allocation

Cost Allocation	Cost Driver
Customer Services	
Billing	Wholly in Retail.
Payment handling and remittance	Wholly in Retail.
Non – Network customer enquiries and complaints	Wholly in Retail.
Network customer enquiries and complaints	
<i>Dŵr Cymru Waste Wholesale</i>	
Scheduling jobs	A team within the Wastewater services schedules the first job following its trigger by a customer contact. Management estimates the time spent on the initial call made to the customer to schedule a visit.
Aborted jobs	A SAP report identifies the cost of all jobs aborted as a result of customer contact.
Call to customer for customer call to be resolved	Management estimates the time spent on customer contact to close off the call as the contact is made directly by the wholesale team to the customer and not via the retail call centre.
<i>Dŵr Cymru Water Wholesale</i>	
Scheduling jobs	Management estimates the time spent on the initial call made to the customer to schedule a visit.
Inspector's first visit	The number of jobs requiring a customer visit is despatched from the Operational call centre within retail and filtered by cause to establish the cost of non-network visits.
Call to customer for customer call to be resolved	Management estimates the time spent on customer contact to close off the call as the contact is made directly by the wholesale team to the customer and not via the retail call centre
Debt Management	
Debt management	Wholly in Retail.
Customer Doubtful Debt	

Cost Allocation	Cost Driver
Customer doubtful debt	Wholly in Retail, as there is no provision for Wholesale revenue e.g. bulk supplies or third parties.
Meter Reading	
Meter reading	Wholly in Retail.
Services to Developers	
Services to developers	Costs are apportionment by management estimate. Costs in retail are only for providing developer information and administration for new connections.
Other operating expenditure	
Demand-side water efficiency	
Costs incurred by Wholesale	These are treated as Wholesale activities as they relate to Wholesale outcomes (a sole exception is a small amount of Retail expenditure which reflects customer service advisors' time linked to affordability initiatives promoting the potential benefits of metering).
Customer side leaks	
Costs incurred by Wholesale	These are treated as Wholesale activities as they relate to Wholesale outcomes
Other direct costs	
Retail segment	Wholly in Retail.
Dŵr Cymru insurance costs	Insurance costs are allocated to Retail by FTE.
Dŵr Cymru actuarial charges	Defined benefit and defined contribution pension scheme costs are allocated based on membership numbers.
Disconnections and reconnections	
Disconnections and reconnections	Decision and administration costs only are allocated to Retail.
General and support expenditure	
IT Costs:	



Appendix 2

Retail: Wholesale cost allocation

Cost Allocation	Cost Driver
Retail segment	Wholly in retail.
Dŵr Cymru IT department	Allocation is based on a combination of company revenues, FTEs, number of computers and system types.
Finance:	
Retail segment	Wholly in retail.
Dŵr Cymru Finance	Allocated directly where appropriate and management assesses the cost apportionment of roles which cover for company-wide activities which includes using company revenues.
Dŵr Cymru Charges team	Allocation is based on company revenues.
HR:	
Retail segment	Wholly In Retail.
Dŵr Cymru HR department	Allocated directly where appropriate only and by FTEs where this is not possible.
Executive team:	
Dŵr Cymru Chief Executive and Finance Director	Allocation is based on company revenues.
Dŵr Cymru Company Secretariat, Executive, Non-Executive Directors and Members' costs.	Allocation is based on company revenues.
General management:	
Retail segment	Wholly In Retail.
Facilities:	
Retail segment	Wholly in Retail.
Dŵr Cymru	Allocation is based on FTEs.
Other general and support costs:	
Retail segment general and support costs:	
Meter reading	Wholly in Retail.
Training and quality	Wholly in Retail.
Web	Wholly in Retail.
Business change	Wholly in Retail.
Compliance	Wholly in Retail.
Key and business customers	Wholly in Retail.
Dŵr Cymru general and support costs:	

Cost Allocation	Cost Driver
Communications team	Allocated directly where appropriate and, where this is not possible, by management judgement.
Quality and assurance	Management time spent on Retail/Wholesale audit work.
Health and safety	Allocated directly where appropriate and management assesses the cost apportionment of roles which cover company-wide activities.
Tax and capital markets	Allocation is based on company revenues.
Finance planning	Allocated directly where appropriate and management assesses the cost apportionment of roles which cover company-wide activities.
New business	Management assessment
Trade effluent sampling	Management assessment of sampling activity
Other business activities	
Regulation costs	1/9 th to Retail.
Local authority rates	
Local authority rates	Allocation is based on FTEs.



Appendix 3

Wholesale cost allocation

Allocation bases

Cost Driver A – Direct costs can be mapped directly from a cost centre to the relevant accounting separation business unit.

Cost Driver B – Mapping is not direct, but a specific cost driver is used to allocate the cost to the appropriate accounting separation business unit.

Cost Driver C – Mapping is not direct, allocations are worked out using appropriate judgements based on available data and understanding of the business.

	Water Resources	Raw Water Distribution	Water Treatment	Water Distribution	Sewerage	Sewage Treatment	Sludge Transport & Treatment	Sludge Disposal
	£m	£m	£m	£m	£m	£m	£m	£m
	A/B	A/B	A/B	A/B	A/B	A/B	A/B	A/B
Power	<p>Power costs include all energy costs (including climate change levy costs). Electricity costs are allocated to assets using DCC's energy management system in SAP, which receives electronic bills (EDI's) from the energy suppliers and, by reference to the Meter Point Administration Number (MPAN), charges the cost to an asset's cost centre. As this is the second year this system was used (replaced ARIES in 2019), extensive checks are being carried out by comparing the billed charges for each MPAN with the backing data supplied by the energy supplier.</p> <p>Where an MPAN provides electricity for more than one price control unit, a percentage split is applied that is specific to the associated MPAN. The percentage split is determined by estimating the electricity cost per price control unit by undertaking site audits. These involve cataloguing all the electrical equipment on site. The running hours and loading of each piece of equipment are estimated/determined to calculate annual electricity consumption and this is allocated to regulatory cost accounting areas. The equipment's electricity use as a proportion of the total site's electricity consumption is used to establish the cost centre splits. The Power costs category also include fuel costs, which are allocated to the cost centres where the asset which consumes the fuel is located. For assets that support more than one price control segment, the costs are allocated based on the most appropriate cost centres based in Ofwat's hierarchy of cost drivers.</p> <p>For income from power generation all the stand alone hydros are reported in water resources. The remaining hydros embedded in the treatment works and the solar income has been spread across the regulated areas that are associated with the works. For waste water all the CHP & Gas to grid revenues are reported within the sludge price control and the remaining revenue associated with wind & solar reported within the treatment price control.</p>							
EA Service Charges	A	-	A	-	A	A	-	-
	<p>Abstraction charges received from the Natural Resources Wales are allocated to water resources. Discharge consent payments to the Environment Agency are supported by a site-by-site breakdown and this is used to allocate the cost to the appropriate activities and processes.</p>							
Bulk Supply Imports	A/B	A/B	A/B	A/B	-	-	-	-
	<p>Bulk supply imports relate to the purchase of potable water and non-potable water. The non-potable element is allocated to Water Resources. The cost of imported potable bulk water supplies are split between Water Resources and Water Network+ using the cost split of the exporting company as reported in their latest published Annual Performance Report.</p>							



Appendix 3

Wholesale cost allocation

Allocation bases

Cost Driver A – Direct costs can be mapped directly from a cost centre to the relevant accounting separation business unit.

Cost Driver B – Mapping is not direct, but a specific cost driver is used to allocate the cost to the appropriate accounting separation business unit.

Cost Driver C – Mapping is not direct, allocations are worked out using appropriate judgements based on available data and understanding of the business.

	Water Resources	Raw Water Distribution	Water Treatment	Water Distribution	Sewerage	Sewage Treatment	Sludge Transport & Treatment	Sludge Disposal
	£m	£m	£m	£m	£m	£m	£m	£m
	<i>Other operating expenditure</i>							
	A/B	A/B	A/B	A/B	A/B	A/B/C	A/B/C	A/B
Employment Costs	<p>Following the introduction of SAP work management systems, the majority of operational staff's workload and the related allocation of cost is automated. As a consequence, the need for manual allocations of people's time is minimised. Furthermore, many operational staff and their associated cost centres can be attributed to one particular activity and instances of staff working across more than one activity are relatively low. For example, Water Distribution employees rarely work on Water Resources, Raw Water Distribution or Water Treatment assets, while Water Treatment operatives rarely carry out any work within Water Distribution. The situation is similar within the Sewerage business, where sewerage operatives rarely perform Sewage Treatment and Sludge Treatment activities. However at co-located sludge centres, management estimates are used to allocate costs between sewage treatment and sludge activities.</p> <p>Managers' estimates are used to allocate any under or over-recoveries in operatives' home cost centres.</p>							
Hired and Contracted Services	A	A	A	A	A	A	A	A
	<p>Hired and contracted services are charged directly to business units by procurers who are generally dedicated to that activity. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job.</p> <p>These works orders settle costs to the cost centres or capital internal orders associated with the asset, job type and location.</p>							
Chemicals	A	A	A	A	A	A	A	A
	<p>Chemicals are charged directly to assets and activities by procurers who are generally dedicated to those activities. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job.</p> <p>These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.</p>							
Materials and Consumables	A	A	A	A	A	A	A	A
	<p>Materials and consumables are charged directly to assets and activities by procurers who are generally dedicated to those activities. Where the costs relate to Switch, AGA or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job.</p> <p>These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.</p>							
Other	B/C	B/C	B/C	B/C	B/C	B/C	B/C	B/C



Appendix 3

Wholesale cost allocation

Allocation bases

Cost Driver A – Direct costs can be mapped directly from a cost centre to the relevant accounting separation business unit.

Cost Driver B – Mapping is not direct, but a specific cost driver is used to allocate the cost to the appropriate accounting separation business unit.

Cost Driver C – Mapping is not direct, allocations are worked out using appropriate judgements based on available data and understanding of the business.

	Other costs include insurance costs relating to wholesale activities. Insurance costs have been allocated based on FTE for employer's liability and for uninsured provision based on claims history.							
	Water Resources	Raw Water Distribution	Water Treatment	Water Distribution	Sewerage	Sewage Treatment	Sludge Transport & Treatment	Sludge Disposal
	£m	£m	£m	£m	£m	£m	£m	£m
General and Support Expenditure	C	C	C	C	C	C	C	C
	The cost allocation for general and support expenditure is shown in appendix 4.							
Scientific Services	C	C	C	C	C	C	C	C
	Laboratory services costs are allocated across the various activities based on management estimates which used the amount of samples plus other relevant cost factors.							
Other Business Activities	B	B	B	B	B	B	B	B
	This includes the cost of regulation, including all incremental managerial costs of regulation associated with a periodic review, licence fees payable to Ofwat in respect of regulation, certification fees associated with the Licence requirements and staff and associated costs incurred in the preparation of submissions to, and liaison with, regulators. Costs are allocated equally across nine activities (four for water services, four for sewerage services and one for retail services).							
Local Authority Rates	B	B	B	B	B	A/B	B	B
	This relates to the cost of local authority rates and includes both local authority rates and Cumulo rates. Cumulo (water-only) rates are allocated across activities in proportion to the gross MEA value of assets assigned to the business. Cumulo rates associated with the Environment Agency operating agreement are charged to third party services. Non-domestic rates relating to sewerage sites are allocated primarily to the sewerage treatment activity. Where there is a sludge treatment activity at a sewerage treatment site, a percentage (based on rateable values) is charged to the sludge treatment activity.							
Third Party Services	A/C	A/C	A/C	A/C	-	-	-	-
	Third party services include costs associated with the supply of non-potable water, the supply of standpipes, ships water, bulk supply, reservoir agreements and rechargeable works. Rechargeable works, standpipes, ships water and reservoir agreement costs are extracted from our accounting system and an element of general and support costs are added to this. Bulk supply third party costs consist of the abstraction licence relating to this together with allocation for general and support costs							



Appendix 4

General and support allocation

Cost Category	Base for split of costs that are not directly allocated – Cost Driver	Rationale	Water Resources	Water Network+	Sewage Network+	Sludge	Retail	Non-Appointed
<i>Chief Executive Officer</i>	Company revenues	Considered most appropriate driver for Chief Executive of whole organisation	7%	35%	48%	4%	6%	-
<i>UK Water</i>	Equal split across nine business units	Per Ofwat guidance for 'regulatory' costs	11%	33%	22%	22%	11%	-
<i>Finance Director</i>	Company revenues	Considered most appropriate driver for FD of whole organisation	7%	35%	48%	4%	6%	-
<i>General Counsel</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Legal Costs</i>	Management assessment	Head of Legal detailed analysis of costs	4%	29%	25%	8%	32%	2%
<i>Regulatory Compliance</i>	Equal split across nine business units	Per Ofwat guidance for 'regulatory' costs	11%	33%	22%	22%	11%	-
<i>Company Secretary</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
HR								
<i>HR other</i>	Company FTEs and management assessments	Considered most appropriate driver for HR function that supports whole organisation	5%	40%	29%	9%	13%	5%
Business Assurance								
<i>Business Assurance</i>	Management assessment	Time sheet together with management estimate	5%	37%	30%	10%	16%	3%
Communications								
<i>Communications</i>	Management assessment	Communications Director assessment of costs over the business areas	5%	32%	22%	7%	27%	7%
Planning & Regulation								
<i>Planning & Regulation Director</i>	Equal split across nine business units	Per Ofwat guidance for 'regulatory' costs	11%	33%	22%	22%	11%	-



Appendix 4

General and support allocation

Cost Category	Base for split of costs that are not directly allocated – Cost Driver	Rationale	Water Resources	Water Network+	Sewage Network+	Sludge	Retail	Non-Appointed
Planning & Regulation (continued)								
<i>Economic & Charges</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Economic regulation - team</i>	Equal split across nine business units	Per Ofwat guidance for 'regulatory' costs	11%	33%	22%	22%	11%	-
<i>Regulatory Strategy</i>	Equal split across nine business units	Per Ofwat guidance for 'regulatory' costs	11%	33%	22%	22%	11%	-
Finance								
<i>Tax and Treasury</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Commercial Finance</i>	FTEs within Finance team	Direct allocation where appropriate and manager assessment of split roles	4%	34%	28%	9%	20%	5%
<i>Corporate Finance</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Finance Business Partners</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Release of GR/IR</i>	Split in proportion to direct costs	Split of purchases in 2019/20 considered most appropriate	11%	38%	40%	8%	2%	-
<i>External Audit</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Pension Service Charge</i>	FTE in DB scheme	Defined benefit scheme membership split	7%	54%	20%	3%	17%	-
Environment								
<i>Environment</i>	Management assessment	Head of Department assessment of budget split – wholesale only	7%	24%	59%	10%	-	-



Appendix 4

General and support allocation

Cost Category	Base for split of costs that are not directly allocated – Cost Driver	Rationale	Water Resources	Water Network+	Sewage Network+	Sludge	Retail	Non-Appointed
Business Information Services								
<i>Business Information Services</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Commercial and contracts</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Information Security</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Architecture</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Infrastructure</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Programmes and Services</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
<i>Services</i>	Direct allocation, equipment and FTE split	As stated in RAG 2.08	5%	42%	23%	7%	22%	-
<i>Enablement and Transformation</i>	Company revenues	Considered most appropriate driver for company-wide function	7%	35%	48%	4%	6%	-
Health and Safety								
<i>Health and Safety</i>	Management assessment	Considered most appropriate cost driver	6%	49%	39%	12%	-9%	3%
Operational Services								
<i>Emergency Planning</i>	Management assessment	Head of Department assessment of cost split	2%	54%	43%	1%	-	-
<i>Smart HUB</i>	Management assessment	Head of Department assessment of cost split	1%	55%	43%	1%	-	-
<i>Lean</i>	Management assessment	Head of Department assessment of cost split	-	50%	50%	-	-	-
<i>IMS & Audit</i>	Management assessment	Head of Department assessment of cost split	5%	45%	20%	20%	10%	-
<i>Developer Services</i>	Management assessment	Head of Department assessment of cost split	10%	80%	5%	5%	-	-
<i>Other</i>	Management assessment	Head of Department assessment of cost split	-1%	57%	52%	-2%	-6%	-



Appendix 4

General and support allocation

Cost Category	Base for split of costs that are not directly allocated – Cost Driver	Rationale	Water Resources	Water Network+	Sewage Network+	Sludge	Retail	Non-Appointed
Procurement and Estates								
<i>Head of Procurement and Estates</i>	Management assessment	Head of Department assessment of cost split	11%	38%	40%	8%	2%	-
<i>Facilities</i>	Site based headcount	Headcount occupation at sites	3%	47%	28%	4%	16%	2%
<i>Procurement</i>	Bought in service costs	Split in proportion to WWR bought-in services costs	11%	38%	40%	8%	2%	-
<i>Estates</i>	Net book value of non-infra assets	Split in proportion to WWR NBV of non-infra assets	3%	42%	50%	5%	-	-
Insurance	Based on MEAV, FTEs and claim history	Considered most appropriate driver	16%	39%	40%	4%	1%	-
Energy Team	Power costs	Considered most appropriate driver	16%	33%	41%	9%	-	1%
Dŵr Cymru Retail segment	Wholly Retail		-	-	-	-	100%	-
Total General and Support			6%	35%	31%	6%	18%	4%



Appendix 5

Household: Non-household split

Cost Category	Cost Driver used for Regulatory 2019/20 Accounts	Cost Driver used for Regulatory 2020/21 Accounts	H : NH split	
			H	NH
Customer services				
Billing			90%	10%
Billing	Bills raised	Unchanged from 2020 basis	90%	10%
Billing resolutions team	Volume of billing queries and work orders	Unchanged from 2020 basis	86%	14%
Payment handling and remittance	Volume of payments as per RAG 2.08	Unchanged from 2020 basis	97%	3%
Non-network customer enquiries and complaints			84%	16%
Customer relations	Correspondence contacts	Unchanged from 2020 basis	86%	14%
BPO	BPO contacts	Unchanged from 2020 basis	95%	5%
Postage	Printing and postage charges – Non-billing	Unchanged from 2020 basis	81%	19%
Call centre and training	Call centre contacts	Unchanged from 2020 basis	92%	8%
Customer retail team	All non-household	Unchanged from 2020 basis	-	100%
Network customer enquiries and complaints			89%	11%
OCC	Volume of operational contacts logged	Unchanged from 2020 basis	91%	9%
Postage	Printing and postage charges – Non-billing	Unchanged from 2020 basis	81%	19%
Webchats and social media	Volume of webchats and social media contacts	Unchanged from 2020 basis	94%	6%
Dŵr Cymru Waste				
Schedulers	Total volume of waste calls received	Unchanged from 2020 basis	92%	8%
Aborted jobs	Total volume of waste calls received	Unchanged from 2020 basis	92%	8%
Call to customer for call to be resolved	Total volume of waste calls received	Unchanged from 2020 basis	92%	8%
Trade effluent sampling	All non-household	Unchanged from 2020 basis	-	100%
Dŵr Cymru Water				
Scheduling jobs	Customer numbers	Unchanged from 2020 basis	93%	7%
Investigation of problem	Volume of network inspector aborted jobs raised	Unchanged from 2020 basis	93%	7%
Call to customer for call to be resolved	Customer numbers	Unchanged from 2020 basis	93%	7%



Appendix 5

Household: Non-household split

Cost Category	Cost Driver used for Regulatory 2018/19 Accounts	Cost Driver used for Regulatory 2019/20 Accounts	H : NH split	
			H	NH
Customer services (continued)				
<i>Vulnerable customer schemes</i>	All household	Unchanged from 2020 basis	100%	-
Debt management			88%	12%
<i>DCCS: collections</i>	Collections work	Unchanged from 2020 basis	88%	12%
<i>Affordability</i>	Affordability	Unchanged from 2020 basis	100%	-
<i>DCA charges</i>	Accounts referred to DCAs	Unchanged from 2020 basis	100%	-
<i>Postage</i>	Printing and postages charges – Non-billing	Unchanged from 2020 basis	81%	19%
<i>Water company commissions</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Council commissions</i>	Affordability	Unchanged from 2020 basis	100%	-
Customer doubtful debt			97%	3%
<i>Local authority bad debt</i>	All household	Unchanged from 2020 basis	100%	-
<i>Doubtful debt</i>	Write offs	Unchanged from 2020 basis	97%	3%
Meter reading			80%	20%
<i>Field operations support</i>	Volume of rejected/abnormal meter reading	Unchanged from 2020 basis	77%	23%
<i>Filed operational work</i>	Number of attempted meter read visits (with NHH weighting)	Unchanged from 2020 basis	81%	19%
<i>Dŵr Cymru water inspectors</i>	Volume of network inspector meter jobs	Unchanged from 2020 basis	76%	24%
Other operating costs				
<i>Disconnections and reconnections</i>	Entirely non-household	Unchanged from 2020 basis	-	100%
<i>Customer side leaks</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Dŵr Cymru customer services team</i>	Cost identified that could be directly attributed and remaining costs split using customer numbers	Unchanged from 2020 basis	93%	7%
<i>Dŵr Cymru actuarial charges</i>	Defined benefit pension scheme membership split	Unchanged from 2020 basis	92%	8%
General and support expenditure				
Dŵr Cymru Retail			93%	7%
<i>Other general and support costs</i>	Customer numbers	Unchanged from 2020 basis	93%	7%



Appendix 5

Household: Non-household split

Cost Category	Cost Driver used for Regulatory 2018/19 Accounts	Cost Driver used for Regulatory 2019/20 Accounts	H : NH split	
			H	NH
General and support expenditure (continued)				
<i>Dŵr Cymru</i>				
<i>IT department</i>	Headcount and nature of support and customer numbers	Unchanged from 2020 basis	92%	8%
<i>Facilities</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Quality and assurance</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Health and safety</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Tax and capital markets</i>	Customer numbers	Unchanged from 2020 basis	93%	7%
<i>Commercial finance costs</i>	All non-household	Unchanged from 2020 basis	-	100%
<i>New business customer services</i>	All non-household	Unchanged from 2020 basis	-	100%
<i>Trade effluent sampling</i>	All non-household	Unchanged from 2020 basis	-	100%
Other business activities (Regulation costs)	Customer numbers	Unchanged from 2020 basis	93%	7%
Developer Services				
<i>Developer services</i>	All non-household	Unchanged from 2020 basis	-	100%
Regulatory Accounts 2020/21			92%	8%



Appendix 6

Measured and unmeasured split

In prior years costs between water-only, wastewater-only, and water and wastewater customers were split based on customer numbers (including dual service weighting); the following therefore refers to the allocations between household measured and unmeasured customers only. In accordance with the latest RAG guidance the Measured / Unmeasured splits are no longer required in preparing the APR tables.

	Cost	Cost Driver	Justification
Customer services	Billing	Bills raised for each customer type	As per RAG 2.08 guidance
Customer services	Billing Resolutions Team	Volume of billing queries by customer type	This data was only available from 2019/20. Enables a more accurate allocation by customer types as per RAG 2.08
Customer services	Payment handling, remittance and cash handling	Number of payments received from each customer type	As per RAG 2.08 guidance
Customer services	Vulnerable customer schemes	Number of customers on affordability tariffs from each customer type	As per RAG 2.08 guidance
Customer services	Non network customer enquiries and complaints: Customer Relations Team	Number of non-network customer enquiries to this team from each customer type	As per RAG 2.08 guidance
Customer services	Non network customer enquiries and complaints: Compensation Payments - NOT USED	Directly attributed	As per RAG 2.08 guidance
Customer services	Non network customer enquiries and complaints: Postage	Printing and postage charges (excluding billing) for each customer type	Reflects the cost of postage incurred in responding to contacts
Customer services	Non network customer enquiries and complaints: call centre costs	Number of non-network customer enquiries to this team	As per RAG 2.08 guidance
Customer services	Network customer enquiries and complaints: OCC	Volume of network customer enquiries and complaints recorded in SAP for each customer type	As per RAG 2.08 guidance
Customer services	Network customer enquiries and complaints: Postage	Printing and postage charges (excl. Billing) for each customer type	Reflects the cost of postage incurred in responding to contacts
Customer services	Network customer enquiries and complaints: waste: Schedulers	Customer numbers with dual service weighting for each of the six customer types	Reflects the most appropriate basis for allocating costs as we do not record customer type for this work
Customer services	Network customer enquiries and complaints: waste: Aborted jobs	Customer numbers with dual service weighting for each of the six customer types	Reflects the most appropriate basis for allocating costs as we do not record customer type for this work
Customer services	Network customer enquiries and complaints: waste: Call resolution	Customer numbers with dual service weighting for each of the six customer types	Reflects the most appropriate basis for allocating costs as we do not record customer type for this work
Customer services	Network customer enquiries and complaints: water: Schedulers	Customer numbers with dual service weighting for each of the six customer types	Reflects the most appropriate basis for allocating costs as we do not record customer type for this work
Customer services	Network customer enquiries and complaints: water: Investigation	Customer numbers with dual service weighting for each of the six customer types	Reflects the most appropriate basis for allocating costs as we do not record customer type for this work



Appendix 6

Measured and unmeasured split

In prior years costs between water-only, wastewater-only, and water and wastewater customers were split based on customer numbers (including dual service weighting); the following therefore refers to the allocations between household measured and unmeasured customers only. In accordance with the latest RAG guidance the Measured / Unmeasured splits are no longer required in preparing the APR tables.

Debt management	Debt collection agency (DCA) charges	Number of accounts referred to DCAs by customer type split by debt outstanding for more than 30 days	Enables an accurate allocation of DCA costs
Debt management	Debt Management Postage	Printing and postage charges (excluding billing) for each customer type	Reflects the cost of postage incurred in contacting customers
Debt management	Commissions payable to other water companies	Customer numbers (with dual service weighting)	We do not have access to other water companies' customer data thus we make the assumption that their proportion of customer types is similar to ours.
Debt management	Council commissions	Affordability Team staff time spent on each customer type	Distribution of measured and unmeasured customer types for which council commissions are payable is assumed to be in line with the work of the Affordability team whose work is focussed on similar customer groups.
Doubtful debts	Doubtful debts charge excluding Local Authorities	Write-offs	Direct attribution to customer types
Doubtful debts	Doubtful debts charge for Local Authorities	Write-offs excluding non-household	Assumes local authority household metered and unmetered property proportions are in line with the rest of our household customers.
Meter reading	Meter reading (includes cost of Motor Vehicles)	100% performed for metered customers	Does not apply to unmetered customers
Other operating expenditure	Other direct costs	Customer numbers (with dual service weighting)	As per RAG 2.08 guidance
Other operating expenditure	General and support (excluding Motor Vehicles)	Customer numbers (with dual service weighting)	As per RAG 2.08 guidance
Other operating expenditure	Other business activities	Customer numbers (with dual service weighting)	As per RAG 2.08 guidance