

Dŵr Cymru Cyfyngedig
Accounting separation methodology statement

Year ended 31 March 2013

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1. Introduction

Dŵr Cymru's regulatory accounts for the year ended 31 March 2013 have been drawn up in accordance with this accounting separation methodology statement. The purpose of the document is to explain the systems, processes and allocation methods involved in the preparation and population of the accounting separation tables included within the regulatory accounts. The financial information used to populate the tables is processed and extracted from the company's accounting system and customer billing system.

Water and sewerage services

Alternative cost centre structures have been created (as part of Dŵr Cymru's overall accounting separation cost centre group) in the accounting system to allow water and sewerage service operational costs to be captured in a format that facilitates the completion of the water and sewerage service tables. These contain specific cost centre groups for each of the four water activities along with further groups capturing the cost of scientific services and general and support activities. A number of 'work management systems' have been introduced in recent years resulting in greater accuracy of cost allocation and a reduced incidence of manual allocations across activities.

Asset-related cost centres and most operational support staff can be attributed directly to an individual water 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.

Retail service

An alternative cost centre structure has been created within the accounting system to allow retail operational costs to be captured in a format that facilitates the completion of the retail service table.

The key components of total operating expenditure within the retail service are:

- management of the billing process;
- provision for doubtful debts;
- council commission;
- customer services team;
- finance customer services team;
- managing developers queries and providing information to developers ;
- work carried out by network inspectors and customer service managers in the Water Distribution team following billing-related customer meter queries;
- repairs to customer side leaks;
- sampling at customers taps;
- Business Information Services; and
- general and support costs.

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.

Fixed assets

The fixed asset tables consist of capitalised assets as recorded on the fixed asset register plus assets under construction. The opening balances are reconciled to the previous year's closing balances and current year transactions are analysed as follows:

- assets in the SAP asset register are allocated to cost collectors which identify the operational business owner. Each asset has an asset class which identifies the split between infrastructure, operational and other assets, and a review of the current year's expenditure is undertaken by reference to data capture sheets and meetings with capital operational managers to ensure they are appropriate; and
- retail asset costs have been allocated on the number of household and non-household customers . This is also used to analyse the depreciation charge and asset disposals by business unit and asset type.

Appointed and non-appointed businesses

Each non-appointed activity is treated separately within the company's accounting records. Examples of non-appointed activities include non-monopoly rechargeable works, property searches, proactive leakage detection, education and recreation and amenity services. Revenues, costs, assets and liabilities are generally allocated directly to particular business activities. General and support costs have been apportioned from the appointed business to the non-appointed business on an activity cost basis.

2. Due diligence

Dŵr Cymru has established appropriate processes and systems of control that provide assurance in respect of information contained within the regulatory accounting tables (which previously formed part of the 'June Return'). These systems have ISO9001:2008 accreditation and are reaffirmed by SGS Ltd as part of the company-wide IMS procedures rolling programme of audits. The company is now in its sixth year of holding this accreditation.

The company has documented key processes and internal controls and has assessed the quality of systems and processes used for generating regulatory information. These processes have been followed to produce this year's Performance Report.

Ownership and responsibility for each supplementary table have been clearly defined. Each individual is responsible for adhering to all appropriate guidance in the compilation of the data and associated commentary. This also involved formal 'sign-off' by the individual, verifying that the figures in each line had been obtained from a recognised data source and have been accurately compiled. In addition, confirmation was required that any material judgements or assumptions had been highlighted and documented, ensuring an accurate audit trail.

Allocation of overall responsibility for individual tables and associated commentaries was assigned to the appropriate Dŵr Cymru Leadership Team member. Each was responsible for the review and 'sign-off' of his/her own tables and commentaries.

A rigorous process of internal due diligence meetings was undertaken by the Regulation Department between the 13 May and 5 June 2013 to challenge information, judgements and assumptions made and to ensure compliance with the relevant guidance.

3. Capitalisation policy

Accounting 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

Property, plant and equipment comprise:

- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

Asset additions are recorded at cost together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs.

The cost of property plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are only recognised on completion of a project.

Infrastructure assets

Infrastructure assets comprise principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. The waste water system is segmented into components representing geographical operating areas.

In accordance with RD 06/02, all leakage monitoring and reporting costs are treated as operating expenditure. The cost of maintaining leakage is also classified as such, unless it clearly falls in other areas e.g. replacement of capital items. The costs of detection and repairs in reducing leakage as initiatives to achieve the economic level of leakage are treated as capital expenditure.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, which are included at cost. Expenditure incurred in repairing and maintaining the operating capability of individual infrastructure components ('infrastructure renewals expenditure') is expensed in the year in which the expenditure is incurred.

Intangible assets

Intangible assets comprise principally computer software and systems developments. Additions are recorded at cost, which reflects 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.

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 includes national insurance, superannuation, bonus payments, overtime, car allowances, personal protective equipment, mobile phone and training costs.

A planned maintenance system integrated in SAP records mechanical and electrical maintenance, labour, materials and bought-in services costs at asset level. Craftsman time is recorded on handheld devices (“Toughbooks”) and job-types determine the classification of work as operating or capital expenditure.

Integrated work scheduling and cost systems record work scheduled on the system and allocate this to process operators and network teams via handheld devices. Details of time spent and materials used are allocated to jobs via these handheld devices. The final status of a job determines whether it is operating or capital expenditure (using the predefined settlement tables held within SAP).

Capitalisation of overheads

Dŵr Cymru’s internal costs incurred in supporting the capital programme are capitalised as overheads using an appropriate recovery rate. The recovery rate is based on a review to identify costs which demonstrate a clear link to the capital programme. The assumptions and recovery rate used are reviewed every six months by the finance team.

4. Operating cost analysis

Water operating cost analysis

a – Operating expenditure

“These are costs which are directly attributable to each water service business unit, namely water resources, raw water distribution, water treatment and treated water distribution. Such costs include apportionments, where necessitated by operational consideration (e.g. where mobile gangs are used to operate both water and sewerage activities). Exclude the costs of supplies to third parties, compensating adjustments should be made under third party services in other operating expenditure.”

1. Power

Definition

“All energy costs, including the climate change levy, which are directly attributable to each of the individually-identified service business units: water resources, raw water distribution, water treatment and treated water distribution. Income from energy generation should be treated as negative operating expenditure.”

Electricity costs are allocated to assets via Dŵr Cymru’s electricity management system (ARIES) which receives electronic power bills from the energy providers and by reference to the supply point, charges the cost to the asset’s cost centre via an interface with SAP. ARIES also records consumption and, based on historical data, generates accruals when actual bills are not received. The smaller waste water assets have unique supply points allowing the actual power costs to be charged directly to the asset and its associated activity. Where a supply point provides power for more than one activity, sub-meter data is used where possible. Where sub-meter data is not available, the amount attributable to each activity is determined by reference to the location of equipment, the output of that item, frequency of use and the pumping head involved.

In 2010/11 a review of all water treatment works was carried out by Dŵr Cymru’s Energy team and operational managers which identified all material items of electrical equipment, their location, power rating, frequency of usage and pumping head (where relevant). This information was used to calculate a percentage apportionment of the power usage across the relevant water activities.

All power-related income has been treated as negative operating expenditure.

2. Service Charges

Definition

“Total cost of service charges by the Environment Agency or British Waterways Board (BWB) for water abstraction which is directly attributable to individually-identified service business units: water resources, raw water distribution, water treatment and treated water distribution.”

This relates to the abstraction charge received from the Environment Agency and is allocated to water resources.

3. Bulk Supply imports

Definition

“Total payments for imported bulk supplies that are attributable directly to individually identified service business units, water resources and water treatment.”

Bulk supply imports relate to the purchase of potable water from Severn Trent and non-potable water from United Utilities. The non-potable element relates to the purchase of water from Heronbridge treatment works and Network Rail (Sudbrook) and is allocated to water resources. The potable element relates to the purchase of water from Mitcheldean treatment works and is allocated to water distribution.

4. Other operating expenditure

Other operating expenditure includes:

- a) Employment costs
- b) Hired and contracted services
- c) Materials and consumables
- d) Insurance charges
- e) Scientific services
- f) General and support
- g) Other business activities

a) Employment costs

Definition

“The sum of the total costs of non-manual and manual manpower which are directly attributable to each of the individually-identified service business units: water resources, raw water distribution, water treatment and treated water distribution. To be included are the gross salaries and wages of all employees within the relevant business unit, including payments resulting from bonus and profit-related payment schemes, employer’s National Insurance contributions, superannuation, pension liabilities, sick pay, sickness benefits, private health insurance, retirement awards, death in service benefits, paid leave, subsistence, travel, entertaining and conference expenses.”

All salary-related costs (basic pay, overtime, call out, standby, National Insurance, superannuation etc) are charged initially via the SAP payroll system to an employee’s home cost centre within the cost centre structure. Operational staff’s time is then allocated across the various assets and activities by the following processes:

1. SAP work management systems, such as Above Ground Asset (AGA) Water, Mechanical, Electrical and Instrument (ME&I) Planned Maintenance and Switch (below ground asset maintenance). The systems recognise which asset is being worked on, its geographical location, and the type of work performed. Based on this information the system charges costs to predetermined revenue or capital cost collectors;
2. Timesheets completed by the individual, and authorised by his/her manager; and

3. Managers' estimates, which are reviewed at the start and end of each financial year to ensure the allocations are accurate. Any changes identified at the end of the year are applied retrospectively.

Following the introduction of the above 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. Similarly, Water Treatment operatives rarely carry out any work within Water Distribution. Managers' estimates are used to allocate any under or over-recoveries in operatives' home cost centres.

In 2012/13, £12.9m of water services labour costs were allocated across opex and capex activities. This comprised £10.0m of work management systems allocations, £1.3m of authorised timesheet allocations, and £1.6m of labour costs allocated on the basis of managers' estimates. Of this £1.6m, £0.2m (or 1.6% of total allocated salaries) was allocated outside of the home cost centre's activity.

Non-operational staff generally support one activity. Where they support more than one activity, their costs are allocated on the basis of staff costs or managers' estimates.

b) Hired and contracted services

Definition

"All hired and contracted equipment and services including the hire of vehicles and plant, which are directly attributable to each of the individually identified service business units: water resources, raw water distribution, water treatment, and treated water distribution. Contracted services include all contracted labour, professional advice (such as lawyers and consultants) and computer software."

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 Water or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job. These works orders settle costs to the cost centres or capital internal orders associated with the asset, job type and location.

c) Materials and consumables

Definition

"All materials and consumables which are not included in hired and contracted services and which are directly attributable to each of the individually-identified service business units: water resources, raw water distribution, water treatment and treated water distribution. This category of cost includes equipment (such as small tools and clothing), provisions, tarmac and backfill materials but excludes all items capitalised or included within infrastructure renewals expenditure. Most, if not all, stock items fall into this category."

Materials and consumables (including chemicals) are charged directly to assets and activities by procurers who are generally dedicated to those activities. Where the costs relate to Switch, AGA Water or ME&I generated work, they are charged directly to a works order which is a unique cost collector for a specific job. These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.

d) Insurance

Insurance charges are allocated to activities in proportion to direct costs.

e) General and support activities

Definition

“General and support activities include all centrally-provided services, except for any items specifically recorded in the above categories of expenditure, scientific services or other business activities.”

Operational support staff generally support one activity and are allocated directly to that activity. Where they support more than one activity, their costs are allocated on the basis of staff costs or managers’ estimates.

Non-operational (HQ) staff costs are allocated 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.

f) Scientific services

Definition

“Total costs associated directly with scientific services except for current cost depreciation and the infrastructure renewals charge. These include the costs of scientific and laboratory services and of the monitoring of quality. The cost of such services purchased is included but the costs of services provided for third parties excluded.”

Scientific services include the costs of scientific and laboratory services and the cost of monitoring quality.

The scientific services costs are allocated across water treatment and water distribution activities on the basis of managers’ estimates. The laboratory services, sampling and water quality costs are allocated across the various activities on the basis of volume of samples. The cost of taking samples at the customer tap has been charged to the retail (household) activity. In previous years this cost has been included within wholesale business activities.

Scientific services also includes an allocation of general and support costs.

g) Other business activities

Definition

“Total costs directly associated with other business activities except for current cost depreciation and the infrastructure renewals charge. This should include the cost of regulation, including all incremental managerial costs of regulation associated with a periodic review, licence fees payable to Ofwat and DEFRA 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.”

Other business activities relate to the cost of the Economic Regulation department, the Ofwat licence fee and Water UK. Costs are allocated equally across nine activities (four for water services, four for sewerage services and one for retail services - split equally between household and non-household). In 2011/12 these costs were split equally over the 10 business units.

5. Local authority rates**Definition**

“Cost of local authority rates. This should include both local authority rates and cumulo rates (if appropriate).”

Cumulo (water-only) rates are allocated across activities in proportion to the gross MEA value of assets assigned to the business as reported in the fixed asset supplementary tables. Cumulo rates associated with the Environment Agency operating agreement are charged to third party services.

Non-domestic rates relating to offices are allocated to activities where possible. Where this is not possible, the costs are allocated to activities on the basis of employment costs.

6. Exceptional Items**Definition**

“Exceptional items are defined in FRS3: Reporting Financial Performance.”

No exceptional items were reported in the 2012/13 regulatory accounts.

Total operating expenditure excluding third party services**Definition**

“The total direct costs attributable to individually identified service business units: water resources, raw water distribution, water treatment and treated water distribution.”

This is the sum of the above categories of expenditure.

B – Capital maintenance

“Capital charges for each water service business unit including the infrastructure renewals charge and current cost depreciation.”

1. Infrastructure renewals charge (excluding third party services)

Definition

“Infrastructure renewals charge, excluding any part which relates to infrastructure assets which are used for third party services.”

These costs relate to infrastructure renewals excluding any relating to assets used for third party activities.

2. Current cost depreciation

Definition

“The current cost depreciation charge on tangible fixed assets for each of the individually-identified service business units: water resources, raw water distribution, water treatment and treated water distribution.”

Note that this figure is not net of the amortisation of deferred credits and intangible assets, which are shown separately.

These costs relate to the current cost depreciation charge for the year, net of depreciation on third party assets and deferred credits.

3. Recharges to other business units

There were no recharges to other business units in 2012/13.

4. Recharges from other business units

There were no recharges from other business units in 2012/13.

5. Amortisation of deferred credits

Definition

“The amortisation of deferred credits arising from third party contributions on non-infrastructure assets. These are amortised over the life of the related asset.”

The allocation across activities is based on the current cost depreciation figures quoted in the analysis of fixed assets (Water) table.

6. Amortisation of intangible assets.

Definition

“Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill.”

There were no such costs in 2012/13.

Total capital maintenance excluding third party services

This is the sum of the above capital maintenance categories of expenditure..

C. Third party services

1. Third party services - operating expenditure

Definition

“The operating costs of providing water services to third parties, including rechargeable works, water main diversions, supply of non-potable water, bulk supply of raw or treated water to other companies and repairs to fire hydrants.”

Third party services include costs associated with the supply of non-potable water, the supply of standpipes, ships water, bulk supply, reservoir agreements and one off third-party incidents.

The cost of supply of non-potable water is estimated by applying the volumes of potable and non-potable water produced to the total direct and general and support costs of water resources, raw water, water treatment and water distribution activities, after allowing for the fact that the cost of adding chemicals is not part of the non-potable process.

1. Third party services - infrastructure renewals charge.

Definition

“Infrastructure renewals charge on infrastructure assets used only for third party services.”

These costs relate to the renewals charge on third party infrastructure assets.

The costs are calculated by taking the Infrastructure renewals charge and applying the percentage associated with non-potable. The non-potable percentage is calculated by comparing the MEA values from revaluation exercise for DCWW assets, less short life assets, and the MEA values from revaluation exercise for non pots pipelines and asset values, plus the CCD associated with impounding reservoirs which is transferred to IRE.

There were no costs in 2012/13.

2. Third party services – current cost depreciation

Definition

“Current cost depreciation (CCD) on non-infrastructure assets used only for third party services.”

These costs relate to the current cost depreciation on Raw Water and Treated Water Distribution third party non-infrastructure assets.

The costs are calculated by taking the CCD figures for Raw and treated water distribution, as quoted in analysis of fixed assets (Water) table, reducing it by the CCD value of short life assets and applying the percentage associated with non-potable. The non-potable percentage is calculated by comparing the MEA values from revaluation exercise for DCWW assets, less short life assets, and the MEA values from revaluation exercise for non pots pipelines and asset values, less the CCD associated with impounding reservoirs which is transferred to IRE.

D. Total operating expenditure

Definition

“Total operating expenditure.”

This is the sum of operating expenditure, capital maintenance and third party services.

Water Service Cost collection Process

An alternative cost centre structure has been created to allow operational costs to be captured in a format that assists the completion of the Water operating cost analysis table.

Water Resources

Water resources costs are captured primarily in an alternative SAP cost centre group, which comprises all cost centres associated with the capture and extraction of the raw water, the purchase of bulk raw water and the placing of it (by pumping or gravity) into the Raw Water system. In 2010/11 an exercise was carried out by the energy team and operational managers, to ensure that costs could be captured in a format that satisfies the Accounting Separation requirements. A review of all water resources sites and Water Treatment Works was undertaken and an allocation of power costs was made on the basis of the location of assets, the power rating of electrical equipment, the frequency of use and pumping head. Water resources also includes the EA abstraction charge, plus the purchase of non-potable bulk supplies from United Utilities and Network Rail.

Raw Water Distribution

Raw water distribution costs are captured primarily in an alternative SAP cost centre group which comprises all cost centres associated with transporting the Raw Water to the water treatment works. In 2010/11 an exercise was carried out to ensure that costs could be captured in a format that satisfies the Accounting Separation requirements. A review of all water resources sites and Water Treatment Works was undertaken and an allocation of power costs into unique raw water distribution cost centres made on the basis of the location of assets, the power rating of electrical equipment, the frequency of use and pumping head.

Water Treatment

Water treatment costs are captured primarily in an alternative SAP cost centre group, which comprises all cost centres associated with treating the Raw Water and placing it into the Clean Water Distribution Network. In 2010/11 an exercise was carried out to ensure that costs could be captured in a format that satisfies the Accounting Separation requirements. A review of all water resources sites and Water Treatment Works was undertaken and an allocation of power costs into unique water treatment cost centres made on the basis of the location of assets, the power rating of electrical equipment the frequency of use and pumping head.

Water Distribution

Water distribution costs are captured primarily in an alternative SAP cost centre group which comprises all cost centres associated with transporting the clean water from the Water Treatment Works to the customer. Water distribution also includes the cost of purchasing potable water supplies from Severn Trent.

Sewerage operating cost analysis

A – Operating expenditure

“These are costs that are directly attributable to each business unit, namely sewage collection, sewage treatment, sludge treatment and sludge disposal together with a sewerage service total. Such costs include apportionments, where such apportionments are necessitated by operational considerations (for example where mobile gangs are used to operate both water and sewerage activities). Exclude the costs of supplies to third parties; compensating adjustments should be made under third party services in other operating expenditure.”

1. Power

Definition

“All energy costs, including sewerage agency power costs and the climate change levy, which are directly attributable to each of the individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal. Income from energy generation should be treated as negative operating expenditure.”

Electricity costs are allocated to assets via Dŵr Cymru’s Electricity Management System (ARIES), which receives electronic power bills from the energy providers and by reference to the supply point, charges the cost to the asset’s cost centre via an interface with SAP. ARIES also records consumption and, based on historical data, generates accruals when actual bills are not received. The smaller waste water assets have unique supply points allowing the actual power costs to be charged directly to the asset and its associated activity. Where a Supply point provides power for more than one activity, sub-meter data is used where possible. Where sub-meter data is not available, the amount attributable to each Activity is determined by reference to the location of equipment, the output of that item, frequency of use and the pumping head involved. In 2011 a review of all large waste water treatment works was carried out by Dŵr Cymru’s Energy team and operational managers which identified all material items of electrical equipment, their location, power rating, frequency of usage and pumping head (where relevant). This information was then used to calculate an accurate percentage apportionment of the supply point across the relevant waste water activities. Income received from energy generation is recorded as a credit to power costs.

2. Service charges

Definition

“Total cost of service charges from the Environment Agency or BWB (British Waterways Board) for discharge consents which are directly attributable to individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal.”

These costs relate to discharge consent payments to the Environmental Agency. The EA charge is supported by a site-by-site breakdown in order to allow it to be allocated to the appropriate activities and processes.

3. Bulk supply imports

There are no bulk supply imports within the sewerage service.

4. Other operating expenditure

Other operating expenditure includes:

- a) Employment costs
- b) Hired and contracted services
- c) Materials and consumables
- d) Other direct costs
- e) Scientific services
- f) General and support
- g) Other business activities

a) Employment costs

Definition

“The sum of the total costs of non-manual and manual manpower which are directly attributable to each of the individually-identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal. To be included are the gross salaries and wages of all employees within the relevant activity, including payments resulting from bonus and profit-related payment schemes, employer’s National Insurance contributions, superannuation, pension liabilities, sick pay, sickness benefits, private health insurance, retirement awards, death in service benefits, private health insurance, retirement awards, paid leave, subsistence, travel, entertaining and conference expenses.”

All salary-related costs (basic pay, overtime, call out, standby, National Insurance, superannuation etc) are charged initially via SAP payroll system to an employee’s “home” cost centre within the cost centre structure. Operational staff’s time is then allocated across the various activities by the following processes:

1. SAP work management systems: Above Ground Asset (AGA) Waste Water, Mechanical, Electrical & Instrument (ME&I) Planned Maintenance and Switch (below ground asset maintenance). The systems recognise which asset is being worked on, its geographical location and the type of work performed. Based on this information the system charges costs to predetermined revenue or capital cost collectors.
2. Timesheets completed by the individual, and authorised by his / her manager.
3. Managers’ estimates, which are reviewed at the start and end of each financial year to ensure the allocations are accurate. Any changes identified at the end of the year are applied retrospectively.

Following the introduction of the above SAP work management systems, a majority of operational staff’s workload and the allocation of costs is managed automatically. As a consequence, the need for manual allocation of time is reduced significantly.

Also, 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 low. For example, sewerage staff spend the majority (if not all) of their time working on sewerage assets, while sewage treatment operatives spend most of their time on sewerage assets. Managers' estimates are used to allocate any under or over-recoveries in operatives' "home" wage cost centres.

In 2012/13, SAP management systems allocated £12.5m of waste services labour costs direct to Operational cost centres. This included £1.5m of labour costs allocated on the basis of the manager's estimate. Of the £1.5m of manager's estimated allocations, £0.4m (or 3% of the total allocated salaries) was allocated outside of home cost centre activity.

Non-operational staff generally support one activity. Where they support more than one activity, their costs are allocated on the basis of staff costs or managers estimates.

b) Hired and contracted services

Definition

"All hired and contracted equipment and services including the hire of vehicles and plant, which are directly attributable to each of the individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal. Contracted services include all contracted labour, professional advice (such as lawyers and consultants) and computer software. (The provision of services by associated companies is dealt with separately.)"

Hired and contracted services are charged directly to business units by procurers that are generally dedicated to that activity. Where the costs relate to Switch, AGA Water or ME&I generated work, they are charged directly to a works order, which is a unique cost collector for a specific job. These works orders settle costs to the cost centres or capital internal orders associated with the asset, job type and location.

c) Materials and consumables

Definition

"All materials and consumables that are not in hired and contracted services which are directly attributable to each of the individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal. This category of cost includes equipment (such as small tools and clothing), provisions, tarmac and backfill materials, but excludes all items capitalised or included within infrastructure renewals expenditure. (Most, if not all, stock items fall into this category.)"

Materials and consumables (including chemicals) are charged directly to assets and business units by procurers that are generally dedicated to those activities. Where the costs relate to Switch, AGA Waste Water or ME&I generated work, they are charged directly to a works order, which is a unique cost collector for a specific job. These works orders settle to the cost centres or capital internal orders associated with the asset, job type and location.

d) Other direct costs

Definition

“Any other direct operating costs, but excluding interest and taxation, on an aggregated basis, including costs associated with the provision of depots and offices, and insurance premiums where such costs exceed 5% of total sewerage service operating costs (an analysis should be provided); also include fines and penalties (including network related GSS payments) and any bad debt costs associated with the sale of network services which are attributable directly to individually-identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal.”

Other Direct Costs relate to insurance charges and are allocated (net of any capital element) to Activities in proportion to direct costs, plus sea outfall rent (including rent arrears) which was incurred during the year

e) Scientific services

Definition

“Total costs directly associated with scientific services except for current cost depreciation and the infrastructure renewals charge. Include the costs of scientific and laboratory services and of the monitoring of quality. The cost of such services’ purchases should be included, but the cost of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate subjective lines (and compensating adjustments made under third party services).”

Scientific services includes the costs of scientific and laboratory services, and of the monitoring of quality. The laboratory services costs are allocated across the various activities on the basis of number of samples. Scientific services costs are allocated across activities on the basis of the manager’s estimate. They also include an allocation of general and support costs. Provide support and monitor trade effluent compliance is also included within scientific services.

f) General and support expenditure

Definition

“General and support activities include all centrally provided services, except for any items specifically recorded in the above categories of expenditure, scientific services or other business activities.

Where an associated company provides such services, the relevant charge should be included.”

General and Support costs are allocated to Activities where possible.

Where this is not possible cost drivers have been used to apportion departmental costs in line with Ofwat’s hierarchy of cost drivers.

g) Other business activities

Definition

“Total costs directly associated with other business activities except for current cost depreciation and the infrastructure renewals charge.

This should include the cost of regulation, including all incremental managerial costs of regulation, licence fees payable to Ofwat and DEFRA 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.”

(Note: Environment Agency service charges are included under the operational activities.)

Other Business Activities includes the cost of the Economic Regulation department and the cost of Water UK.

The costs are allocated equally across 9 business units (4 for water services, 4 for sewerage services, and 1 for retail services, which is split equally between household and non-household).

In 2011/12, these costs were split equally over the 10 business units.

5. Local Authority rates

Definition

“The cost of local authority rates. This should include both Local Authority rates and sewerage site rates (where appropriate).”

Non-domestic rates relating to sewerage sites are allocated primarily to the sewage treatment activity. Where there is a sludge treatment activity at a sewage treatment site, a percentage (based on direct employment costs) is charged to the sludge treatment activity.

Non-domestic rates relating to offices are allocated to activities where possible. Where this is not possible, the costs are allocated to activities on the basis of employment costs.

6. Exceptional Items

Definition

“Exceptional items are defined in FRS3, ‘Reporting financial performance’.”

There were no exceptional items in 2012/13.

Total operating expenditure excluding third party services

Definition

“The total direct costs attributable to individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal.”

This is the sum of the above categories of expenditure.

B - CAPITAL MAINTENANCE

“Capital charges for each sewerage service business unit including the infrastructure renewals charge and current cost depreciation.”

Note that the current cost depreciation charge included in note 6 reconciliation of current cost operating profit to net cash flow from operating activities for the appointed business.

1. Infrastructure renewals charge (excluding third party services).

Definition

“Infrastructure renewals charge, excluding any part which relates to infrastructure assets which are used for third party services”

These costs relate to infrastructure renewals excluding any relating to assets used for third party activities.

2. Current cost depreciation.

Definition

“The current cost depreciation charge on tangible fixed assets, for each of the individually identified service business units: sewage collection, sewage treatment, sludge treatment and sludge disposal.”

Note that this figure is not net of the amortisation of deferred credits and intangible assets, which are shown separately.

These costs are relate to the value of infrastructure renewals charges.

3. Recharges to other business units

There were no recharges to other business units in 2012/13

4. Recharges from other business units

There were no recharges from other business units in 2012/13

5. Amortisation of deferred credits.

Definition

“The amortisation of deferred credits arising from third party contributions on non-infrastructure assets. These are amortised over the life of the related asset.”

The allocation across activities is based on the current cost depreciation figures quoted in the analysis of fixed assets (Sewerage) table.

6. Amortisation of intangible assets

Definition

"Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill."

There were no costs in 2012/13.

Total capital maintenance excluding third party services

This is the sum of the above capital maintenance categories of expenditure..

C. Third party services

1. Third party services - operating expenditure

Definition

"The operating costs of providing sewerage services to third parties, to include amongst others:

- *rechargeable works;*
- *treatment and disposal of imported sewage and sludge;*
- *income from adoptions;*
- *sewer diversions; and*
- *emptying of septic waste tanks."*

There were no third party operating costs in 2012/13.

D. Total operating expenditure

Definition

"Total operating expenditure."

Sum of operating expenditure, capital maintenance and third party services.

Sewerage Services Cost capture Process

An alternative SAP cost centre structure has been created to allow Operational costs to be captured in a format that assists the completion of the sewerage operating cost analysis table.

Sewerage collection

Sewerage collection costs are captured primarily in a unique alternative SAP cost centre group which comprises all cost centres associated with the collection and transportation of sewage from the customer to the sewage treatment works. It currently includes approximately 200 “terminal pumping” station cost centres, 150 of which have been recently created in order to facilitate changes in their treatment between activities.

Sewage treatment

Sewage treatment costs are captured primarily in a unique alternative SAP cost centre group, which comprises all cost centres associated with sewage treatment including receiving untreated sewage, discharge of sewage sludge to pipework to sludge treatment or holding tank and discharge of treated wastewater to receiving watercourses. All bands 3, 4, 5 and 6 sewage treatment works now have unique cost centres, with bands 1 and 2 works costs being captured in “area” cost centres.

In 2010/11 an exercise was carried out to ensure that costs could be captured in a format that satisfies the Accounting Separation requirements. It included a review of power usage at all large waste water treatment sites that included a sludge treatment process. It was undertaken by Dŵr Cymru’s power team and works managers and an allocation of costs into unique sewage treatment and sludge treatment cost centres made on the basis of the location of assets, the power rating of electrical equipment, the frequency of use and pumping head. It excludes any terminal pumping costs, which are captured in sewerage.

Sludge treatment

Sludge treatment costs are captured primarily in a unique alternative SAP cost centre group which comprises all cost centres associated with sludge treatment, including pumping or tankering from the sewage treatment process to sludge treatment and transfer of treated sludge to collection point for disposal. It also includes the cost of moving sludge between sludge centres.

In 2010/11 an exercise was carried out to ensure that costs could be captured in a format that satisfies the Accounting Separation requirements. It included a review of power usage at all large waste water treatment sites that included a sludge treatment process. It was undertaken by Dŵr Cymru’s power team and works managers and an allocation of costs into unique sewage treatment and sludge treatment cost centres made on the basis of the location of assets, the power rating of electrical equipment, the frequency of use and pumping head.

Sludge disposal

Sludge disposal costs are captured in a unique alternative SAP cost centre group which comprises all cost centres associated with the collection of treated sludge and transportation to its place of disposal.

Retail operating cost analysis

A – Operating expenditure

These are costs that are directly attributable to each retail service activity. Such costs include apportionments, where such apportionments are necessitated by operational consideration (for example where employees respond to both non network and network contacts).

1. Customer services

Customer services includes:

- a) Billing
- b) Payment handling, remittance and cash handling
- c) Non network customer enquiries and complaints
- d) Network customer enquiries and complaints

a) Billing

Definition

“All direct costs associated with managing customer and property data calculation, processing, printing and dispatch of bills and managing billing exceptions - which are directly attributable to each of the individually identified retail household, non-household and service total. Costs associated with void property inspections.

Costs associated with company initiated changes to customer account records to include updating records for changes in customer name, billing address, phone numbers, changes in tariff (ie metered or unmetered etc), payment method, special needs information, change of occupiers, rateable value changes, vacant, new or demolished properties, meter reads, exchange or removal and burst reductions.

The cost of billing services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate headings (and compensating adjustments made under Services provided for third parties).”

These activities were managed by our outsourced service provider Veolia Water Outsourcing Limited (Veolia) for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail activities. Most of the operational retail costs are captured directly within this company and therefore the costs are easily identifiable and separate from the wholesale costs. The allocation of costs between household and non-household is based on billing volumes. Also included is an element of commission paid to councils for their involvement in the collection of water rates and Dee Valley. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

b) Payment handling, remittance and cash handling

Definition

“All direct costs associated with remittance and cash processing - Mail receipt, processing, banking, maintenance of cashbook records, bank reconciliations and bank charges, processing to account for all types of payment.

Managing direct debits and related cash transactions - Processing of, and bank charges for, bounced cheques and returned direct debits and related letters to customers. Ad hoc customer refunds, calculation, BACS transmissions or cheque production and mailing.

The cost of payment handling, remittance and cash handling services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate headings (and compensating adjustments made under Services provided for third parties).”

These activities were managed by our outsourced service provider Veolia for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail activities. The allocation of costs between household and non-household is based on billing volumes. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

c) Non network customer enquiries and complaints

Definition

“Cost of customers’ enquiries relating to tariff matters and charging/billing, and complaints handling including costs of relevant GSS excluding those payments that are made at the company’s discretion as a result of poor customer service. (The costs incurred in dealing with enquiries and complaints other than those related to tariff charges and charging/billing should be recorded under “Network customer enquiries and complaints” (below).

- *Handle billing enquiries – Receive, distribute, process, investigate and respond to billing enquiries, providing holding and substantive replies to customer enquiries including call centres, customer outlets and face-to-face facilities.*
- *Handle payment enquiries/plans – Investigate and resolve payment enquiries, including set up and monitoring of payment plans.*
- *Manage customer calls – Receive and log customer call. Either resolve, raise service request, assign complaints to customer relations or complex billing issues to billing.*
- *Manage written customer contacts – Receive and log customer letters, emails and faxes. Either resolve, raise service request, assign complaints to customer relations or complex billing issues to billing.*
- *Manage self read meter data from customers – Receive self read meter data, update billing records.*
- *Handling metering queries, investigating and responding to metering queries, investigating metering complaints –eg wrong meter reading and monitoring of complaints resolution.*
- *Investigate non network customer complaints – Handle complaints, includes cost of monitoring complaints resolution.”*

These activities were managed by our outsourced service provider Veolia for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail activities. The allocation of costs between household and non-household is based on billing volumes. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

d) Network customer enquiries and complaints

Definition

“The costs incurred in dealing with enquiries and complaints other than those related to tariff charges and charging/billing. Costs related to the activities of receiving, distributing and processing all customer contacts (including complaints) regarding physical issues, concerning the upstream activities of water and wastewater supply, for example flooding, leaks and bursts, lack of supply, discolouration and contamination including cost of relevant GSS payments (excluding those payments that are charged directly to an upstream business unit and those payments that are made at the company’s discretion as a result of poor customer service).”

These costs relate to work carried out by the Customer Services team within Operational Control. The split between Household and non-household is based on the number of calls received from customers. It also covers network calls – costs of schedulers, investigatory work and internally generated calls for tasks subsequently identified as customer assets.

In 2011/12, this line included work carried out by clean water network inspectors and customer services staff on customer, meter related queries. These now appear in (Meter Maintenance / Installation non capex). An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

2. Debt Management

Definition

“All costs relating to the management of debt recovery - monitoring of outstanding debt, including issue of reminders and follow up telephone calls, managing and monitoring field recovery of debt, includes costs of customer visits, managing and monitoring external debt collection routes including debt collection agencies and legal, including notification of disconnections to non-household customers.

The cost of debt management services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate headings (and compensating adjustments made under Services provided for third parties).”

These activities were managed by our outsourced service provider Veolia for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail activities. The allocation of costs between household and non-household is based on billing

volumes. Also included is an element of the commission payments to councils for their involvement in the collection of water rates and Dee Valley. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

3. **Doubtful Debts**

Definition

“The charge/credit to the profit and loss account for bad and doubtful debts.”

The bad debt charge is split between household and non-household on the basis of the split of outstanding debt greater than one year at the balance sheet date, which in management’s opinion is a more appropriate cost driver than that previously used of revenue splits.

4. **Meter reading**

Meter reading includes:

- a) Meter reading
- b) Provision of customer services and liaison

a) **Meter reading**

Definition

“Costs associated with meter reading – including ad hoc read requests, cyclical reading, scheduling, transport, physical reading, reading queries and read processing costs, managing meter data plus supervision and management of meter readers.

The cost of meter reading services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate headings (and compensating adjustments made under Services provided for third parties).”

These activities were managed by our outsourced service provider Veolia for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail activities. The allocation of costs between household and non-household is based on billing volumes. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

b) **Provision of customer services and liaison**

These costs relate to Work carried out by Water Distribution’s Network Inspectors and Customer Services Managers at the request of Veolia & DCCS Customer Services staff on customer meter queries, such as locate meter, check meter reading and confirm meter details. The split between household and non-household is based on actual numbers as identified by the actual jobs. In 2011/12, these costs were included in Network customer enquiries and complaints. These costs do not relate to meter installations, maintenance, repair and exchange of customer meters.

5. Services to Developers

Definition

"The operating costs of providing services to developers, to include:

- *Managing developer queries and provide information to developers*

These costs were provided by the Commercial Manager of Developer Services, and relate to time spent by New Development staff on New Development activity to manage developers queries and provide information to developers. They are all charged to Non-household.

6. Other Operating expenditure

Other Operating expenditure includes:

- a) Charitable trust donations
- b) Vulnerable customer schemes
- c) Disconnections
- d) Demand side Water Efficiencies.
- e) Customer side leaks
- f) Other direct costs
- g) General and support expenditure
- h) Scientific services
- i) Other business activities

a) Charitable trust donations

Definition

"Include donations made to charitable trusts assisting customers or to others assisting customers with payment difficulties."

No charitable donations were made during the year.

b) Vulnerable customer schemes

Definition

"All costs of administering the vulnerable groups' scheme."

No vulnerable customer scheme costs were incurred during the year.

c) Disconnections

Definition

"All costs associated with the generation of paperwork to process the disconnection to be included in debt management." This cost also includes managing decisions about disconnections and reconnections.

These activities were managed by our outsourced service provider Veolia for the period 1 April 2012 to 31 July 2012. An allocation of the costs (based on unique cost centres set up for employees) was provided. On 1 August 2012, the service was brought back in-house and a new company was formed (Dŵr Cymru Customer Services Limited – DCCS) to manage retail

activities. The allocation of costs between household and non-household is based on billing volumes. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

d) **Demand side Water Efficiencies.**

Definition

“The operating costs of providing water efficiency services to customers, including:

- *Promotion of water saving initiatives - Production of customer literature and customer awareness campaigns*
- *Retro-fitting of water saving devices – Provision of advice and devices to customers*
- *Water efficiency audits – water and energy conservation, optimisation of systems, advice and investigations into usage.*
- *Data logging.”*

Demand side water efficiency schemes implemented in the year have been capital in nature.

e) **Customer side leaks**

Definition

“The operating costs associated with customer side leaks, to include:

- *Investigations - Activities from enquiries relating to customer-side leaks, including site visits, the use of pipe locating equipment and any attendance on sites during excavations.*
- *Resolution – Activities comprising pipe repairs and replacement.*
- *Free leak repairs.”*

These costs relate to the cost of repairing leaks on the customer’s side of the stop-tap that have emanated from a request by the customer. The costs associated with repairs on the customer side of the stop-tap which were detected by DCWW staff as part of their leakage detection and reduction exercise have been treated as non-appointed. In 11/12 these costs were included within the water element of the “wholesale” activity.

f) **Other direct costs**

Definition

“Any other operating costs, including sales and marketing costs, fines and penalties, administration of GSS, Customer Charter payments that are made at the company’s discretion as a result of poor customer service and provision of alternative water supplies, emergency supplies and standpipes which can be directly attributable to individually identified retail service (where such costs exceed 5% of total retail service operating costs, an analysis should be provided), but excluding interest and taxation, on an aggregated basis.”

These costs relate primarily to the Finance customer services team and include the cost of GSS payments, Customer service focus groups, customer service performance awards, telephone research, braille bills and booklets. They are charge to the household services activity. An analysis of General and Support costs is provided by Veolia and DCCS along with an allocation of Dŵr Cymru HQ general and support functions where appropriate.

g) General and support expenditure

Definition

“General and support activities include all centrally provided services, except for any items specifically recorded in the above categories of expenditure, scientific services or other business activities.”

An analysis of “Retail” General and Support costs is provided by Veolia and DCCS. DCWW General and support costs are allocated directly to business units 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.

h) Scientific services

Definition

“Total costs directly associated with scientific services except for current cost depreciation. Include the costs of scientific and laboratory services, and of the monitoring of quality. The cost of such services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter cost should be estimated, and adjustments made to the appropriate subjective lines (and compensating adjustments made under Services provided for third parties).”

These costs relate to IT support to scientific staff who have sampled at customer taps, which was previously included within “wholesale”.

i) Other business activities

Definition

“Total costs directly associated with other business activities except for current cost depreciation. This should include the cost of regulation, including all incremental managerial costs of regulation associated with a periodic review, licence fees payable to Ofwat and DEFRA 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. (Note: Environment Agency service charges are included under the operational activities.)”

Other Business Activities relate to the cost of the Economic Regulation department, the Ofwat licence fee and Water UK. The costs are allocated equally across 9 business units (4 for water services, 4 for sewerage services, and 1 for retail services, which is split equally between household and non-household). In 2011/12, these costs were split equally over the 10 business units.

7. Local authority rates

Definition

“The cost of Local Authority rates and building rates.”

These costs relate to the Local Authority rates for Veolia and DCCS’s occupancy at Second Floor, Eastern Business Park and 50% occupancy of Linea.

The allocation between household (92%) and non-household (8%) is based on the numbers of connected properties.

8. Exceptional Items

Definition

"Exceptional items are defined in FRS3 Reporting Financial Performance."

There were no exceptional items.

Total operating expenditure excluding third party services

Definition

"The total direct costs attributable to individually identified retail household, non-household and service total."

This is the sum of the above categories of expenditure.

B - Third party services

Definition

"The operating costs of providing retail services to third parties."

There were no third party Retail costs.

Total operating expenditure.

Definition

"Total operating expenditure including third party services."

This is the sum of the above categories of expenditure.

C - CAPITAL MAINTENANCE

"Capital charges for the retail service including the infrastructure renewals charge and current cost depreciation."

1. Current cost depreciation

Definition

"The current cost depreciation charge on tangible fixed assets, for each of the individually identified retail household, non-household and service total."

Note that this figure is not net of the amortisation of deferred credits and intangible assets, which are shown separately.

These costs relate to the current cost depreciating charge for the year on retail assets, as per the analysis of fixed assets (Retail) table. It is net of deferred credits and intangible assets.

2. Recharges to other business units

There were no recharges to other business units in 2012/13

3. Recharges from other business units

There were no recharges from other business units in 2012/13

4. Amortisation of deferred credits

Definition

“The amortisation of deferred credits arising from third party contributions on non-infrastructure assets. These are amortised over the life of the related asset.”

The allocation across activities is based on the current cost depreciation figures quoted in the analysis of fixed assets (retail) table.

5. Amortisation of intangible assets

Definition

“Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill.”

There was no amortisation of intangible assets.

Total capital maintenance

This is the sum of the above capital maintenance categories of expenditure

Total operating costs

Definition

“Total operating costs.”

Sum of operating expenditure, third party services and capital maintenance.

Retail service cost collection process

An alternative SAP cost centre structure has been created to allow operational costs to be captured in a format that assists the completion of retail operating cost analysis tables.

The key components of retail operating expenditure are as follows:

1. Management of the billing process by Veolia and DCCS. These costs are charged to AG401 and an analysis of the costs provided (by Retail category) by Veolia and DCCS.
2. Provision for doubtful debts which is split between household and non-household on the basis of customer numbers.
3. Commission paid to councils for their involvement in the collection of water rates and Dee Valley.
4. The Customer Services (OAC) Team. The apportionment between Household and Non-household is based on the volumes of calls received.
5. Dŵr Cymru Finance Customer Services team.
6. New Development direct cost associated with managing developer queries and providing information to developers.
7. Work carried out by Water Distribution's Network Inspectors and Customer Services Managers, on customer meter queries (such as, locate meter, check meter reading, confirm meter details) at the request of the customer. This does not include meter installations or maintenance costs.
8. Customer side leak repairs. These costs relate to the cost of repairing leaks on the customer's side of the stop tap, that have emanated from a request by the customer. The costs associated with repairs by DCWW staff as part of their leakage detection exercise have been treated as non-appointed. In 2011/12, these costs were treated as a wholesale cost.
9. Business Information Services General and Support.
10. Sampling at customer taps.

5. Analysis of Fixed Assets:

The fixed asset tables consist of the assets capitalised to the SAP fixed asset register plus work in progress. The opening balances are reconciled to the previous year's closing balances and current year transactions are analysed as follows:

Assets in the SAP asset register are allocated to cost collectors which identify the operational business owner. Each asset has an asset class which identifies the split between infrastructure, operational and other assets, and a review the current year's expenditure is undertaken by reference to data capture sheets and meetings with capital operational managers to ensure they are appropriate.

Retail asset costs have been allocated on the number of household and non-household customers.

This is also used to analyse the depreciation charge and asset disposals by business unit and asset type.

Analysis of Fixed Assets - Water

"This table requires classification of assets into business units as follows:

Assets directly involved in the activities included within each of the business units should be recorded in that business unit. The types of assets expected to be directly attributable to each business unit are noted below. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit's activity should be directly recorded in that business unit.

Where an asset is utilised in more than one business unit, then the asset should be apportioned using an appropriate cost driver to reflect the proportion of usage by each business unit.

Water resources includes the following assets:

Dams and impounding reservoirs, source pumping stations, boreholes, pumped raw water storage reservoirs, river abstraction infrastructure, power generation assets, vehicles. Operational land, offices, depots, workshops, residential properties directly connected with water resources and land held for the purpose of protecting water resources.

Water Resources

The cost analysis and collection process allows for the capture of asset costs associated with the capture and extraction of the raw water and the placing of it (by pumping or gravity) into the Raw Water system.

Raw water distribution includes the following assets:

Raw water aqueducts, intake pumping stations, source pumping stations, booster pumping stations, underground systems of mains for raw water supply, storage reservoirs, leakage detection assets, power generation assets, vehicles. Operational land, offices, depots, workshops and residential properties directly connected with raw water distribution.

Raw water distribution

The cost analysis and collection process allows for the capture of asset costs associated with transporting the raw water from the source and depositing it in the water treatment works.

Water treatment includes the following assets:

Water treatment works, pumping assets, power generation assets, vehicles, systems of mains for non-potable treated water supply.

Operational land, offices, depots, workshops, residential properties directly connected with water treatment.

Water treatment

The cost analysis and collection process allows for the capture of asset costs associated with treating the raw water and placing it in the clean water distribution system.

Treated (potable) water distribution includes the following assets:

Service reservoirs, water towers, booster pumping stations, underground systems of mains for potable water supply, water mains ancillaries, leakage detection assets, customer meter chambers, customer meters, power generation assets, vehicles.

Operational land, offices, depots, workshops, residential properties directly connected with treated water distribution and land held for the purpose of protecting treated water distribution.

Clean water distribution

The cost analysis and collection process allows for the capture of asset costs associated with transporting the clean treated water to the customer's tap.

Further categorisation of the above assets into the following is required:

Infrastructure assets include the following: *underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Information about infrastructure assets (general mapping and updating of networks records) is also to be regarded as an infrastructure asset. Note that it would be unusual to have infrastructure fixed assets within the retail service.*

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 and land held for the purpose of protecting the wholesomeness of water supplies. Land which is not currently in operational use but is expected to come in to use in the foreseeable future, should be included, as should plant, machinery and telemetry inherent in the nature of the works.*

Other assets include the following: *non-operational plant, non-operational machinery, vehicles, non-specialised IT, surplus land and all other assets not listed in the categories above."*

The analysis of all schemes allows costs to be allocated across both activity (Water resources, raw water distribution, water treatment and potable water distribution) and asset type (infrastructure assets, operational assets etc).

A – Non-infrastructure assets

1. Gross replacement cost at 1 April 2012

Definition

“This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.”

These have been agreed to the 2011/12 closing balances and represents the assumed cost of replacing the existing asset with a new like for like equivalent.

2. AMP adjustment

Definition

“The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation.”

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

3. Reclassification adjustment

Definition

“The adjustment to GMEA as a result of reclassifying assets between business units during the year.”

There have been no adjustments in 2012/13

4. RPI adjustment

Definition

“Adjustment for valuation from previous year to current year prices using yearend RPI by asset type.”

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

5. Non-infrastructure Disposals

Definition

“The reduction in gross value of assets caused by disposal of assets, by type.”

The disposals reported in the year relate to maintenance expenditure included within additions, which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the MEAV.

6. Non-infrastructure Additions

Definition

“ Increase in gross value of assets by type caused by purchase. These comprise non-infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32.”

Additions comprise the costs relating to above ground enhancement additions as well as above ground maintenance additions for the year. As discussed above, the latter are also shown as a disposal in Non-infrastructure Disposals (above) as it is deemed they do not increase the replacement value of the asset. Exceptions to this within the report year are expenditure classified as maintenance on our BIS schemes, advanced digestion programme costs for the schemes at Cardiff, Afan & Eign, strategic maintenance costs for the large named Water Treatment Works in AMP5, Laboratory costs at Glaslyn, Transport fleet replenishment, Go to Green initiatives at Water Treatment Works. All of these items are classified as maintenance for regulatory reporting but are in fact enhancements to our asset base and as such should increase the gross carrying value of assets.

These additions have been included in the relevant categories according to the guidelines published by Ofwat. Assets directly involved in the activities included within each of the business units are recorded in that business unit. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit's activity are recorded directly in that business unit.

Where an asset is utilised in more than one business unit it has been apportioned using an appropriate cost driver, as discussed in Ofwat's "Detailed guidance on asset allocation" to reflect the proportion of usage by each business unit.

As part of the PR09 business plan reporting requirements, companies were required to group assets into asset types. In Ofwat's guidelines, the asset types as set out within the business plan tables have been mapped to the business units and general and support areas.

Where an asset inventory category is wholly attributed to one specific business unit, all assets contained within that asset type have been allocated to the relevant business unit.

Where an asset inventory category straddles business units, an appropriate allocation has been made, ensuring that capital expenditure and operating expenditure relating to the same activity are recorded in the same business unit.

7. Non-infrastructure assets Gross replacement cost at 31 March 2013

Definition

“This is the total gross MEA at the end of the year.

The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.

The gross replacement cost of infrastructure assets relating to water and sewerage brought forward at the beginning of the financial year plus the AMP adjustment, plus the reclassification adjustment, plus the RPI adjustment, less disposals and plus additions. “

This is the sum of the above categories of expenditure.

8. Non-infrastructure assets depreciation at 1 April 2012

Definition

"Accumulated depreciation brought forward on assets by type at the beginning of the year."

These have been agreed to the 2011/12 closing depreciation balances.

9. AMP adjustment

Definition

"The adjustment to accumulated depreciation as a result of a MEA revaluation."

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

10. Reclassification adjustment

Definition

"The adjustment to accumulated depreciation as a result of reclassifying assets between business units during the year."

There was no adjustment in 2012/13.

11. RPI adjustment

Definition

"The depreciation on the adjustment of valuation from previous year to current year (adjustment by year end RPI recorded by asset type.)"

This Reflects 3.28% RPI increase and inflates balances to 2012/13 prices.

12. Disposals

Definition

"A negative number representing the reduction in depreciation caused by disposal of assets by type."

The CCD disposal figure reported in the year equals the cost disposal figure (above). The rationale for writing back this depreciation is that while the expenditure relating to above ground maintenance additions does not increase the replacement value of assets, it does improve their condition and therefore extends asset lives. The CCD charge on the assets contained in the MEAV is based on the assigned condition grade and deterioration at end March 2008 and therefore requires adjustment for subsequent maintenance expenditure.

13. Charge for the year

Definition

“Depreciation charge on assets by type. For the definition of asset types see above. This figure is before the amortisation of deferred credits and intangible assets.”

The CCD charge for the year has been calculated by combining the CCD calculated for 2012/13 on all assets existing as at 31 March 2008 (taken from the MEAV), plus CCD on enhancement additions through to 31 March 2013.

The CCD of the asset base as at 31 March 2008 has been allocated across business units per the categorisation within the MEAV, in line with Ofwat’s guidelines. CCD on subsequent additions has been allocated based on the allocation of the additional investment to business units as set out in above.

14. Non-infrastructure assets depreciation at 31 March

Definition

“Accumulated depreciation carried forward by asset type at the end of the charging year. (Accumulated depreciation brought forward by asset type plus AMP adjustments, RPI adjustment, less disposals and the charge for the year for those assets.)”

This is the sum of the above categories of expenditure.

15. Non infrastructure assets net book value at 31 March 2013

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the yearend.)”

This is the net of the non-infrastructure cost and depreciation and reflects the closing net book value of assets, by water activity at 31 March 2013.

16. Non-infrastructure net book value at 1 April 2012

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)”

This is the net book (gross replacement cost less accumulative depreciation) value of assets, by business activity at 31 March 2013.

B – Infrastructure assets.

1. Gross replacement cost at 1 April 2012

Definition

“This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.”

These have been agreed to the 2011/12 closing balances and represents the assumed cost of replacing the existing asset with a new like for like equivalent.

2. AMP adjustment

Definition

“The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation.”

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

3. Reclassification adjustment

Definition

“The adjustment to GMEA as a result of reclassifying assets between business units during the year.”

There have been no adjustments in 2012/13

4. RPI adjustment

Definition

“Adjustment for valuation from previous year to current year prices using yearend RPI by asset type.”

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

5. Disposals

Definition

“The reduction in gross value of assets caused by disposal of assets, by type.”

The disposals reported in the year relate to maintenance expenditure included within infrastructure additions, which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the MEAV.

6. Additions

Definition

“Increase in gross value of assets by type caused by purchase. These comprise infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32.”

Additions comprise the costs relating to below ground enhancement additions for the year. These additions have been included in the relevant categories according to the guidelines published by Ofwat. Assets directly involved in the activities included within each of the business units are recorded in that business unit. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit’s activity are recorded directly in that business unit.

Where an asset is utilised in more than one business unit it has been apportioned using an appropriate cost driver, as discussed in Ofwat’s “Detailed guidance on asset allocation” to reflect the proportion of usage by each business unit.

As part of the PR09 business plan reporting requirements, companies were required to group assets into asset types. In Ofwat’s guidelines, the asset types as set out within the business plan tables have been mapped to the business units and general and support areas.

Where an asset inventory category is wholly attributed to one specific business unit, all assets contained within that asset type have been allocated to the relevant business unit.

Where an asset inventory category straddles business units, an appropriate allocation has been made, ensuring that capital expenditure and operating expenditure relating to the same activity are recorded in the same business unit.

7. Infrastructure assets net book value at 31 March 2013

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end).”

This is the net book value of infrastructure assets, by business activity at 31 March 2013.

Analysis of Fixed Assets - Sewerage

“This table requires classification of assets into business units as follows:

Assets directly involved in the activities included within each of the business units should be recorded in that business unit. The types of assets expected to be directly attributable to each business unit are noted below. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit’s activity should be directly recorded in that business unit.

Where an asset is utilised in more than one business unit, then the asset should be apportioned using an appropriate cost driver to reflect the proportion of usage by each business unit. We have provided detailed guidance on allocation of assets in the later section ‘Detailed guidance on asset allocation’.

Sewage collection includes the following assets:

Underground systems of sewers, sewage pumping mains, combined sewage and emergency outflows, other sewer structures, in-line pumping stations power generation assets, vehicles. Operational land, offices, depots, workshops, residential properties directly connected with sewage collection.

Sewage collection

The cost analysis and collection process allows for the capture of asset costs associated with the collection and transportation of sewage from the customer to the sewage treatment works.

Sewage treatment includes the following assets:

sewage treatment works Pumping stations (within works),, long and short sea outfalls, power generation assets, vehicles. Operational land, offices, depots, workshops, residential properties directly connected with sewage treatment.

Sewage treatment

The cost analysis and collection process allows for the capture of asset costs associated with sewage treatment including receiving untreated sewage, discharge of sewage sludge to pipe work to sludge treatment or holding tank and discharge of treated wastewater to receiving watercourses.

Sludge treatment includes the following assets:

Sludge pipelines and transportation assets, sludge treatment works relating to liquid, cake, incineration, compost or other disposal, liquor plants, sludge holding tanks, power generation assets, vehicles.

Operational land, offices, depots, workshops, residential properties directly connected with sludge treatment

We note the classification of sludge holding tanks is inconsistent with the definitions contained within the Asset inventory. We will develop a consistent definition between the two sets of guidance in the future.

Sludge treatment

The cost analysis and collection process allows for the capture of asset costs associated with sludge treatment, including pumping or tankering from the sewage treatment process to sludge treatment and transfer of treated sludge to collection point for disposal

Sludge disposal includes the following assets:

Assets utilised in the disposal of sludge via liquid, cake, compost, ash or other routes, vehicles. Operational land, offices, depots, workshops, residential properties directly connected with sludge disposal.

Sludge disposal

The cost analysis and collection process allows for the capture of all capital costs associated with the collection of treated sludge and transportation to its place of disposal.

Further categorisation of the above assets into the following is required:

Infrastructure assets include the following: underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Information about infrastructure assets (general mapping and updating of networks records) is also to be regarded as an infrastructure asset. Note that it would be unusual to have infrastructure fixed assets within the retail service.

Operational / non-infrastructure 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 and land held for the purpose of protecting the wholesomeness of water supplies. Land which is not currently in operational use but is expected to come in to use in the foreseeable future, should be included, as should plant, machinery and telemetry inherent in the nature of the works.

Other assets include the following: non-operational plant, non-operational machinery, vehicles, non-specialised IT, surplus land and all other assets not listed in the categories above.”

The analysis of all schemes allows costs to be allocated across both processes (Water resources, raw water distribution, water treatment and potable water distribution) and asset type (infrastructure assets, operational / non-infrastructure assets etc)

A – Non-infrastructure assets

1. Gross replacement cost at 1 April 2012

Definition

“This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.”

These have been agreed to the 2011/12 closing balances and represents the assumed cost of replacing the existing asset with a new like for like equivalent.

2. AMP adjustment

Definition

“The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation.”

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

3. Reclassification adjustment

Definition

“The adjustment to GMEA as a result of reclassifying assets between business units during the year.”

There have been no adjustments in 2012/13.

4. RPI adjustment

Definition

“Adjustment for valuation from previous year to current year prices using year end RPI by asset type.”

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

5. Non-infrastructure disposals

Definition

“The reduction in gross value of assets caused by disposal of assets, by type.”

The disposals reported in the year relate to maintenance expenditure included within additions which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the MEAV.

6. Non-infrastructure additions

Definition

“ Increase in gross value of assets by type caused by purchase. These comprise non-infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32.”

Additions comprise the costs relating to above ground enhancement additions as well as above ground maintenance additions for the year. As discussed above, the latter are also shown as a disposal as it is deemed they do not increase the replacement value of the asset. Exceptions to this within the report year are expenditure classified as maintenance on our BIS schemes, advanced digestion programme costs for the schemes at Cardiff, Afan & Eign, strategic maintenance costs for the large named Water Treatment Works in AMP5, Laboratory costs at Glaslyn, Transport fleet replenishment, Go to Green initiatives at Water Treatment Works. All of these items are classified as maintenance for regulatory reporting but are in fact enhancements to our asset base and as such should increase the gross carrying value of assets.

These additions have been included in the relevant categories according to the guidelines published by Ofwat. Assets directly involved in the activities included within each of the business units are recorded in that business unit. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit's activity are recorded directly in that business unit.

Where an asset is utilised in more than one business unit it has been apportioned using an appropriate cost driver, as discussed in Ofwat's "Detailed guidance on asset allocation" to reflect the proportion of usage by each business unit.

As part of the PR09 business plan reporting requirements, companies were required to group assets into asset types. In Ofwat's guidelines, the asset types as set out within the business plan tables have been mapped to the business units and general and support areas.

Where an asset inventory category is wholly attributed to one specific business unit, all assets contained within that asset type have been allocated to the relevant business unit.

Where an asset inventory category straddles business units, an appropriate allocation has been made, ensuring that capital expenditure and operating expenditure relating to the same activity are recorded in the same business unit.

7. Non-infrastructure assets gross replacement cost at 31 March 2013

Definition

“This is the total gross MEA at the end of the year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability. The gross replacement cost of infrastructure assets relating to water and sewerage brought forward at the beginning of the financial year plus the AMP adjustment, plus the reclassification adjustment, plus the RPI adjustment, less disposals and plus additions.”

This is the gross replacement cost of infrastructure assets at the 1st April 2012 plus AMP adjustments, RPI adjustments less disposals plus additions.

8. Depreciation at 1 April 2012

Definition

"Accumulated depreciation brought forward on assets by type at the beginning of the year."

These have been agreed to the 2011/12 closing depreciation balances.

9. AMP adjustment

Definition

"The adjustment to accumulated depreciation as a result of a MEA revaluation.

For more details please see section 'Adjustment to accumulated depreciation below.'

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

10. Reclassification adjustment

Definition

"The adjustment to accumulated depreciation as a result of reclassifying assets between business units during the year."

There was no adjustment in 2012/13.

11. RPI adjustment

Definition

"The depreciation on the adjustment of valuation from previous year to current year (adjustment by year end RPI) by asset type."

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

12. Disposals

Definition

"A negative number representing the reduction in depreciation caused by disposal of assets by type."

The CCD disposal figure reported in the year equals the cost disposal figure. The rationale for writing back this depreciation is that while the expenditure relating to above ground maintenance additions does not increase the replacement value of assets, it does improve their condition and therefore extends asset lives. The CCD charge on the assets contained in the MEAV is based on the assigned condition grade and deterioration at end March 2008 and therefore requires adjustment for subsequent maintenance expenditure.

13. Charge for the year

Definition

“Depreciation charge on assets by type. For the definition of asset types see above. This figure is before the amortisation of deferred credits and intangible assets.”

The CCD charge for the year has been calculated by combining the CCD calculated for 2012/13 on all assets existing as at 31 March 2008 (taken from the MEAV), plus CCD on enhancement additions through to 31 March 2013.

The CCD of the asset base as at 31 March 2008 has been allocated across business units per the categorisation within the MEAV, in line with Ofwat’s guidelines. CCD on subsequent additions has been allocated based on the allocation of the additional investment to business units as set out above.

14. Non-infrastructure assets depreciation at 31 March

Definition

“Accumulated depreciation carried forward by asset type at the end of the charging year. (Accumulated depreciation brought forward by asset type plus AMP adjustments, RPI adjustment, less disposals and the charge for the year for those assets.)”

This is the net of the non-infrastructure cost and depreciation and reflects the closing net book value of assets, by business activity at 31 March 2013.

15. Non infrastructure assets net book value at 31 March 2013

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)”

This is the net book (gross replacement cost less accumulative depreciation) value of assets, by business activity at 31 March 2013.

16. Non-infrastructure net book value at 1 April 2012

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)”

This is the opening net book value of assets, by activity at 1 April 2012.

B – Infrastructure assets.

1. Gross replacement cost at 1 April 2012

Definition

“This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.”

These have been agreed to the 2011/12 closing balances and represents the assumed cost of replacing the existing asset with a new like for like equivalent.

2. AMP adjustment

Definition

“The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation.”

This is the updated MEA valuation of Private Drains and Sewers assets which transferred on 1st October 2011 following a further year’s work to identify the location and nature of these assets. The total value has been raised from £7.0bn to £10.9bn.

3. Reclassification adjustment

Definition

“The adjustment to GMEA as a result of reclassifying assets between business units during the year.”

There have been no adjustments in 2012/13

4. RPI adjustment

Definition

“Adjustment for valuation from previous year to current year prices using yearend RPI by asset type.”

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

5. Disposals

Definition

“The reduction in gross value of assets caused by disposal of assets, by type.”

The disposals reported in the year relate to maintenance expenditure included within additions which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the MEAV.

6. Additions

Definition

“Increase in gross value of assets by type caused by purchase. These comprise infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32.”

Additions comprise the costs relating to below ground enhancement additions for the year. These additions have been included in the relevant categories according to the guidelines published by Ofwat. Assets directly involved in the activities included within each of the business units are recorded in that business unit. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit’s activity are recorded directly in that business unit.

Where an asset is utilised in more than one business unit it has been apportioned using an appropriate cost driver, as discussed in Ofwat’s “Detailed guidance on asset allocation” to reflect the proportion of usage by each business unit.

As part of the PR09 business plan reporting requirements, companies were required to group assets into asset types. In Ofwat’s guidelines, the asset types as set out within the business plan tables have been mapped to the business units and general and support areas.

Where an asset inventory category is wholly attributed to one specific business unit, all assets contained within that asset type have been allocated to the relevant business unit.

Where an asset inventory category straddles business units, an appropriate allocation has been made, ensuring that capital expenditure and operating expenditure relating to the same activity are recorded in the same business unit.

7. Infrastructure assets net book value at 31 March 2013

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year-end).”

This is the net book value of infrastructure assets, by business sewerage activity at 31 March 2013.

Analysis of fixed assets - retail

“This table requires classification of assets into business units as follows:

Assets directly involved in the activities included within each of the business units should be recorded in that business unit. The types of assets expected to be directly attributable to each business unit are noted below. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit’s activity should be directly recorded in that business unit.

Where an asset is utilised in more than one business unit, then the asset should be apportioned using an appropriate cost driver to reflect the proportion of usage by each business unit. We have provided detailed guidance on allocation of assets in the later section ‘Detailed guidance on asset allocation’.

Retail includes the following assets:

Billing system, call centre telephone system, include here any capitalised costs relating to the installation, other IT telephony, office premises, fixtures and fittings and vehicles.

1. RETAIL IT SYSTEMS

Where the call centre telephone system and the billing system are separately identifiable assets they should be coded directly to the retail business unit. Where the call centre telephone system and the billing system are not separately identifiable assets they should be allocated as part of general and support assets.

They should be allocated between household and non-household using the same basis as that used for the associated operating expenditure.

Further categorisation of the above assets into the following is required:

Infrastructure assets include the following: underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Information about infrastructure assets (general mapping and updating of networks records) is also to be regarded as an infrastructure asset. ***Note that it would be unusual to have infrastructure fixed assets within the retail service.***

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

Other assets include the following: non-operational plant, non-operational machinery, vehicles, non-specialised IT, surplus land and all other assets not listed in the categories above.

Retail assets should be apportioned between household and non household utilising consistent bases to those set out in the guidance to the retail service activity costing table.”

Non-infrastructure assets

1. Gross replacement cost at 1 April 2012

Definition

"This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability."

These have been agreed to the 2011/12 closing balances and represents the assumed cost of replacing the existing asset with a new like for like equivalent.

2. AMP Adjustment

Definition

"The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation."

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

3. Reclassification adjustment

Definition

"The adjustment to GMEA as a result of reclassifying assets between business units during the year."

There have been no adjustments in 2012/13.

4. RPI adjustment

Definition

"Adjustment for valuation from previous year to current year prices using year end RPI by asset type."

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

5. Disposals

Definition

"The reduction in gross value of assets caused by disposal of assets, by type."

The disposals reported in the year relate to maintenance expenditure included within additions which, it is judged, do not enhance the intrinsic replacement value of the asset derived for the MEAV.

6. Additions

Definition

“ Increase in gross value of assets by type caused by purchase. These comprise non-infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32.”

Additions comprise the costs relating to above ground enhancement additions as well as above ground maintenance additions for the year. As discussed above, the latter are also shown as a disposal as it is deemed they do not increase the replacement value of the asset. Exceptions to this within the report year are expenditure classified as maintenance on our BIS schemes, advanced digestion programme costs for the schemes at Cardiff, Afan & Eign, strategic maintenance costs for the large named Water Treatment Works in AMP5, Laboratory costs at Glaslyn, Transport fleet replenishment, Go to Green initiatives at Water Treatment Works. All of these items are classified as maintenance for regulatory reporting but are in fact enhancements to our asset base and as such should increase the gross carrying value of assets.

These additions have been included in the relevant categories according to the guidelines published by Ofwat. Assets directly involved in the activities included within each of the business units are recorded in that business unit. In addition other assets used such as land, offices, depots, workshops, non-operational plant, machinery, vehicles and telemetry that are solely related to a specific business unit's activity are recorded directly in that business unit.

Where an asset is utilised in more than one business unit it has been apportioned using an appropriate cost driver, as discussed in Ofwat's "Detailed guidance on asset allocation" to reflect the proportion of usage by each business unit.

As part of the PR09 business plan reporting requirements, companies were required to group assets into asset types. In Ofwat's guidelines, the asset types as set out within the business plan tables have been mapped to the business units and general and support areas.

Where an asset inventory category is wholly attributed to one specific business unit, all assets contained within that asset type have been allocated to the relevant business unit.

Where an asset inventory category straddles business units, an appropriate allocation has been made, ensuring that capital expenditure and operating expenditure relating to the same activity are recorded in the same business unit.

7. Gross replacement cost at 31 March 2013

Definition

“This is the total gross MEA at the end of the year.

The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.

The gross replacement cost of infrastructure assets relating to retail brought forward at the beginning of the financial year plus the AMP adjustment, plus the reclassification adjustment, plus the RPI adjustment, less disposals and plus additions.”

This is the gross replacement cost of assets at the 1st April 2012 plus AMP adjustments, RPI adjustments less disposals plus additions.

8. Depreciation at 1 April 2012

Definition

"Accumulated depreciation brought forward on assets by type at the beginning of the year."

These have been reconciled to the 2011/12 closing depreciation balances.

9. AMP adjustment

Definition

"The adjustment to accumulated depreciation as a result of a MEA revaluation."

These lines were used as at 31 March 2010 to record the adjustment needed to bring opening balances in line with those held within the MEA valuation prepared for PR09. They will not be used again until either the occurrence of an IDoK or the end of the current AMP period in 2015.

10. Reclassification adjustment

Definition

"The adjustment to accumulated depreciation as a result of reclassifying assets between business units during the year."

There was no adjustment in 2012/13.

11. RPI adjustment

Definition

"The depreciation on the adjustment of valuation from previous year to current year (adjustment by year end RPI recorded by asset type.)"

This Reflects 3.28% RPI increase and inflates Balances to 2012/13 prices.

12. Disposals

Definition

"A negative number representing the reduction in depreciation caused by disposal of assets by type."

The CCD disposal figure reported in the year equals the cost disposal figure. The rationale for writing back this depreciation is that while the expenditure relating to above ground maintenance additions does not increase the replacement value of assets, it does improve their condition and therefore extends asset lives. The CCD charge on the assets contained in the MEAV is based on the assigned condition grade and deterioration at end March 2008 and therefore requires adjustment for subsequent maintenance expenditure.

13. Charge for the year

Definition

“Depreciation charge on assets by type. For the definition of asset types see above. This figure is before the amortisation of deferred credits and intangible assets.”

The CCD charge for the year has been calculated by combining the CCD calculated for 2012/13 on all assets existing as at 31 March 2008 (taken from the MEAV), plus CCD on enhancement additions through to 31 March 2013.

The CCD of the asset base as at 31 March 2008 has been allocated across business units per the categorisation within the MEAV, in line with Ofwat’s guidelines. CCD on subsequent additions has been allocated based on the allocation of the additional investment to business units as set out above.

14. Depreciation at 31 March 2013

Definition

“Accumulated depreciation carried forward by asset type at the end of the charging year. (Accumulated depreciation brought forward by asset type plus AMP adjustments, RPI adjustment, less disposals and the charge for the year for those assets.)”

This is the accumulated depreciation charge brought forward at 1st April 2012 plus Adjustments, RPI and additions, less disposals during the year.

15. Net book value at 31 March 2013

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)”

This is the net book value of retail assets at 31 March 2013.

16. Net book value at 1 April 2012

Definition

“Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)”

This is the net book value of retail assets at 1st April 2012.

Appendix

Material movements/changes in treatment since 2011/12

- In previous years, customer side leak repairs have been included within the wholesale business. For 2012/13, the cost of repairing leaks on the customer's side of the stop tap, that have emanated from a request by the customer have been treated as a "Retail" cost. These amounted to £1.3m. The £1.0m cost of repairing leaks on the customer side of the stop tap, that were identified by DCWW staff as part of their leakage exercise has been treated as a non-appointed cost.
- In August 2012, the billing and customer service activity, previously provided by an outsourced provider (Veolia), was brought back into DCWW and managed by a separately costed DCWW business (DCCS). This resulted in a year for year reduction of £1.8m.
- The cost (£0.5m) of taking samples at the customers tap has, in previous years been treated as a wholesale cost. For 2012/13 it has been allocated to "Retail", household.
- The cost of water distribution staff employed on meter related activities, like locate meter, check meter reading, check meter details (at the request of the customer) was previously charged to Network customer enquiries and complaints. It has now been allocated to Meter maintenance/installation non capex.
- Meters are now included as assets within wholesale activities whereas these assets were previously regarded as retail assets. £6.9m CCD have moved from retail activities to treated water distribution.