

Water Plus Select Limited

# 2016/17 Accounting Separation Methodology Statement

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## 2 Introduction

Water Plus Group is a joint venture (JV) formed by Severn Trent Plc (ST) and United Utilities Plc (UU) in response to the market opening for non-household (NHH) retail water and waste services in England. From 1 April 2017, for the first time, all non-household (NHH) customers in England are free to choose their water and waste water retailer. To comply with new regulation around market opening and to provide the best possible service, ST and UU took the decision to exit the NHH retail market by forming the JV and transferring into it their NHH retail business. On formation, the JV also acquired Scottish Retail activity of ST and UU.

The JV was formed in 2016, obtained the necessary market clearances, and began trading on 1 June of that year. During this time Water Plus traded on behalf of ST and UU collecting revenues and serving customers under an agency agreement on their behalf; the wholesale element of revenues collected being paid back up to the JV parents who retained responsibility for wholesale activity. During this time, Water Plus still operated under the regulated market monopoly for Water and Sewerage services. Therefore, it must prepare and submit to the market regulator, OFWAT, an Annual Performance Review, (APR) each year. An APR is due for each appointed licence. Both ST and UU each hold such a licence. To allow the performance of ST and UU to be assessed accurately and consistently with that of other operators in the market Water Plus must prepare APR figures for its appointed NHH retail activity.

The document outlines the methodology applied to complete the regulatory accounting tables of the APR for activity carried out as an agent on behalf of Severn Trent Water's appointee licence. This activity was carried out by the entity Water Plus Select Limited.

## 3 Period covered

Per the letter to OFWAT dated 6 December 2016, Water Plus is to prepare APR financial tables for each of its trading subsidiaries that serve NHH customers as an agent of Severn Trent Water (STW) or United Utilities Water (UUW). These tables cover the 10-month period in which the customers have been served by

Water Plus – 1 June 2016 to 31 March 2017. STW will provide the corresponding 2 month figures for 1 April 2016 to 31 May 2016.

The two sets of APRs, the primary one prepared by the appointee licence holder - STW, covering 12 months of wholesale and household retail and 2 months of non-household retail as well as a detailed review of performance in the year; the other containing the remaining 10 months of non-household retail, will be submitted for each appointee licence; the former prepared by UUW and the latter by Water Plus.

Considering the elements of the APR and the timeframe covered, the complete picture of activity on the UU and ST licences will be as per the table below. Dark blue figures show the elements and periods covered by the appointee licence holders, and the light blue area shows the elements to be completed by Water Plus.

Month	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Wholesale												ST/UU APR
HH retail												
Non HH retail												WP APR

## 4 Cost allocation principals

Our approach to accounting separation applies the general principles set out in RAG 4 wherever possible. Ofwat has set out the following general principles with which accounting separation systems are required to comply.

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

Our methodology statement and accounting separation models provide transparency. Costs apportioned to each business unit are identifiable and can be traced back to our Sage ledger.

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

Wherever possible, bases for costs are allocated to activities that cause the cost to be incurred. Some costs are more remote from the activities being allocated across than others and so require an element of allocation. Details of these allocations are provided below.

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

Cost allocation bases are as non-discriminatory as possible and are not designed to favour any business unit.

**Objectivity:** the cost and revenue attribution criteria need to be objective and should not intend to benefit any business unit or service.

Cost allocation bases are as objective as possible and are not designed to favour any business unit.

**Consistency:** the cost and revenue attribution criteria should be consistent from year to year to enable meaningful comparison of information over time.

Changes to the attribution methodology from year to year should be clearly justified and documented.

This is the first year in which Water Plus has published an APR. We aimed to be consistent with information presented in the APRs of our parent companies, who previously reported the information now being reported by Water Plus, but due to changes in systems, processes and staffing there will be some differences in allocation from those used by STW.

**No cross subsidy between price controls:** Following the introduction of separate binding price controls at the 2014 price review, companies cannot transfer costs between the price control units in setting prices and preparing the APR. The

revenue allowance for each price control is determined by the costs specific to that particular price control. Therefore companies should also ensure that there is no cross subsidy between price control units. In accordance with RAG 5, transfer prices for transactions between price control units should be based on market price unless no market exists, in which case transfer prices should be based on cost. There will also be instances where the transfer price for some internal services and activities should be based on cost, even though a market may exist, for example activities such as treasury, legal or payroll etc. Provided the service or activity is company specific and is being provided internally to all of the price control units, or being provided solely to both the appointed and non-appointed business, then the transfer price should be based on cost.

In line with the separate binding price controls introduced in 2014, costs are compliant with RAG 5.06 'Guideline for transfer pricing in the water and sewerage sectors.'

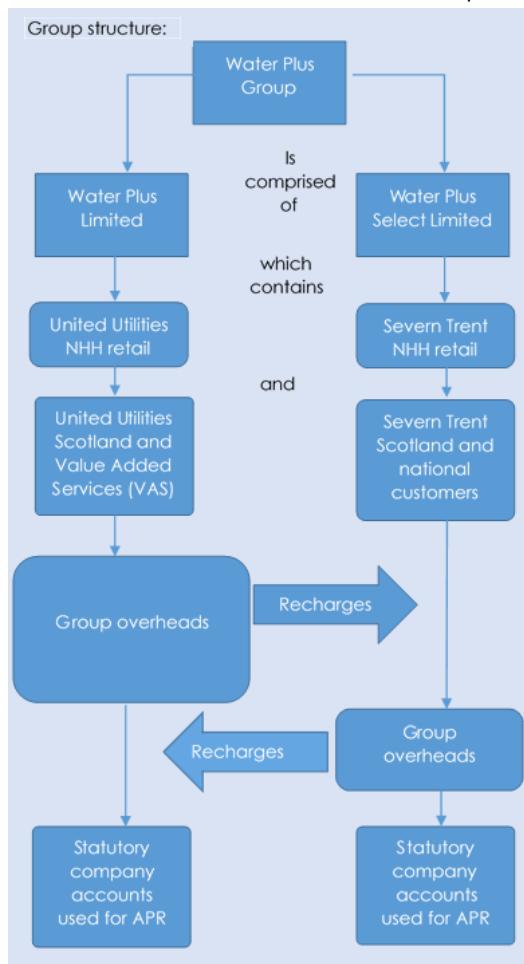
**Principal use:** Where possible, capital expenditures and associated depreciation should be directly attributed to one of the price control units. Where this is not possible as the asset is used by more than one service, it should be reported in the service of principal use with recharges made to the other services that use the asset reflecting the proportion of the asset used by the other services.

Water Plus only operates in one price control, but has applied the principal use principle in splitting its costs between regulated licences. Assets are held in Water Plus Limited, which is the largest trading entity, and a recharge made to Water Plus Select Limited, the other trading subsidiary, based on the usage of those assets.

## 5 Statutory accounting allocations

### 5.1 Overview of group structure

Water Plus Group (WPGL) consists of a holding company and two trading entities; Water Plus Limited (WPL) and Water Plus Select Limited (WPSL). Each trading entity is a pre-existing company from one of the shareholder entities that was transferred to Water Plus as part of the joint venture formation. What is now



WPL was formerly United Utilities Water Sales Limited; It contains the assets and customers acquired from UU. What is now WPSL was formerly Severn Trent Select Limited and contains the assets and customers acquired from Severn Trent. The relevant revenues and wholesale charges are incurred in the entity in which the relevant licence sits, so Water Plus Limited contains the revenue and wholesale charge of UU non-household retail customers and Water Plus Select contains the revenue and wholesale charges of ST's Non-Household Retail customers.

As part of the formation of the joint venture and separation of Water Plus from ST and UU an agreement was

reached whereby ST and UU would continue to provide various services for Water Plus until they could be carried out directly by Water Plus. These services, referred to as Transitional Service Agreements, or TSAs are charged directly to the entity to which they relate. For instance, ST charged its TSAs to WPSL and UU charged its TSAs to WPL. The agreements were drawn up in such a way as to be RAG 5 compliant.

Other expenditure, comprising overheads, costs of serving customers and support function costs are incurred in one or the other subsidiary company

based on historical procurement activity so the service delivered does not always relate to the entity in which the cost is incurred. To obtain a view of the relevant income and cost of service for each customer book it is necessary to allocate expenditure between the two entities based on a relevant cost driver.

Each trading entity also performs the acquired non-regulated business retail activity of its former parent. This includes business retail activity in Scotland and provision of water and waste services to customers already outside of the regulated environment in England (those with consumption over 5ML/annum). These costs also need to be allocated to the correct entity and then separated so that a view of only appointed activity can be obtained.

We first perform recharges to allocate all costs between the two statutory entities, whether appointed or not. Then, once we are happy each entity has the correct total costs we divide costs again between those activities undertaken as part of an appointed water and sewerage licence for England, and those activities that are either not regulated or covered under different regulation.

## 5.2 Allocation of expenditure between statutory entities

Revenue and wholesale charges are raised and recorded directly into the entity to which they relate. They require no further allocation or apportionment between entities.

To ensure consistency with the requirements of the APR we developed a model in which all costs of the business other than wholesale charges, which are directly attributable, are collated and undergo a series of logical steps to be allocated into the correct cost bucket. We started by listing out all costs incurred in the year using the trial balance from Sage. We then allocated these costs to the statutory cost headings listed in RAG 2.06 and used the suggested cost drivers, where possible, as our basis for allocating the cost.

Some lines from the TB need no further allocation as they directly relate to one customer book or the other and are already recognised in the correct entity for that customer book. Examples of this are TSA costs, meter reading and bad

debt costs. These costs could be directly allocated to the relevant cost heading in the model without need for further apportionment or analysis.

Other TB lines could not be directly allocated to one of these headings as the expenditure contained in the line can fall into more than one of the headings. In particular, this is true of staffing cost and business-wide overheads such as IT costs, facilities cost and depreciation. In these cases, we have taken the assumption that overheads are incurred evenly between staff of the group – each staff member used roughly the same amount of IT equipment, uses the same amount of office space and so is responsible for the same amount of heating, lighting and rates overheads. Based on this assumption we then allocated these costs into the RAG 2.06 headings based on FTE headcount in each department in the business. See section 13 for allocation of General and Support overheads.

Once all cost was split into a cost bucket heading, we then chose a suitable cost driver for allocating costs between the different entities. See section 11.3 for the metric chosen. In each case, the decision on which metric to use was guided by the suggested cost drivers listed in RAG 2.06 for the purposes of allocating costs between household and non-household activity.

We next considered any items that were directly attributable to a single entity, such as TSAs discussed above and third party spend for services such as meter reading where each region has its own licence. These costs already sat in the correct entity so no further allocation was necessary prior to allocating them to the relevant cost category. The remaining costs including the share of overheads, were split based on an appropriate cost driver recommended for that heading.

### 5.3 Adjustments for non-appointed activity

Once all costs have been allocated between entities we then split out items that relate to non-appointed activities. This included Scottish activity and out-of-area England activity. Any costs directly attributable were stripped out in their entirety. We could do this because all transactions in Sage are given a dimension flag which determines whether they are a regulated activity or not. The remaining overheads of the entity, which have a regulation flag of "mixed"

cannot be directly split and were apportioned based on customer numbers. This approach was taken because most of the specific costs relating to non-regulated activity was charged to us directly through the TSAs. The only element to be allocated between regulated and non-regulated buckets was the support costs of the business. These were split by customer number as this is a RAG-approved metric for the majority of support costs.

#### 5.4 Adjustments for differences between statutory and RAG definitions

WPSL only has one adjustment for differences in statutory and RAG accounting, which is for revenue it has de-recognised in the year. We have no defined benefit pension schemes, share options or capitalised interest.

##### Revenue recognition

In line with its parent companies WPSL de-recognises revenue for customers which have outstanding debt, but from whom we have received no payment for a period of at least 24 months. We also release any revenue accrual raised against these customers. On the basis that customers who have not paid in over two years are fully provided against, the revenue write off occurs against the bad debt charge.

### 6 Summary of items completed in the APR

WPSL has not completed all sections of the APR as it only operates in the non-household retail price control and its APR is to be read in conjunction with the APR STW. The tables completed are:

Section	Name	Comments
<b>1A</b>	Income statement	
<b>1B</b>	Statement of comprehensive income	
<b>1C</b>	Statement of financial position	
<b>1D</b>	Statement of cash flows	
<b>1E</b>	Net debt analysis	
<b>2A</b>	Segmental income statement	NHH retail only
<b>2C</b>	Retail opex analysis	
<b>2G</b>	NHH water revenue	
<b>2H</b>	NHH waste revenue	
<b>2I</b>	Revenue analysis	

## 7 Items that can be found in parent company reports

The following tables are not relevant to WPSL. All information relating to these areas of the APR can be found in the parent company APR:

Section	Name	Comments
<b>2B</b>	Wholesale totex analysis	WP does not operate as a wholesaler
<b>2D</b>	Fixed asset analysis	WPSL holds no fixed assets
<b>2E</b>	Capital contributions and land sales	WP receives no grants or contributions towards its assets.
<b>2F</b>	Household revenue	WP does not provide HH water.
<b>3A</b>	Outcome performance	These are wholesaler specific
<b>4A</b>	Non-financial information	All HH related
<b>4B</b>	Totex analysis	Not relevant to NHH retail
<b>4C</b>	RCV	NHH retail only
<b>4D</b>	Wholesale water totex analysis	Not relevant to NHH retail
<b>4E</b>	Wholesale waste-water totex analysis	Not relevant to NHH retail
<b>4F</b>	Household opex analysis	Not relevant to NHH retail
<b>4G</b>	Current cost income statement	Not relevant to NHH retail
<b>4H</b>	Financial metrics	WP has no RCV so cannot complete these metrics
<b>4I</b>	Financial derivatives	WP holds no derivatives

## 8 Internal governance and consistency procedures

Information relating to cost allocations is prepared by the Management Accountant for operating costs. Income tables are prepared by the income and debt Management Accountant. These figures are prepared in a model, which is reviewed by the Financial Controller.

Information is input into the APR tables by the Financial Accountant using the TB from the statutory accounts and extracts from the costs and income models. All items of cost and income are reconciled back to the TB before posting. The templates undergo a review by the Financial Controller prior to being published.

Fixed asset numbers are taken directly from the fixed asset register by the Financial Accountant and are reconciled to the TB as part of the preparation of the financial tables.

## 9 Systems in place and sources of information

We obtain information from various sources. The primary source of information was the trial balance (TB) taken from Sage. This provided the base income and cost values and categorises costs based on their nature. Supplementary information for use in the revenue analysis and to help with cost allocations were obtained from our billing system, MECOMS.

## 10 Section 1 – Regulatory financial reporting

Information from this section is taken from the extended trial balance (ETB) used to prepare our statutory accounts. The ETB is the TB from Sage plus the addition of various presentational adjustments made for statutory reporting purposes. The adjustment for revenue recognition is one of the ETB journals, this is added back as a statutory to RAG adjustment in the section 1 tables. All non-regulated activity calculated per the methodology outlined in section 5 above is removed in the non-appointed columns of these tables to leave a RAG-compliant, appointed business total in the right-most column.

## 11 Section 2 – Price review and other segmental reporting

### 11.1 2A – Segmental income Statement

The segmental income statement analyses appointed activity down to operating profit between price control segments and any recharges made between segments for use of fixed assets.

WPSL only contains activity sitting within the non-household retail segment as only this element of operations has been purchased from STW in advance of the retail market opening. Any columns relating to other price controls have been marked n/a as shown in the example below:

	Current year				
	Retail		Wholesale		Total
	Household	Non-household	Water	Waste water	
Revenue - price control	I	I	I	I	C
Revenue - non price control	I	I	I	I	C
Operating costs	I	I	I	I	C
Other operating income	I	I	I	I	C
Operating profit before recharges	C	C	C	C	C
Recharges from other segments	I	I	I	I	C
Recharges to other segments	I	I	I	I	C
Operating profit	C	C	C	C	C
Surface water drainage rebates					I

### Revenue price control

The price control revenue is retrieved from table 2I Revenue Analysis and wholesale control reconciliation. This table analyses revenue between Wholesale Water and Waste-water charges and retail revenue by Retail household and Retail Non-Household, of which only Retail non-household is relevant to Water Plus Limited. Refer to table 2I for allocation methodology.

### Revenue non-price control

WPSL has no appointed revenue which is not governed by price control. We analysed appointed revenue against the income categorisation table in Appendix 1 of RAG4.06 and concluded that as a business, WPSL offers none of the services listed.

### Operating costs

Operating costs are those disclosed in table 2C. See table 2C notes for details of how these costs have been allocated.

### Other operating income

WPSL does not have any other operating income other than its appointed revenue.

### Recharges to/from other segments

WPSL only operates in one segment, therefore no recharges are raised.

### Surface water drainage rebates

WPSL has no surface water drainage rebates.

### 11.2 2B – Totex analysis wholesale

This table is not applicable to WPSL as the company only operates in the retail non-household segment has no wholesale activity.

### 11.3 2C – Operating cost analysis – retail

As discussed above, costs are allocated into their relevant cost bucket as part of the allocation of costs between entities (and in turn between appointee licences). See section 5.2.

For each cost an appropriate driver was chosen using the hierarchy of relevant cost drivers in RAG 2.06. For each cost bucket, we were able to choose a driver from those suggested in the standard. Descriptions of how we acquired values for each cost driver are covered above. The driver applied to each cost and an explanation where we have deviated from the first-choice suggestion of cost driver is given below:

Heading per Pro forma 2C	Cost	Cost driver used (where cost cannot be directly attributed)	Cost driver adopted by Water Plus
Customer services	Billing	Number of bills raised	Number of bills raised
Customer services	Payment handling, remittance and cash handling	Number of payments received	Amount of cash collected
Customer services	Charitable trust donations	n/a	n/a
Customer services	Vulnerable customer schemes	n/a	n/a
Customer services	Non-network customer enquiries and complaints	In order of preference: 1. Time spent on non-network customer enquiries and complaints. 2. volume of non-network customer enquiries and complaints	Number of complaints calls
Customer services	Network customer enquiries and complaints	In order of preference: 1. Time spent on network customer enquiries and complaints. 2. volume of network customer enquiries and complaints	Number of complaints calls
Customer services	Investigatory visits/first visit to the customer	In order of preference: 1. Time spent on investigatory visits 2. volume of investigatory visits	n/a

Heading per Pro forma 2C	Cost	Cost driver used (where cost cannot be directly attributed)	Cost driver adopted by Water Plus
Customer services	Other customer services	In order of preference: 1. Time (based on timesheets) 2. Appropriate cost driver (based on nature of cost) 3. Customer numbers	Number of calls
Debt management	Debt management	Debt outstanding for more than 30 days (that is, not current debt)	Amount of cash collected
Doubtful debts	Doubtful debts	n/a - direct attribution on a customer type (meaning household or non-household) specific basis	Direct split from general ledger
Meter reading	Meter reading	In order of preference: 1. Time (based on timesheets) 2. Number of meter reads factored by scheduling an allowance for average time taken. 3. Number of meter reads	Direct split from general ledger
Services to developers	Services to developers	n/a - direct attribution to non-house	n/a
Other operating expenditure	Disconnects and reconnections	n/a - direct attribution to non-house	Total Customer numbers
Other operating expenditure	Demand-side water efficiency initiatives	Direct allocation where initiatives are specific to non-household, otherwise customer numbers	Total Customer numbers
Other operating expenditure	Customer-side leaks	Directly attributable on a job specific basis	Total Customer numbers
Other operating expenditure	Other direct costs	In order of preference: 1. Time (based on timesheets) 2. Appropriate cost driver (based on nature of cost) where time basis is not possible and there is not an obvious cost driver.	Total Customer numbers
Other operating expenditure	General and support - IT costs	In order of preference: 1. An appropriate cost driver depending on the nature of IT costs. 2. Number of computers and mobile devices (where there is not an appropriate cost driver)	Total Customer numbers
Other operating expenditure	General and support - Motor vehicles	In order of preference: 1. Number of motor vehicles 2. Customer numbers	Total Customer numbers
Other operating expenditure	General and support - Finance, HR, Payroll, General Management	In order of preference: 1. Time (based on timesheets) 2. FTEs 3. Customer numbers	Total Customer numbers
Other operating expenditure	Executive directors' remuneration	In order of preference: 1. Time (based on timesheets) 2. Management estimate (with supporting commentary)	Total Customer numbers
Other operating expenditure	Non-executive directors' remuneration	In order of preference: 1. Time (based on timesheets) 2. Management estimate (with supporting commentary ie time spent to board meetings)	Total Customer numbers
Other operating expenditure	General and support - Facilities, buildings / grounds maintenance	In order of preference: 1. Floor space 2. FTEs 3. Customer numbers	Total Customer numbers

Heading per Pro forma 2C	Cost	Cost driver used (where cost cannot be directly attributed)	Cost driver adopted by Water Plus
Other operating expenditure	General and support-insurance	FTEs for employers/employees liability of more appropriate cost driver for other types of insurance	Total Customer numbers
Other operating expenditure	Other general and support costs	In order of preference: 1. Appropriate cost driver (based on nature of cost) where there is not an obvious cost driver. 2. Customer numbers	Total Customer numbers
Other operating expenditure	Other business activities (regulation costs)	In order of preference: 1. Appropriate cost driver (based on nature of cost) where there is not an obvious cost driver. 2. Customer numbers	Total Customer numbers
Other operating expenditure	Local authority rates	In order of preference: 1. Floor space 2. FTEs 3. Customer numbers	Total Customer numbers
Third prty services	Third Party services	Direct attribution where possible. Otherwise appropriate cost driver based on nature of cost.	Total Customer numbers
Depreciation	Depreciation	Per section 2.3 of RAG 2	Total Customer numbers

Key decisions made in deciding upon cost driver to use and allocation of costs were:

#### Payment handling, remittance and cash handling

WPSL is a new business, we are developing our suite of MI, which currently does not report number of payments received. Instead we have used the value of the payments received on the basis that given the size of the two customer books, variety of billing frequencies and payment types, the value of cash received is a reasonable proxy for number of payments received.

#### Charitable trust donations and vulnerable customer schemes

WPSL does not currently engage in this activity.

#### Network and non-network customer enquiries and complaints

It is assumed that there is an aggregation here between retail and non-retail. WPSL received calls for network matters, which were passed on to the relevant

wholesaler. In return, wholesalers took calls relating to retailers and passed these on to Water Plus. Other than General Standards of Service, for which there is a formal recharging mechanism, there is no formal mechanism for recharging

these costs to a wholesaler. As WPSL operates only in the Retail NHH segment any admin costs relating to handling network enquiries have been left in the NHH segment.

### Debt management

We have used cash collected as a metric for debt management as this is representative of the amount of time spent by staff on the activity.

### Doubtful debts and meter reading

All of these costs are already directly split by entity and all relate solely to Retail NHH so there is no need for further apportionment; bad debt because it is an internal calculation specific to each entity, meter reading because it is a service provided by a third party and a different contractor is employed for each region covered by an appointee licence.

### Services to developers

The admin cost of services to developers is classified as a non-household retail cost by Ofwat, but this service has remained with the wholesaler so there are no costs to show in Water Plus. No recharges have been raised between the wholesaler and Water Plus for this service as costs are recovered by the wholesaler. For services to developers performed under this appointee licence see the APR of STW.

### Disconnects and reconnects

RAG 2 states that all this cost is directly attributable to NHH. In the case of Water Plus, we need to further allocate the cost between work carried out on the United Utilities or Severn Trent licence. A large proportion of the cost can be directly allocated as the service was carried out by our parent company under a TSA for most of the year. However, the element not directly attributable, such as the element relating to overheads has been split between appointee licences based on customer numbers.

### Customer-side leaks

Water Plus has not engaged in this activity. This service has been carried out by the wholesaler, ST or UU, and is recorded as a NHH retail activity in their APR.

### Other operating expenditure

We used customer numbers as the cost driver for all Other operating expenditure categories. We did this because WPSL is a customer-driven business and it is the service of these customers that drives our costs more than any other factor. The number of customers dictates the software we need as a business, the number of staff needed to service them, and by virtue of this, the level of property and overhead costs we must incur. Other suggested drivers, such as floor space or timesheets provide a less direct view of how the cost should be apportioned.

### 11.4 2D – Historical cost analysis of fixed assets – wholesale and retail

This table has not been prepared by WPSL as it holds no fixed assets.

### 11.5 2E – Analysis of capital contributions and land sales – wholesale

This table has not been prepared as Water Plus engages in no wholesale activity, does not receive grants and owns no land.

### 11.6 2F – Household Revenues by customer type

This table has not been prepared as Water Plus engages in no household activity.

### 11.7 2G/2H – Non-household revenues by customer type

#### (Water/Wastewater)

##### 2G/H Total non-default tariffs

There are no customers served by Water Plus Select on non-default tariffs.

##### 2G/H Default tariffs

The methodology we applied to calculate the default tariff information for tables 2G and 2H mirrored that of STW where possible, with several departures where the move to the new billing system, MECOMS, meant it was necessary. Where part of the methodology relates solely to the MECOMS element of income we have made it clear in the subheading. The steps taken for each major category of income are outlined below.

## Billed Income (MECOMS)

We combined the detailed income reports generated from the billing system and compared them to the tariff data used to calculate the wholesale charges throughout the year to allow us to calculate revenue by tariff for each item of revenue. This method was used again for other income types and is referred to as the “**Tariff/Item Methodology**” throughout the rest of this document.

## Billed Income (Target) – Measured and Unmeasured

In this area, we applied the same methodology as STW, which compares the actual income recognised throughout the period to the Charges Submission 2016/17 (formerly known as the Principle Statement) and apply the percentages given in this table to the income summary by item.

This method was used for any billing or adjustments which came from Target and will be referred to as the “**Target Reg Method**” for the remainder of the document.

## Unbilled Income

Regulatory and Statutory accounts were calculated using the accruals method meaning they incorporate an element of unbilled income which must also be allocated to tariff. We used the Tariff/Item Methodology, discussed above to make these allocations. The method was applied to the unbilled sales report, which details unbilled sales by tariff, with a tariff ID identifier, and was used to calculate the unbilled accrual in the statutory accounts.

Upon completion of the first allocation a check should be made for any lines with no description that cannot be directly allocated. In these cases, we made an appropriate allocation, following the same rules as for those within the Billed Income split.

## Measured in Advance (Target)

Within STW and Target there are groups of customers where their measured water income is billed for the full year in advance from April, meaning the income was billed by STW but 10 months' worth (from 1 Jun 2016 to 31 March 2017) was recognised by WPSL.

Information was supplied by Severn Trent Water relating to measured income billed in advance. This detailed the value and composition of the 10 months relating to WPSL, all of which related to measured sewerage. The Target Reg Method was applied with the percentages relating to Measured Waste + Measured SWD applied to this value.

### Other Water Company

STW has customers that are billed by other water companies where water supplier sits in one region and waste water in another. The company delivering the water service will issue the bill and therefore will inform the corresponding company of the waste service charge to record within their revenue.

These services will only ever be waste services and will have no additional breakdown from the other water companies as to which tariffs or buckets the data should fall into, therefore should be apportioned appropriately.

To do this apportionment the Target Reg Method was applied splitting the costs between unmeasured sewerage, measured sewerage and SWD.

### Trade Effluent Top Up

Due to the nature of billing TE customers we need to make a true up at the end of the financial year to increase the value of recognised TE income up to the relevant level based on an best estimate for total TE services provided in the year. We applied to Target Reg method to apportion this top up

### Customer Numbers

Due to the cutover of customers from one billing system to another, and the development required to accurately calculate connections/properties in the same manner as that done for the 16/17 financial year principle statement, the information taken for property numbers is that from the Target Billing System as at the end of September. This is viewed as an appropriate average for the year.

Each of the different tariff band customer numbers is then linked through to the "Number of Connections (000s)" column in each of the appropriate revenue regulatory tables.

## 12 2I - Revenue analysis

All information for Table 2I is compiled from the same income tables as 2G and 2H. For unmeasured water income, this is the unmeasured line on table 2G and for unmeasured waste income it is the direct unmeasured line on table 2H.

There are no non-standard tariffs for the customers served by WPSL. All other income from each table is measured income except for Non-Potable Water which is Third Party Income.

Final checks are carried out to check that each of the individual tables total up to the revenue total in 2I. For wholesale, retail and total income each total in table 2I should come back to the combined total of 2G and 2H, as well as the overall total coming back to the same as the statutory regulatory total.

## 13 Sections 3&4 – Performance summary and additional regulatory information

These sections have not been prepared by Water Plus. Where relevant, Water Plus Limited has provided information to STW sufficient to allow it to prepare the necessary disclosures for these sections.

## 14 General and support cost allocation methodology

We define general and support costs as all facilities costs of the business. These are identifiable from the TB from Sage. We allocate these based on departmental headcounts on the basis that each member of staff uses materially the same amount of IT equipment and building overheads.