PORTSMOUTH WATER LTD UPSTREAM SERVICES (Wholesale Business)

Governance Process

The Upstream Accounting Separation table has been prepared by the Management Accountant and reviewed by the Chief Accountant. The allocation of operating expenditure between Trunk and Local Treated Water Distribution Business Units has been advised by the Commercial Manager.

The Regulation Manager has reviewed the methodology which was approved by the Engineering Director in 2012/13, and approved the data for submission to Ofwat.

Methodology Statement for Accounting Separation

The Methodology Statement details the systems in place and the sources of information used to populate the Accounting Separation Tables in the Regulatory Accounts. (See main Accounting Separation Methodology Statement for details.)

This guidance details the methods used to allocate the total operating costs from the existing split of Wholesale Business Units, to the lower level split of Services, as follows:

Water Resources	Abstraction Licence Raw Water Abstraction
Raw Water Distribution	Raw Water Transport Raw Water Storage
Water Treatment	No further split
Treated Water Distribution	Trunk Treated Water Distribution Local Treated Water Distribution

See Appendix 1 for Operating Cost Allocation

Operating Expenditure

Water Resources

The Abstraction Licence costs are taken from the invoice paid to the Environment Agency, relating to 2014/15. The remaining expenditure is all Raw Water Abstraction.

Raw Water Distribution

Raw Water Storage relates to Highwood Reservoir at the Itchen site. The costs allocated include power and associated direct employment costs. The remaining expenditure is all Raw Water Transport.

Treated Water Distribution

The split of operating costs between Trunk and Local Treated Water Distribution has been done with a series of allocations, depending on the type of expenditure, as follows:

Power

This is allocated mainly to Trunk Treated Water Distribution, and reflects the pumping costs of moving water from Water Treatment into the distribution network. There are a few booster stations along the length of the Local distribution network and the power associated with these is included in Local Treated Water Distribution. These booster stations include Madehurst, Shedfield and Titchfield.

Other Pumping Costs

These are allocated on the same proportion as the power costs, and include employment costs, contractor costs and materials.

Mains & Services

Employment costs are allocated on a management estimate, and this reflects the fact that it is not usually internal labour which is used to repair trunk mains, but contract labour.

Materials and other direct costs are allocated on total length of mains for each of Trunk and Local mains.

Inspectors

One senior inspector works solely on Trunk mains and there is an assistant inspector who is working alongside him. This means that there are 2 FTE's working on Trunk mains. Costs of inspectors are allocated on the proportion of FTE's working on Trunk mains.

<u>Contractors</u>

Contract labour which is used on Trunk mains is directly coded to 'Other Contractor's Charges' and can be allocated to Trunk Treated Water Distribution.

Other Direct Costs

Other costs include Company Reinstatement, Distribution Administration, Cleaning and Operations Centre, and are allocated on the basis of total length of mains for each of Trunk and Local mains.

Overheads

Overheads are split on the same proportion as the total direct costs.

Infrastructure Renewals Charge

This charge is allocated in total to Treated Water Distribution.

The split of the charge between Trunk and Local Treated Water Distribution is based on the value of the assets. This is a current valuation, based on the actual assets that are held in the GIS system.

Current Cost Depreciation

Water Resources

All the depreciation is allocated to Raw Water Abstraction.

Raw Water Distribution

Depreciation for Highwood Reservoir is allocated to Raw Water Storage and all other depreciation is allocated to Raw Water Transport.

Treated Water Distribution

Service Reservoirs' depreciation is allocated directly to Trunk Treated Water Distribution and the remaining depreciation is allocated between Trunk and Local Treated Water Distribution on the basis of the value of the associated mains.

Changes in Upstream Costs > 10%

As per the Ofwat guidance, below is a summary of the Upstream costs which have changed by >10% since last year, and an explanation of the differences.

	Change 2014 vs 2015
Operating Expenditure	-
Raw Water Storage	-13%
Local Treated Water Distribution	+10%

Raw Water Storage operating expenditure relates to Highwood Reservoir and only amounts to £33k in 2015. This compares to a cost £38k in 2014.

Local Treated Water Distribution costs have increased by 10% for the following reasons:

- There is an increase in Inspectors' employment costs, mainly due to the reclassifying of 'Query/Complaint investigations' between Wholesale and Retail. A larger proportion of these costs is now known to relate to network queries.
- The number of FTE's has been updated, and a larger percentage of these Inspectors' costs are now allocated to Local Treated Water Distribution.
- Overheads in total have increased by 6% for Treated Water Distribution, but a large proportion of these costs have been allocated to Local Treated Water Distribution as they are split on the same percentage as the direct costs.

Volumes/Drivers for unit costs

Water Resources

• Abstraction Licences MI/d: Total company abstraction licences 2014/15 The amount of water that we are licensed to extract drives the Abstraction Licence costs.

• Raw Water Abstracted MI/d: Table 10b, Line 4, *June Return 2015 The amount of water abstracted drives the costs of abstraction, such as electricity.

Raw Water Distribution

• Length of Raw Mains km: Report from company GIS as at April 2015 The length of mains will drive the direct costs of water being transported, such as electricity.

• Raw Water Abstracted MI/d: Table 10b, Line 4, *June Return 2015 The raw water storage facility is Highwood Reservoir, and the costs are driven by the amount of electricity needed and staff costs. These costs are driven partly by the amount of water pumped into the reservoir.

Water Treatment

• Potable Water Produced MI/d: Table 10b, Line 15, *June Return 2015 Water treatment costs are driven by the amount of water treated at each site.

Treated Water Distribution

• Length of Trunk Mains km: Report from company GIS as at April 2015 The length of mains is thought to be the best driver of costs, as the main costs are staff/contractor costs and materials.

• Length of Local Mains km: Report from company GIS as at April 2015 The length of mains is thought to be the best driver of costs, as the main costs are staff/contractor costs and materials.

*Portsmouth Water still collates data in some of the former 'June Return' table formats, for audit and comparison purposes.

Date:	22.05.2015
Prepared By:	C Jemphrey

ACCOUNTING SEPARATION 2014/15

Appendix 1

WHOLESALE WATER						NETW	DRK PLUS		
Business Unit		Water Re	sources	Raw Water I	Distribution	Water Treatment	Treated Wate	er Distribution	TOTAL
Service		Abstraction Licence	Raw Water Abstraction	Raw Water Transport	Raw Water Storage	Water Treatment	Trunk Treated Water Distribution	Local Treated Water Distribution	TOTAL
Total Operating Expenditure	£m	1.327	1.198	0.669	0.033	3.061	3.973	6.919	17.180
IRC	£m	ı			ı	'	1.210	4.051	5.261
CCD	£m		0.366	0.112	0.145	2.350	1.316	1.515	5.804
Total Operating Costs	£m	1.327	1.564	0.781	0.178	5.411	6.499	12.485	28.245
Total Business Unit Operating Cost	£m	2.8	91	0.95	59	5.411	18.9	384	28.245
		Abstraction	Raw Water	Length of	Raw Water	Potable Water	Length of	Length of	
Volumes/Drivers for unit cost:	6	Licences	Abstracted	Raw Mains	Abstracted	Produced	Trunk Mains	Local Mains	
		MI/d	MI/d	km	MI/d	MI/d	km	km	
Units Used		317.0	172.8	25.0	172.8	171.3	490.0	2773.0	
Unit Costs	£'000	4.19	9.05	31.24	1.03	31.59	13.26	4.50	

UPSTREAM SERVICES 2014/15