

# Accounting Separation Methodology Statement



Published July 2024



YorkshireWater

# How to view this document

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Our contents page links to every section within this document. Clicking on a specific section will instantly take you to it.

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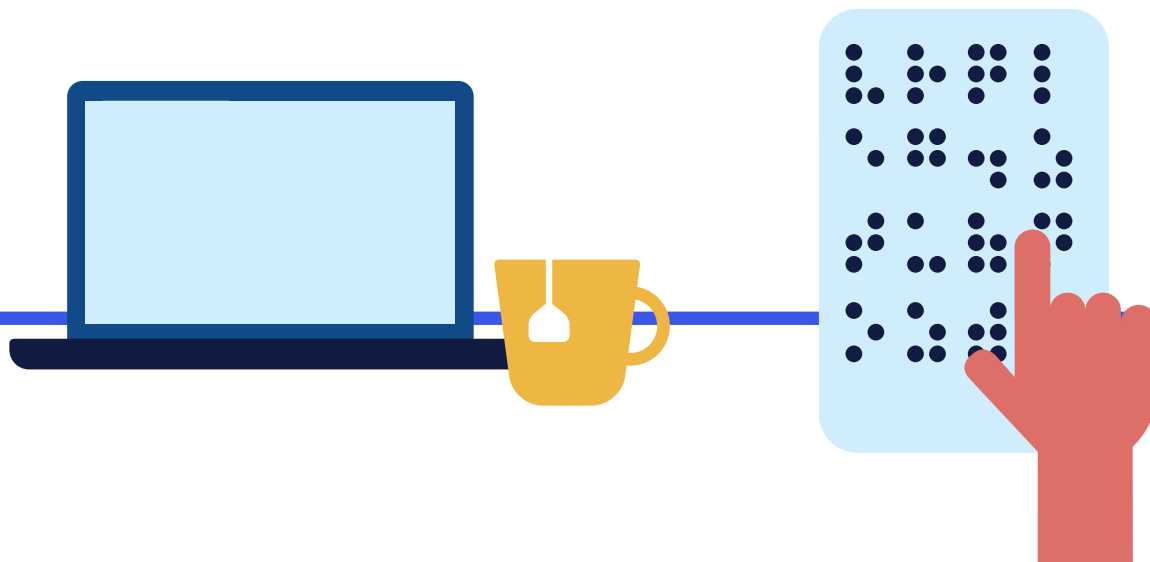
There are also many other clickable links within this document which we've made easy to spot by underlining and **highlighting** them in blue.

## Accessibility matters. That's why we want all of our customers to be able to engage, navigate, and understand our Accounting Separation Methodology Statement.

By using assistive technology like screen readers, text-to-text speech programmes and Braille displays, we can provide equal access to anyone with visual, mobility, or cognitive impairments.

### We've taken steps to ensure this document supports additional accessibility needs:

- Screen readers will recite content in a logical order, as well as identifying headers and providing alternative text for images.
- Table of contents and bookmarks to aid navigation.
- Easy-to-read text that's structured using headings, clear paragraphs and tables.
- Comfortable colour contrast.



# Contents

We've created colour-coded sections to help you to navigate this report easily. Just click on the section you are interested in on the contents page, and it will navigate you to that section.

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# Introduction

**The economic regulator of England and Wales (Ofwat) requires water companies to publish an Annual Performance Report (APR).**

The APR gives clear information about how we deliver our performance commitments and financial performance. This document explains how we make sure the financial APR data is reliable and meets Ofwat's rules. This document also shows the improvements we made to our processes this year and how we split our Totex costs between different price controls and upstream services in Section 4: Pro forma tables of the APR.

**This document helps our stakeholders understand how we produce our regulatory accounting statements, especially for Price Control Units and wholesale upstream services. As RAG 3 requires, this document has three sections:**

- 1. High Level Overview**
- 2. Price Controls Units**
- 3. Wholesale Upstream Services**

You can download our APR from our reports webpage at: [yorkshirewater.com/about-us/reports/](https://yorkshirewater.com/about-us/reports/)

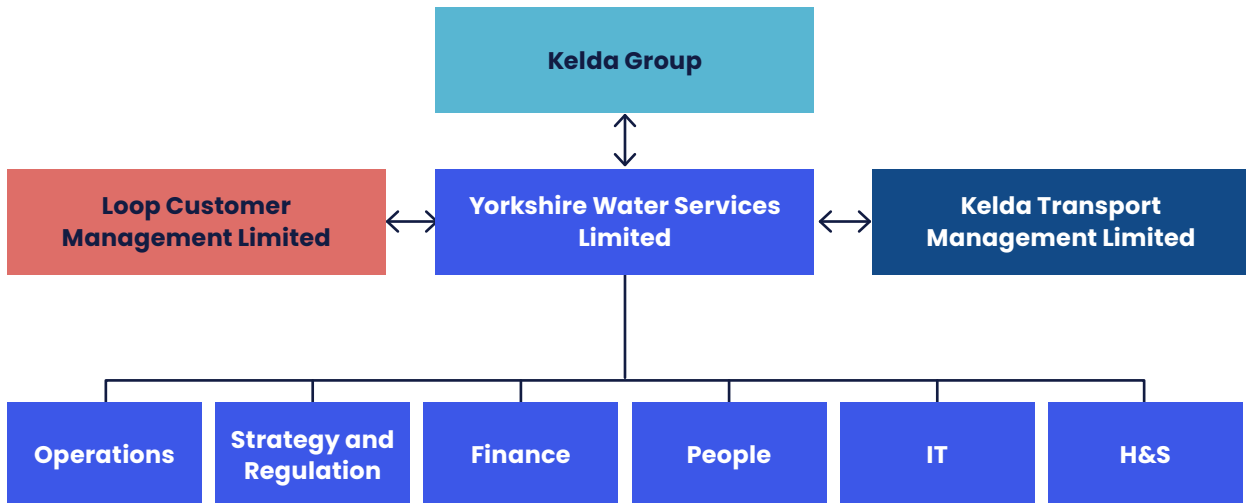
# High-level overview

**To explain the process of producing the disaggregated financial cost and asset data, the company structure, financial systems and accounting standards need to be understood.**

**This methodology statement includes information on:**

- Business structure
- Outsourced functions
- Regulatory requirements
- Governance
- Role and responsibilities
- Systems and processes.

# Business Structure



## Yorkshire Water Services Limited (Yorkshire Water) is the legal entity in which all appointed regulated costs are included.

The company is managed by a Board of Directors and a senior executive leadership team which manage the largest business areas. This is supported by two sister companies.

### These are our two sister companies:

#### Loop Customer Management Limited (Loop)

Manages most retail elements of customer service (excluding meter reading) and some wholesale customer service activities. Loop provides services to Yorkshire Water (YW) for domestic retail services and wholesale customer services.

#### Kelda Transport Management Limited (KTML)

Manages the heavy goods vehicles for the wholesale business, which is mainly the liquid sludge transport vehicles. KTML provides this service to Yorkshire Water at cost in the form of a management fee charged throughout the year.

### These are our six major business areas:

- **Operations** includes the Water, Waste and Customer Experience areas of the business. As well as our Capital Delivery, Programme Delivery and Transformation function.
- **Strategy and Regulation** incorporates the regulatory team that undertakes price review submissions, along with both asset and company strategy teams.
- **Finance** includes procurement, land and property and other areas of finance such as tariff setting and tax and treasury. These functions sit within Kelda Group and costs are recharged across to Yorkshire Water.
- **People** includes Human Resources.
- **TEC** includes technology, data and business change.
- **H&S** includes health, safety and wellbeing across the group as well as public safety, physical security and governance of environmental protection.

# Outsourced functions

A significant proportion of retail activities have been performed by Loop, which is a UK based company. All the costs associated with this contract are charged to Yorkshire Water via an annual contract fee.

Yorkshire Water and Loop are wholly owned subsidiaries of Kelda Group Limited.

For some customers, billing and cash collection is performed by other UK water companies, typically on the boundary of the Yorkshire Water region where one company provides water services and another provides sewage services. Yorkshire Water also has arrangements with a number of local authorities for them to collect water charges on behalf of Yorkshire Water.

The table below shows the major activities that were outsourced to third parties by Yorkshire Water and Loop for the year ended 31 March 2024.

Outsourcing company	Function outsourced	Outsourced to
<b>Loop</b>	Cross water boundary billing, payment handling and debt management	Other UK water companies
<b>Loop</b>	Some billing, payment handling, and debt management	UK based local authorities and housing associations
<b>Yorkshire Water</b>	Customer service, billing, payment handling and debt management – domestic customers only	Loop
<b>Yorkshire Water</b>	Below ground network repair	UK based contract partners
<b>Yorkshire Water</b>	Capital delivery	UK based contract partners
<b>Yorkshire Water</b>	Sludge transport and sludge disposal	UK based contract partners
<b>Yorkshire Water</b>	Operator License and the servicing costs for the Heavy Goods Vehicles and plant	Kelda Transport
<b>Yorkshire Water</b>	Finance – statutory and management accounts, tax and treasury, Internal audit	Kelda Group

Yorkshire Water receives services from associates within the Kelda Group. These charges are for corporate functions including areas such as Group Finance and Internal Audit. Yorkshire Water also charges Kelda Group/associates for any support service activity. The cost and revenues associated with this are allocated to non-appointed activities and follow RAG 5 guidelines. All transactions that have occurred in the year between the appointed business (Yorkshire Water) and associated companies are disclosed in Section 7: Transactions with associates and the non-appointed business of the APR.

# Regulatory requirements

The data collated and represented in the tables within the APR follow Ofwat's Regulatory Accounting Guidelines (RAG's). The tables show the costs, revenues, assets and liabilities in a variety of formats and levels of granularity, for the different activities to deliver the appointed services provided by Yorkshire Water. Ofwat uses separate binding controls, these are: water resources, water Network Plus, waste Network Plus, bioresources and retail household. Detailed below is Yorkshire Water's approach to applying these guidelines.

The information presented in this document is limited to Yorkshire Water and, where appropriate, the ultimate parent company Kelda Holdings Limited.

## **This report has been prepared in accordance with the following documents published by Ofwat:**

- IN 24/01 Expectations for monopoly company annual performance reporting 2023-24.
- RAG 1.09 – Principles and guidelines for regulatory reporting under the new 'UK GAAP' regime.
- RAG 2.09 – Guideline for the classification of costs across the price controls.
- RAG 3.14 – Guideline for the format and disclosures for the annual performance report.
- RAG 4.12 – Guideline for the table definitions for the annual performance report (inclusive of appendices).
- RAG 5.07 – Guideline for transfer pricing in the water sewerage sectors.

Within RAG 2.09, Ofwat has set out cost allocation principles that should underpin the attribution and allocation of costs within the APR. Detailed below are the principles applied, together with Yorkshire Water's response on the approach.

## **The Ofwat principles are shown in blue on the following pages.**

### **Ofwat principle**

**Transparency:** The cost attribution and allocation methods applied to allocate costs within the APR need to be transparent. This means that the costs and revenues apportioned to each service or segment should be clearly identifiable. The cost and revenue drivers used within the system should be clearly explained to enable robust assurance against this guidance.

### **Yorkshire Water response**

- Costs are allocated in a clearly transparent way via cost centres which map to the regulatory definitions within the APR. The cost centres are clearly identified within the company's accounting system (SAP) allocating them directly to the activity of work carried out.
- We seek to minimise manual adjustments to information in SAP. Where overhead costs cannot be attributed to regulatory specific cost centres at source, the allocations are made using Ofwat guidance and reviewed in detail and agreed by the relevant finance and operational experts. However, once the draft regulatory accounts are prepared, some manual adjustments are inevitable to ensure that any required adjustments captured during the assurance process are included in the final regulatory financial accounts. These adjustments are then captured in a lesson learnt process to ensure that they can be incorporated in the accounting system in future years.
- Cost drivers used are consistent with Ofwat guidance and are set out in the price control and upstream services sections.



## Ofwat principle

**Causality:** Cost causality requires that costs (and revenues) are attributed or allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution or allocation of costs and revenues to activities and services should be performed at as granular a level as possible. Allocating costs in relation to the way resources are consumed provides a means of building up service and product costs. This approach views a business as a series of activities, each of which consumes resources and, therefore, generates costs. An activity based approach should result in the majority of the total costs being attributed or allocated on a meaningful basis. All operating and capital costs must ultimately be attributed or allocated.

## Yorkshire Water response

- Cost centres are aligned to the relevant regulatory service allowing reports to be run in the required format for the tables in accordance with Ofwat's Regulatory Accounting Guidelines. Checks are undertaken to ensure all cost centres are included, and that the balances reconcile to the regulatory financial statements.
- Where possible, costs are directly allocated to service (e.g. Water Treatment). Costs are attributed and allocated to price controls in relation to the way in which resources are consumed. If allocation of costs is required, because the cost relates to more than one service, the allocation methods used are chosen from the suggested methods in the Ofwat guidance. Further details are provided in the price control and upstream sections.
- The documented procedures and resulting reported costs attributed to price controls and upstream services are then reviewed by the appropriate finance expert and approved by the senior manager in that area.

## Ofwat principle

**Non-discrimination:** Companies should ensure that no undue preference or discrimination is shown by water undertakers and sewerage undertakers in relation to the provision of services by themselves or other service providers (this is consistent with the new duty in section 2 of the Water Industry Act 1991 that has been (or, in relation to Welsh water companies, will be) inserted by section 23 of the Water Act 2014).

Therefore, the attribution or allocation of costs and revenues should not favour any price control unit or appointed/non-appointed business and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.

## Yorkshire Water response

- The attribution of costs and revenues are allocated consistently across all business units and price controls, in compliance with RAG 5.07 transfer pricing guidance.

## Ofwat principle

**No cross subsidy between price controls:** Price reviews have separate binding price controls. 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. Rules on transfer pricing are detailed in RAG 5.

## Yorkshire Water response

- Costs are allocated based on the activity and services that cause that cost (or revenue) to be incurred.
- Costs are allocated consistently across all business units and price controls in compliance with RAG5 transfer pricing guidance.
- Within the internal governance of preparing these statements, there is a high degree of segregation of duties.

## Ofwat principle

**Objectivity:** The cost and revenue attribution criteria need to be objective and should not intend to benefit any price control unit or appointed/non-appointed business. Cost allocation must be fair, reasonable and consistent.

## Yorkshire Water response

- To ensure no favour is given to any business unit, costs are directly allocated where possible and where this is not possible an objective measure (in line with Ofwat's principles) is used to allocate costs.
- Objective cost allocation measures used are measures which are reported internally or externally, e.g. number of customer contacts, number of (Full Time Equivalent) FTEs and are in some cases subject to external assurance.
- The attribution of costs and revenues are allocated consistently across all business units, price controls and non-appointed business in compliance with RAG 5.07 transfer pricing guidance.

## Ofwat principle

**Consistency:** Costs should be allocated consistently by each company from year-to-year to ensure meaningful comparison of information across the sector and over time, that regulatory incentives from comparative analysis apply fairly across companies, to enable monitoring of companies' performance against price control assumptions; and any changes to the attribution and allocation methodology from year-to-year should be clearly justified and documented in the Accounting Separation Methodology Statement.

## Yorkshire Water response

- The tables are prepared in a consistent manner each year to enable meaningful comparison of information over time. The underlying company structure and SAP financial systems have remained the same for many years. However, regulatory guidance is refined annually and improvement opportunities identified and implemented.
- Where these changes are necessary to improve accuracy and compliance, changes are made and detailed within this statement in the changes to methodology section.
- Any changes as detailed in Information Notices or company specific letters issued by Ofwat are implemented.

## Ofwat principle

**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.

## Yorkshire Water response

- Assets, where possible, are allocated to the service in which they are required for use and any associated operating costs and depreciation will be charged to that service.
- Assets which are used by more than one service area are allocated to a single business unit of principal use and then recharged to the relevant business unit. Included in this category are a number of general and support assets that do not have a single principal use service, for example the financial system and the IT infrastructure. These assets have been allocated to Wastewater Network Plus and then recharged to other business units using an appropriate cost driver. The recharges are included in Section 4: Pro forma tables of the APR, Table 2A and are detailed on the next page in the capital recharge table.

Asset category	Recharge basis	Water resources £m	Water Network Plus £m	Waste Network Plus £m	Bioresources £m	Retail HH £m
IT	FTE	0.652	11.756	(16.387)	1.561	2.419
Facilities	FTE	0.240	4.335	(6.116)	0.576	0.965
Operational	FTE	0.111	2.012	(2.389)	0.266	0.000
Fleet	FTE	0.000	0.006	(0.007)	0.001	0.000
Innovation	FTE	0.004	0.065	(0.077)	0.009	0.000
<b>Total</b>		<b>1.008</b>	<b>18.173</b>	<b>(24.976)</b>	<b>2.412</b>	<b>3.384</b>

The overall recharge of assets held in wastewater Network Plus under principal use has increased from £21.7m to c£25.0m.

As in prior years these assets are allocated to Wastewater Network Plus in Section 4: Pro forma tables of the APR, Table 2D and 2O and then recharged across price controls using Full Time Equivalent (FTE).

We have continued with the same approach as 2022/23 with the assets following the principal use set out in RAG 2.09, with the principal use recharge impact for wholesale reported within the PU OpEx recharge on Table 2A and included within the relevant lines in Table 4D, 4E, 4J and 4K.

Our Management and General support capital programme expenditure programme was assessed using Principal Use and where applicable expenditure was allocated to Wastewater Network Plus, all other costs continued to be proportionately allocated to the Water and Wastewater programmes in line with the price control units section. This seems practical as the alternative would be to capitalise each asset separately and hence, we apportion expenditure using the same approach to ensure consistency.

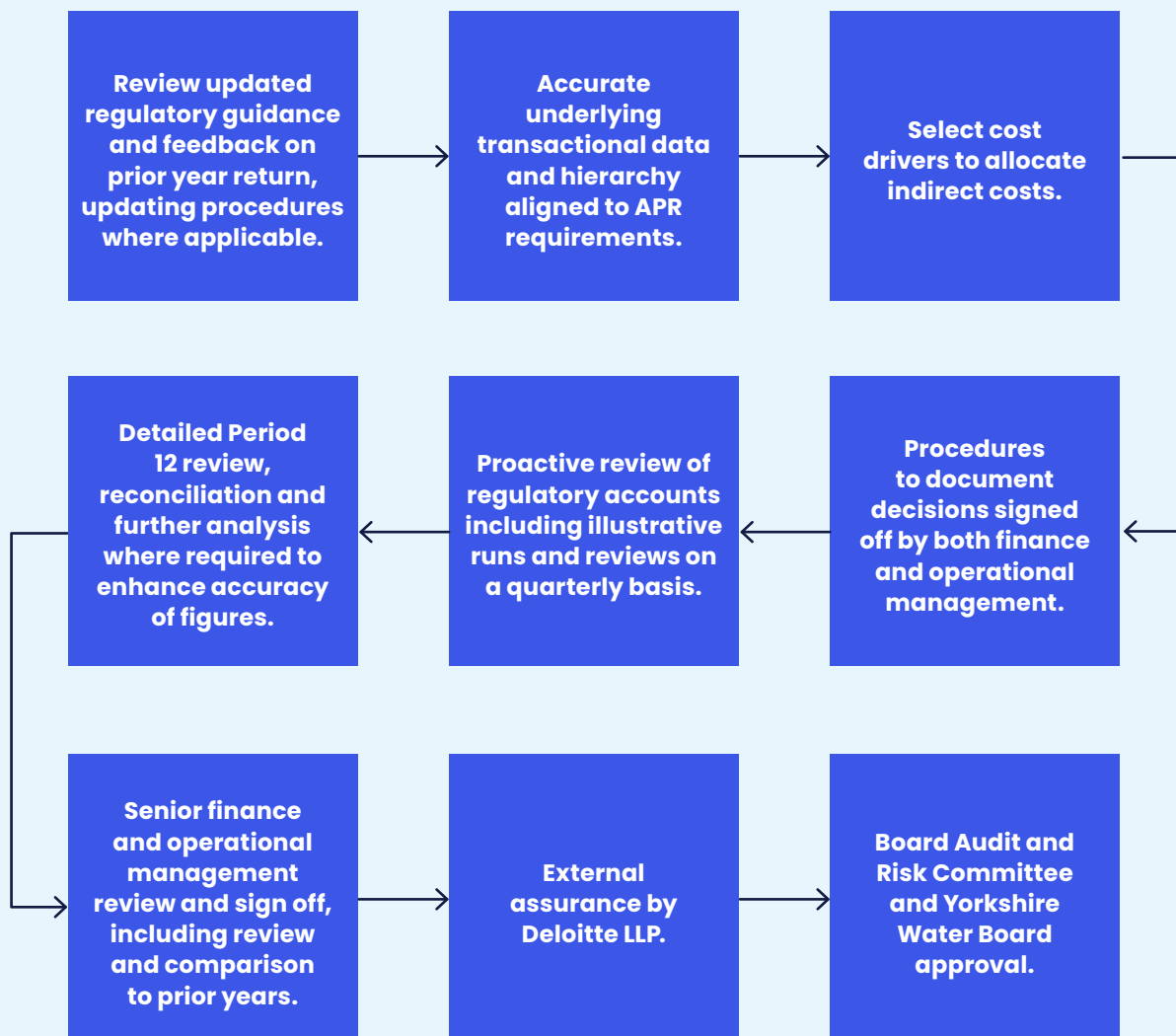
# Governance

The APR involves experts from across the business to pull together the required financial and regulatory information.

The key teams involved are as follows:

- Finance and Regulation.
- Operational management at both senior and local level.
- Board Audit and Risk Committee.
- Yorkshire Water Board.

An overview of the process is set out below:



# Roles and responsibilities

## Regulation

- Understand Ofwat guidance.
- Agree levels of assurance and process.
- Set assurance timetable in line with Board dates.
- Co-ordinate the collation of the APR document and supplementary documents.
- Publish and submit all regulatory documents.

## Finance

- Understand Ofwat guidance and ensure procedures align with the requirements and that those procedures are approved by operational experts.
- Review of quarterly position to assist operational teams to make decisions for investment and/or efficiency. As well as identifying and rectifying any issues ahead of year end.
- Management of underlying financial transactions, cost centres and cost drivers ensuring all values reconcile and all costs are included within the regulatory accounts.
- A dedicated virtual finance team to form APR finance working group which communicates regularly to ensure compliance with Regulatory Accounting Guidelines (RAGs) and how to generate these changes through the corporate system.
- Review and sign off cost drivers with Operational Managers as part of the annual business planning process, but also as required if there are relevant operational changes.
- Consolidate and report annual performance tables including methodology statement.

## Senior and operational managers

- Review and approve procedure notes.
- Review and confirm the data has been produced in a manner consistent with the procedures.
- Review and confirm the data meets the relevant reporting requirements.
- Review and confirm the data has been sense checked by the Data Manager.
- Understand and explain any significant changes or trends in the data.
- There is an APR Steering Group to ensure process and timetable adherence in the months prior to publication.

## Audit & assurance

Once completed, the Annual Performance Report with its data is subject to an external financial audit and external assurance. The outcomes of these are stated in Section 4: Pro forma tables of the APR.

## Board review

Board Audit Committee and Yorkshire Water Board review and sign-off the audited report before publication.

# Systems and processes

**Yorkshire Water uses SAP as the corporate financial system, and is the only system used for producing the regulatory accounts. A new version of SAP was introduced in 2019/2020 and a consistent approach for cost assessments and allocations has been used.**

Cost centres have been set up for all sites and network locations and, where possible, costs are coded directly to sites as purchase orders are raised. Instead of using an external reporting tool to disaggregate the data, the indirect cost assessment facilities in SAP are used to allocate costs that cannot be directly coded to an upstream service or price control.

An example of indirect costs would be the operating costs of our IT infrastructure which need to be apportioned across the price controls. By using the cost assessment process in SAP to allocate costs directly to site and regulatory cost centres, it gives the advantage of providing operational and financial users differing views of the same data set. The management, statutory and regulatory accounts are extracted from the same source data giving 'one version of the truth'.

The APR financial tables have been produced within SAP from cost capture information that has been set to include price control data wherever possible. The current operating structure and management accounting hierarchy within Yorkshire Water have been deliberately structured along similar lines to the price controls. This minimises further data processing and disaggregation into Ofwat's price controls, with operational managers managing direct costs and budgets that are closely aligned to Ofwat's price controls.

# Price control units



# Price control units

**The principles and guidance set out in RAG 2.09 have been applied in the preparation and completion of the regulatory accounting tables.**

The price controls which Ofwat have specified are: water resources, water Network Plus, wastewater Network Plus, bioresources, retail household. These are the price controls over which all costs in Yorkshire Water appointed business must be allocated and presented for the purposes of Ofwat regulatory reporting.

The methodology for allocation of total operating expenditure (Totex) across price controls is summarised below.

## Capital expenditure

Capital expenditure data is managed and maintained on the corporate financial system (SAP). Separate projects are raised for each discrete work instruction, and each project is allocated investment categories which are attributes that describe the regulatory reason, asset type and the price control and wholesale upstream service.

Where a project is given more than one regulatory driver for the investment, two or more investment categories with appropriate percentages are used to calculate the allocation to each price control and upstream service.

All project investment category allocations are reviewed by the regulatory programme assurance team (within the Finance department), and system controls prevent any project going live until these positions have been assured.

Monthly capital expenditure is reported to our Business Investment Committee (BIC), which actively manages the capital programme and the associated regulatory and customer performance commitments. This includes individual approvals of projects greater than £1m.

At the start of this AMP we re-designed and expanded the hierarchy of investment categories used to record capital expenditure data.

This has created a structure which can be expanded as our reporting needs continue to develop in line with regulatory guidance.

All live projects have been mapped to this new structure and projects managers have received training and documentation in the use of the new investment categories.

An analysis and explanation of capital expenditure by price control and variance from the Final Determination are detailed in Section 4: Pro forma tables of the APR, Table 4D and Table 4E.

## Operating expenditure

Operating expenditure data is managed and maintained on the corporate financial system (SAP). On a monthly basis appointed operating costs are reported to the Yorkshire Water Board.

For annual statutory reporting purposes, all information is prepared in SAP in accordance with FRS 102. Once these values have been reviewed and approved by senior managers, the cost assessment functionality within SAP is used quarterly; to allocate overheads into the site and regulatory price control cost centre hierarchy, including any adjustments required by RAG 1.09. Further details of the methodology for the allocation of costs over price controls is detailed in tables 1 to 7 in this methodology statement.

An analysis and explanation of operating expenditure by price control and variance from the previous year are detailed in Section 4: Pro forma tables of the APR, Table 2B.

The RAG 4.12 principles and guidance have been reviewed and applied when completing the tables within the APR.

Yorkshire Water do have sites that cover more than one price control. Power costs are therefore, disaggregated by upstream service.

Any other power costs that are not electricity, such as heating oil and gas, are directly allocated to the correct service cost centre in SAP in accordance with RAG 3.14.



# Methods and cost drivers used to calculate allocations between price control units

The following tables provide details how costs are allocated across price controls:

**Table 1 – Wholesale/retail allocations**

Activity	Company	2023/2024 Cost Driver	2023/2024 Why considered appropriate	2022/2023 Cost Driver
<b>Customer Services</b> – Billing	Loop	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Payment handling, remittance, and cash handling	Loop	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Charitable trust donations	YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Vulnerable customer schemes	Loop	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Non-network customer enquiries and complaints	Loop / YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Network customer enquiries and complaints	YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Customer Services</b> – Investigatory visits/first visit to customer	YW	Where the cause of investigation is not a network issue it is charged to retail. Where the cause of the investigation is a network issue it is charged to wholesale.	Per Ofwat RAG 2.09	Where the cause of investigation is not a network issue it is charged to retail. Where the cause of the investigation is a network issue it is charged to wholesale.
<b>Customer Services</b> – Other customer services	YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail

<b>Activity</b>	<b>Company</b>	<b>2023/20234 Cost Driver</b>	<b>2023/2024 Why considered appropriate</b>	<b>2022/20223 Cost Driver</b>
<b>Debt management</b>	Loop	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Doubtful debts</b>	YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Meter reading</b>	YW	Wholly in Retail	Per Ofwat RAG 2.09	Wholly in Retail
<b>Services to developers</b>	YW	Providing developer information and administration for new connections in retail, all other services within wholesale.	Per Ofwat RAG 2.09	Providing developer information and administration for new connections in retail, all other services within wholesale.
<b>Disconnections and reconnections</b>	YW	Administration and decision retail, physical activity is within wholesale.	Per Ofwat RAG 2.09	Administration and decision retail, physical activity is within wholesale.
<b>Demand side water initiatives</b>	YW	All expenditure is retail except where expenditure is to meet wholesale outcomes.	Per Ofwat RAG 2.09	All expenditure is retail except where expenditure is to meet wholesale outcomes.
<b>Customer side leaks</b>	YW	All expenditure and income are retail except where expenditure is to meet wholesale outcomes.	Per Ofwat RAG 2.09	All expenditure and income are retail except where expenditure is to meet wholesale outcomes.
<b>Other operating expenditure (OOE)</b>	YW	Other direct costs which are retail in nature are allocated direct to retail (i.e. those not covered under the other headings).	Per Ofwat RAG 2.09	Other direct costs which are retail in nature are allocated direct to retail (i.e. those not covered under the other headings).
<b>OOE – General and Support – IT costs</b>	YW	Split based on headcount – proxy to number of computers.	Per Ofwat RAG 2.09	Split based on headcount – proxy to number of computers.
<b>OOE – General and Support – Finance, HR, payroll, general management</b>	YW	HR on headcount, everything else FTEs.	HR on headcount, everything else FTEs. Timesheets are not available, preference has been used	HR on headcount, everything else FTEs.
<b>OOE – Executive Directors remuneration</b>	YW	FTEs	Timesheets are not available so Ofwat’s second preference has been used.	FTEs

Activity	Company	2023/20234 Cost Driver	2023/2024 Why considered appropriate	2022/2023 Cost Driver
<b>OOE</b> – Non- Executive Director’s remuneration	YW	FTEs	Timesheets are not available so Ofwat’s second preference has been used.	FTEs
<b>OOE</b> – General and support – Facilities, building/grounds maintenance	YW	FTE (Inc. office based contractors) and grounds maintenance is directly allocated to the associated site.	Per Ofwat RAG 2.09	FTE (Inc. office based contractors) and grounds maintenance is directly allocated to the associated site.
<b>OOE</b> – General and support – insurance	YW	FTEs for staff related insurance, Gross Modern Equivalent Asset Value (GMEAV) for asset insurance.	Per Ofwat RAG 2.09	FTEs for staff related insurance, Gross Modern Equivalent Asset Value (GMEAV) for asset insurance.
<b>OOE</b> – Other general and support costs	YW	FTEs	Timesheets are not available so Ofwat’s second preference has been used.	FTEs
<b>OOE</b> – Regulation Licence costs	YW	One ninth of Regulation staff and license costs are allocated to Retail and the remainder to Wholesale. The direct costs are then used to apportion amongst upstream services.	Per Ofwat RAG 2.09	One ninth of Regulation staff and license costs are allocated to Retail and the remainder to Wholesale. The direct costs are then used to apportion amongst upstream services.
<b>OOE</b> – Local Authority Rates	YW	Rateable Asset Value	Per Ofwat RAG 2.09	Rateable Asset Value.
<b>Third party services, e.g. rechargeable works</b>	YW	All wholesale	Per Ofwat RAG 2.09	All wholesale.
<b>Depreciation</b>	YW	Assets allocated per principal use, partly in retail.	Per Ofwat RAG 2.09	Assets allocated per principal use, partly in retail.

## Table 2 – Retail household/non-household allocations

Yorkshire Water exited the retail non-household market in October 2019 and from 2022/2023, no developer services activities were carried out via a retailer intermediary and all costs are, therefore, classified as wholesale as per RAG 2.09.

Activity	Company	2023/20234 Cost Driver	2023/2024 Why considered appropriate	2022/20223 Cost Driver
<b>Services to developers</b>	YW	No retail non-household.	Per Ofwat RAG 2.09	No retail non-household.

## Table 3 – Wholesale Water cost allocations

Expenditure line	Method of allocation	Why considered appropriate	How satisfied
<b>Other operating expenditure</b> – Employment costs	These costs are allocated based on a management assessment. For overhead costs these are allocated based on number of FTEs.	All employment costs charged to capital are recorded using timesheets as well as standard capitalisation for key teams.  For remaining operating costs, management assessments are based, where possible, on operational data.  Where this is not possible estimates have been made.	Finance business partners are trained in accounting separation guidelines and meet with all operational budget managers. A peer review is also undertaken.
<b>Other operating expenditure</b> – Hired and contracted services	These costs are allocated direct to service through our procurement system (Ariba) and work management system (WMS). For elements which cross price controls an assessment is completed to allocate these costs based on an appropriate driver.	Directly allocated.	A review is under-taken monthly and at the end of the year to ensure all costs have been allocated correctly.
<b>Other operating expenditure</b> – Other direct costs – Telephone	Landline costs are directly allocated. Mobile phone costs are allocated in the same way as employment costs.	Directly allocated, where possible, and the rest in line with cost of employment.	In line with employment allocation process.
<b>Other operating expenditure</b> – Other direct costs – Insurance	Insurance payments are directly allocated to service and are allocated using an appropriate cost driver based on the type of insurance e.g. Gross Modern Equivalent Asset Value (GMEAV) for property insurance.	Directly allocated where possible and the balance is based on appropriate cost driver.	Insurance database categorises insurance claims and the allocations for the premium are based on the type of cover.

<b>Expenditure line</b>	<b>Method of allocation</b>	<b>Why considered appropriate</b>	<b>How satisfied</b>
<b>Other operating expenditure</b> – Other direct costs – Rents	Rents are directly allocated to service.	Directly allocated.	Monthly costs review to ensure directly allocated costs are correct.
<b>Other operating expenditure</b> – Other direct costs – Contract cars	Allocated in the same way as employment costs.	Directly allocated, where possible and the rest in line with cost of employment.	In line with employment allocation process.
<b>Other operating expenditure</b> – Other direct costs – Professional subscriptions	Directly allocated.	Directly allocated.	Directly allocated.
<b>Other operating expenditure</b> – Other direct costs – GSS and Ex gratia	Directly allocated.	Directly allocated.	Monthly Guarantee Standards Scheme and ex gratia reviewed to ensure directly allocated costs are correct.
<b>Other business activities</b> – Licence fee	One ninth of Regulation staff and license costs are allocated to Retail, with the remainder equally allocated to Wholesale services. The direct costs are then used to apportion amongst upstream services.	All of this cost is regulation costs. The cost allocation used is per the Ofwat guidance.	Complies with RAG 2.09.
<b>Other business activities</b> – Wholesale market costs	50% water and 50% waste. The direct costs are then used to apportion amongst upstream services.	Consistent approach to industry.	Complies with guidelines.
<b>Other business activities</b> – Innovation fund	As per Ofwat guidance innovation fund costs are not included in operating expenditure.	As per information notice.	Complies with guidelines.
<b>Exceptional items</b>	Directly allocated (no Exceptional items in 2023/2024).	Analysis of operational costs identified as exceptional for statutory financial reporting has been separately undertaken.	Complies with guidelines.
<b>Scientific services</b>	Allocation on costs of sampling.	Costs are driven by complexity of sampling for which cost is a proxy.	Monitor sampling for Drinking Water Inspectorate (DWI) purposes.
<b>General and Support</b> – HR	Allocated using headcount.	Each colleague drives an HR cost even if part time.	Proxy to how HR costs are driven.

<b>Expenditure line</b>	<b>Method of allocation</b>	<b>Why considered appropriate</b>	<b>How satisfied</b>
<b>General and Support – IT</b>	Headcount (Inc. office based contractors and 50% of non office as they share IT equipment).	Each colleague has a PC or hand-held device even if part time.	Proxy for number of PCs and hand-held devices.
<b>General and Support – Management services and finance</b>	FTE (Inc. Contractors).	Based on Ofwat guidelines.	Complies with guidelines.
<b>General and Support – Facilities</b>	FTE (Inc. office based contractors).	Based on Ofwat guidelines.	Complies with guidelines.
<b>General and Support – Other</b>	FTE	Based on Ofwat guidelines.	Complies with guidelines.
<b>Local authority rates – Cumulo rates (water)</b>	Use GMEAV to allocate costs (rateable assets only).	Based on value of assets assigned to business units which are reported in supplementary fixed assets tables.	Complies with guidelines.
<b>Service charges – Abstraction</b>	Directly allocated	Directly allocated.	Directly allocated.
<b>Service charges – Discharge</b>	Directly allocated	Directly allocated.	Directly allocated.
<b>Service charges – Other</b>	Directly allocated	Directly allocated.	Directly allocated.
<b>Cost associated with Traffic Management Act</b>	Directly allocated based on number of permits.	Directly allocated to treated water distribution.	Complies with guidelines.
<b>Costs associated with lane rental scheme</b>	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Statutory water softening</b>	N/A	Nil operating expenditure.	Nil operating expenditure.

**Table 4 – Wholesale wastewater cost allocations**

<b>Expenditure line</b>	<b>Method of allocation</b>	<b>Why considered appropriate</b>	<b>How satisfied</b>
<b>Power</b>	The Energy system (Optima) collects costs at meter level and this costed directly to the activity where possible. Where site meters supply more than one service the account is split based upon estimated power usage of equipment on site.	Where metered data is available it is used, otherwise a management estimate is applied per RAG 4.12.	Management estimates are reviewed by finance business partners with operational colleagues.
<b>Income treated as negative expenditure</b>	Renewable Obligation Certificates income associated with each service type allocated appropriately.	Directly allocated.	Reviewed with operational colleagues.
<b>Bulk Supply</b>	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Renewals expensed in year – infrastructure/ non-infrastructure</b>	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Other operating expenditure – Other direct costs – Telephone</b>	Landline costs are directly allocated. Mobile phone costs are allocated in the same way as employment costs.	Directly allocated, where possible, and the rest in line with cost of employment.	In line with employment allocation process.
<b>Other operating expenditure – Other direct costs – Rents</b>	Rents are directly allocated to service.	Directly allocated.	Monthly costs review to ensure directly allocated costs are correct.
<b>Other operating expenditure – Employment costs</b>	These costs are allocated based on a management assessment. For overhead costs these are allocated based on number of FTEs.	All employment costs charged to capital are allocated based on timesheets as well as standard capitalisation for key teams. For remaining operating costs, management assessments are based, where possible, on operational data.  Where this is not possible estimates have been made.	Finance business partners are trained in accounting separation guidelines and meet with all operational budget managers. A peer review is also undertaken.

Expenditure line	Method of allocation	Why considered appropriate	How satisfied
<b>Other operating expenditure</b> – Hired and contracted services	These costs are allocated direct to service through our procurement system (Ariba) and work management system (WMS). For elements which cross price controls, an assessment is done to allocate these costs based on an appropriate driver.	Directly allocated.	A review is undertaken monthly and at the end of the year to ensure all costs have been allocated correctly.
<b>Other operating expenditure –</b> Other direct costs – Insurance	Insurance payments are directly allocated to service, and premiums are allocated using an appropriate cost driver based on the type of insurance e.g. Gross Modern Equivalent Asset Value (GMEAV) for property insurance.	Directly allocated where possible, and the balance is based on appropriate cost driver.	Insurance database categorises insurance claims and the allocations for the premium are based on the type of cover.
<b>Other operating expenditure –</b> Other direct costs – Contract cars	Allocated in the same way as employment costs.	Directly allocated, where possible and the rest in line with cost of employment costs.	In line with employment allocation process.
<b>Other operating expenditure –</b> Other direct costs – Professional subscriptions	Directly allocated	Directly allocated	Directly allocated
<b>Other business activities</b> (Licence fee)	One ninth of Regulation staff and license costs are allocated to Retail, with the remainder equally allocated to Wholesale services. The direct costs are then used to apportion amongst upstream services.	All of this cost is regulation costs. The cost allocation used is per the Ofwat guidance.	Complies with RAG 2.09
<b>Other business activities</b> (Wholesale Market Costs)	50% water and 50% waste. The direct costs are then used to apportion amongst upstream services.	Consistent approach to industry.	Complies with guidelines
<b>Other business activities –</b> Innovation fund	As per Ofwat guidance innovation fund costs are not included in operating expenditure.	As per information notice	Complies with guidelines



<b>Expenditure line</b>	<b>Method of allocation</b>	<b>Why considered appropriate</b>	<b>How satisfied</b>
<b>Exceptional items</b>	Directly allocated (no exceptional items in 2023/2024).	Analysis of operational costs identified as exceptional for statutory financial reporting has been separately undertaken.	Complies with guidelines.
<b>Scientific services</b>	Allocation on costs of sampling.	Costs are driven by complexity of sampling for which cost is a proxy.	Monitor sampling for Drinking Water Inspectorate (DWI) purposes.
<b>General and Support – HR</b>	Allocated using headcount.	Each colleague drives an HR cost even if part time.	Proxy to how HR costs are driven.
<b>General and Support – IT</b>	Headcount (Inc. office based contractors and 50% of non office as they share IT equipment).	Each colleague has a PC or hand-held device even if part time.	Proxy for number of PCs and hand-held devices.
<b>General and Support – Management services and finance</b>	FTE (Inc. Contractors).	Based on Ofwat guidelines.	Complies with guidelines.
<b>General and Support – Facilities</b>	FTE (Inc. office based contractors).	Based on Ofwat guidelines.	Complies with guidelines.
<b>General and Support – Other</b>	FTE	Based on Ofwat guidelines.	Complies with guidelines.
<b>Local authority rates – (Wastewater)</b>	Use GMEAV to allocate costs (rateable assets only).	Based on value of assets assigned to business units which are reported in supplementary fixed assets tables.	Complies with guidelines.
<b>Service charges – Discharge</b>	Directly allocated.	Directly allocated.	Directly allocated.
<b>Service charges – Other</b>	Directly allocated.	Directly allocated.	Directly allocated.
<b>Cost associated with Traffic Management Act</b>	Directly allocated based on number of permits.	Directly allocated to treated water distribution.	Complies with guidelines.
<b>Costs associated with lane rental scheme</b>	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Costs associated industrial emissions directive</b>	Directly allocated.	Directly allocated.	Directly allocated.

Table 5 – Retail cost allocations

Expenditure line	Method of allocation	Why considered appropriate	How satisfied
<b>Customer services</b> – Billing	Where separately costed teams work solely on billing activity, they are coded directly to billing. Where teams work for a proportion of their time on billing an appropriate cost driver is used. Where teams work solely on household or non-household their costs are allocated accordingly.	Where costs are separately identified in SAP these are directly charged. For costs which are allocated, e.g. postage, an appropriate cost driver is used, e.g. number of bills issued as a proportion of total items of mail dispatched.	Cost allocation methods are reviewed with a finance business partner and an operational colleague to ensure appropriate.
<b>Customer services</b> – Payment handling	Payment commissions and the cost of the Payments team are held separately in SAP. Other costs allocated to payment handling are small and based on an appropriate cost driver.	The majority of costs are separately identifiable.	The majority of costs are separately identifiable.
<b>Customer services</b> – Charitable trust donations	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Customer services</b> – Vulnerable customer schemes	Directly allocated.	Directly allocated.	Cost allocation methods are reviewed with a finance business partner and an operational colleague to ensure appropriate.
<b>Customer services</b> – Non-network enquiries and complaints	Contact centre costs are allocated between network and non-network using the number of customer contacts as a cost driver. The number of customer contacts agrees to numbers reported within the APR and also for C-MEX. Other team costs are allocated based on management estimate.	Costs are apportioned based on the number of calls.	The number of contacts used to apportion costs are assured by the operational team.

<b>Expenditure line</b>	<b>Method of allocation</b>	<b>Why considered appropriate</b>	<b>How satisfied</b>
<b>Customer services</b> – Network enquiries and complaints	Contact centre costs are allocated network and non-network using the number of customer contacts as a cost driver. The number of customer contacts agrees to numbers reported for the APR and C-MEX. Other team costs are allocated based on management estimate.	Costs are apportioned based on the number of calls.	The number of contacts used to apportion costs are assured by the operational team.
<b>Customer services</b> – First time investigatory visits – Retail	An analysis is prepared of customer visits which are not due to a network failure.	This is compliant with Ofwat’s guidance that first time investigatory visits that are not due to a network failure are classed as retail activities.	Cost allocation methods are reviewed with a finance business partner and an operational colleague to ensure appropriate.
<b>Customer services</b> – Other customer services	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>Debt management</b>	Most is done by separate household and non-household teams whose costs are directly allocated. Some other teams are allocated to this activity by management estimate, but the costs are smaller in value.	The majority of costs are separately identifiable.	The majority of costs are separately identifiable.
<b>Doubtful debts</b>	Directly allocated.	Directly allocated.	Directly allocated.
<b>Meter reading</b>	Directly allocated.	Directly allocated.	Directly allocated.
<b>Services to developers</b>	N/A	Nil operating expenditure.	Nil operating expenditure.
<b>General and Support</b> – IT	Loop costs are directly allocated. For Yorkshire Water, costs are allocated based on headcount	Assumed each person employed has a PC, Laptop or hand-held device	Proxy for number of PCs and hand-held devices.
<b>General and Support</b> – HR	Loop costs are directly allocated. For Yorkshire Water, costs are allocated based on headcount.	Each colleague drives an HR cost even if part time	Proxy to how HR costs are driven.
<b>General and Support</b> – Facilities	Loop costs are directly allocated. For Yorkshire Water, costs are allocated based on floor space and FTE.	Floor space alone is not valid as some staff carry out both wholesale and retail activities.	Done on a facilities site-specific basis.
<b>General and Support</b> – Other	Loop costs are directly allocated. For Yorkshire Water, costs are one ninth of regulation staff and license costs.	YWSL is regulation costs. The cost allocation used is per the Ofwat guidance.	Complies with guidelines.

## Table 6 – Non-appointed cost allocations

RAG 4.12 Appendix 1 has been followed to ensure operating costs associated with non appointed revenue has been appropriately allocated.

Expenditure line	Method of allocation	Why considered appropriate
<b>Revenue</b>	Non-water/wastewater services e.g. tankered waste, third party use of appointed assets and rechargeable work where the appointee is not a statutory supplier.	RAG 4.09 Appendix 1
<b>Operating costs</b>	Operating costs associated with revenue stated above. This includes depreciation where appropriate.	RAG 4.12

## Table 7 – Sewage collection split by function, as recorded in Yorkshire Water mapping system

Function	Length (km)	Split by function (%)
Foul	20,888	67%
Surface Water	7,624	25%
Highways	2,461	8%
<b>Total</b>	<b>30,973</b>	<b>100%</b>

## Table 8 – Management & General (M&G) percentage cost split allocations

Table 8 below shows the percentages in management and general allocation which are materially consistent with previous year's allocations.

FTE % Allocations	Water Resources	Water Network Plus	Wastewater Network Plus Sewage Collection	Wastewater Network Plus Sewage Treatment	Bioresources	Retail HH	Total
Total overhead 2022/2023	3%	39%	25%	18%	5%	10%	100%
Total overhead 2023/2024	2%	39%	25%	18%	5%	11%	100%
Management Services and Finance 2022/2023	2%	48%	24%	13%	5%	8%	100%
Management Services and Finance 2023/2024	2%	48%	23%	13%	6%	8%	100%
Data processing 2022/2023	2%	46%	24%	15%	4%	9%	100%
Data processing 2023/2024	2%	47%	23%	15%	4%	9%	100%
Facilities 2022/2023	2%	43%	24%	16%	5%	10%	100%
Facilities 2023/2024	2%	44%	23%	16%	5%	10%	100%

The above table shows how the Management and General costs have been allocated using internal FTE and contractors (where they use the overhead services).

For most management and general allocations internal Yorkshire Water FTE has been used. However, we have incorporated total contractors FTE's for management and finance as the in-year costs benefit the whole contract. In terms of data processing costs which are mainly information technology costs, only the actual number of contractors using these services have been included and similarly where contractors use Yorkshire Water facilities, they have appropriate FTE allocations.

We have been continually reviewing and improving the process each year to ensure that each price control receives a fair share of their Management and General costs.

## Table 9 – Direct and Indirect Costs

Table 9 shows the proportions which are direct and indirect for total other operating costs.

	Wholesale			
	Water		Waste	
	Direct	Allocated	Direct	Allocated
<b>Power</b>	63%	37%	59%	41%
<b>Other operating expenditure</b>	48%	52%	26%	74%

Direct costs are costs which relate directly to that activity and are costed in SAP directly; indirect costs are costs that are allocated on an assessment basis. Most of our costs are directly allocated with the remaining allocated through assessments. This is consistent for both water and wastewater

### Recharges between water resources, water Network Plus, wastewater Network Plus and bioresources

Inter-price control charges are included for the consumption of water by wastewater Network Plus and bioresources, and there is also a charge for the treatment and disposal of water sludges produced through water treatment. These charges are consistent with prior-year.

2023/2024 has seen a £1.6m year on year increase in sludge recharge charged to water price control for sludges treated and disposed. This is due to inflationary increases in unit rates. Water recharge charged to waste price control saw a small increase of £0.08m.

Based on current methodologies we have reported liquor treatment recharge between wastewater Network Plus and bioresources in Section 4: Pro forma tables of the APR, Table 4E and this is consistent with our PRI9 assumptions and submissions.

For Table 8C of the APR we have reported the indicative shadow cost for liquor treatment recharge using the Jacobs methodology and this ensures consistency with the industry.

For 2023/2024 we have reported costs to wastewater Network Plus of purchasing energy from Bioresources within Section 4: Pro forma tables of the APR, Table 4K.19 as per the guidance published in April 2024. The income received by bioresources in relation to this is reported in Section 4: Pro forma tables of the APR, Table 4K.20 and Table 8C.20.

### Power

Electricity allocations amongst price controls and upstream services continues to be a focus for this year's annual performance report, with involvement of operational managers and energy experts across the business reviewing each site by assets and electricity rating of the assets.

This has further refined the process to ensure the electricity costs for co-located sites are allocated more accurately. A summary in Table 11 shows which costs are directly costed and which are allocated. In summary, electricity costs are allocated to services in three different ways:

- Sites that have been determined to be more than 95% related to a single service have been directly posted to a cost centre for that process, with the remaining percentages for those sites established to be immaterial and not cost beneficial to allocate further (per accordance with RAG 2).
- Sites with generation from sludge processes are complex, so are allocated to services on a monthly basis as part of the financial month end process. For these sites, all generation is deemed to be sludge related and overall site consumption, not purchased units, are allocated by percentage before the generation is deducted.
- Other sites relating to more than one service are coded to Whole Site Costs cost centres. These costs are then allocated by SAP cost assessment process.

## Revenue allocation for each price control

RAG 4.12 requires companies to split wholesale revenues by the four wholesale price controls. Our allowed revenue for each price control is set out in our final determination. We set wholesale tariffs each year with the intention to recover our allowed revenue for each price control. Our tariffs are set based on our latest view of forecast customer numbers and consumption. Every year, if each tariff therefore was to be multiplied by the forecast number of customers and consumption on that tariff, we would expect to recover our allowed revenue for each price control. The tariff split between price controls varies depending upon the characteristics of each individual tariff; the split is predominantly based on the underlying costs forecast to be incurred in providing that particular service to customers.

## Base, enhancement and developer service operating expenditure

We follow the same allocation methods for enhancement operating expenditure as we do for base. Enhancement expenditure is minimal for 2023/2024. This will continue to increase in the final year of AMP7. We do not report any operating costs for developer services as the majority of costs are capital in nature.

## Changes to methodology, reasons and quantification

A thorough review of operating cost allocations and SAP processes is undertaken each year to ensure compliance with Regulatory Accounting Standards. Refinements are made only to achieve more accurate categorisation, but these are usually minor and the allocations have been applied materially consistently since (2017/2018), with the exception of Sewage Collection (see below).

### The areas of changes in 2023/2024 are:

- In 2017/2018, we completed a bottom up appraisal of staff and contractor time, which forms the basis on which overheads are allocated to price controls and upstream services. We continue to enhance the process and set out the allocation of costs to reflect appropriate consumption by price control to reflect the nature of and consumption by specific contractual arrangements. This seems more consistent with the causality principle set out in RAG 2.09. We review all cost drivers as business changes take place.
- 2023/2024 we changed how we allocate Sewage Collection costs so the proportion of costs are representative of the asset split (see table 7). To do this we added an assessment so any direct costs for Sewage Collection which cannot be posted directly to the upstream services below are now posted to 'Unassigned Sewage Collection', we can then run an assessment on these costs to allocate to the services following the percentages detailed in table 7. This change has impacted the % split of direct and allocated costs within Waste on table 9 (particularly Other Operating Expenditure).

# Wholesale upstream services





# Wholesale upstream services

The disaggregation of operating costs into price controls (within Tables 2B of the APR) follows the same process as the disaggregation into upstream services (within Tables 4D–4E of the APR). The allocation methods and processes described in this Accounting Separation Methodology statement apply to both upstream services and price controls. A description of the basis of upstream costs has been included in the commentary below. Capital cost allocations are also the same for capital expenditure. All capital projects are coded directly to the relevant upstream service by using Investment categories on SAP for each project, which are then amalgamated into price control.

## Table showing Water upstream cost methodology & assumptions

Price control	Upstream service	Yorkshire Water methodology & assumptions
	Abstraction licences	Abstraction licence costs payable to the Environment Agency are held on a separate general ledger code and on specific cost centres within the accounting system SAP.
<b>Water resource</b>	Raw water abstraction	The Yorkshire Water costing structure is set up in such a way that the cost centres within the accounting system SAP reflect the definition, which includes any pumping associated between two reservoirs. It is assumed that impounding reservoirs (including compensating reservoirs) are under raw water abstraction. All YW impounding reservoirs have abstraction licences either individually, or as a group e.g. those in the Washburn Valley. YW has only one bulk supply import that is allocated to water resources.

Price control	Upstream service	Yorkshire Water methodology & assumptions
	Raw water transport	The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of raw water transport.
	Raw water storage	The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of raw water storage.
	Water treatment	Not all costs are posted to individual treatments works, for example salary costs are posted at service level.
<b>Water Network Plus</b>	Treated water distribution	<p>The YW costing structure is set up on a catchment basis, each area contains both above and below ground assets with no split between trunk treated water transport and local treated water distribution. Some larger assets, e.g. Grid Pumps, do have their own cost centre. In order to complete the upstream services table, the above and below ground assets within each Treated Water Transmission (TWT) were assigned to either trunk or local with the following assumptions being made.</p> <p><b>Above Ground Assets</b> The following types of assets were split between trunk and local:</p> <ul style="list-style-type: none"> <li>• Water Pumping Stations (WPS)</li> <li>• Water Towers (WTR)</li> <li>• Service Reservoirs (SRE)</li> <li>• Critical Supply Reservoirs (CRE)</li> </ul> <p>The treated water storage assets (towers, services reservoirs and critical supply reservoirs) could be either trunk or local, but only a small number are deemed by operational colleagues to be local. Therefore, all treated water storage costs have been dealt with as trunk mains costs.</p> <p>Water pumping stations could be deemed to be either trunk or local, so an exercise has been carried out to determine which category the operational Water Pumping Stations belong. Power costs by metered supply have been assigned based on this data. Other costs such as maintenance have been split pro rata.</p> <p>There is no specific field in the asset database to identify whether treated water distribution assets relate to trunk or local mains.</p> <p>However, current cost depreciation (CCD) is only found on above ground assets within this business unit, and the CCD value has been allocated in a consistent manner to operating costs.</p> <p><b>Below Ground Assets</b> Below ground assets within the YW Asset Inventory System have a flag attached to them, indicating whether they are 'Main Treated' or 'Distribution Management Area'. Functional locations within SAP direct all repair and maintenance activity to the relevant network cost centre, apart from proactive leakage repairs which are settled to codes that separately identify them.</p> <p>An analysis of borehole pumping costs using the formulas within RAG 2.09 has been performed to calculate the proportion of costs that relate to the separate upstream services for water resources and water Network Plus upstream services.</p>

Price control	Upstream service	Yorkshire Water methodology & assumptions
<b>Wastewater Network Plus sewage collection</b>	Foul Surface water drainage	YW splits its sewage collection assets into the three upstream services being foul, surface water and combined. However, from a costing perspective, sewage collection costs are held on cost centres at drainage area zone (DAZ) level for both above and below ground assets with no split between foul, surface, highways or combined. To do the apportionment, an analysis of sewer lengths in each of the three 'Network Plus 'Sewage Collection' categories has been undertaken from our Asset Inventory (AI) system, due to improved mapping of our below ground infrastructure the proportion of costs has drastically changed this year. Please refer to Table 7 for the revised splits.
	Highway drainage	<p>YW's operational (non-terminal) stations are categorised as foul, surface or combined. No pumping stations have been identified specifically under the highways drainage category. Power costs are allocated direct to appropriate service (i.e. foul, surface) with the costs attributed to combine being allocated as described.</p> <p>Repair and maintenance work (cyclical or reactive) on infrastructure assets are carried out by contractors on jobs raised via SAP which is coded to the drainage area zone. Costs are collected at drainage area zone level only.</p>
	Sewage treatment and disposal	A significant proportion of costs are coded directly (e.g. maintenance work is coded directly to assets), with some costs such as salary costs posted at service level.
<b>Wastewater Network Plus sewage treatment</b>	Imported liquor treatment	A small proportion of direct costs are allocated to this activity as most of the liquor is gravity returned to the front inlet of a sewage treatment works and therefore incurs very little cost. Salary costs are posted at service level based upon management assessment, and power costs are a split of whole site costs based on management assessment of power usage on liquor treatment.
	Sludge Transport	It is assumed that liquid sludge movements are included under transport. Our tankering function has been outsourced since 2020/2021. All costs are directly coded to sludge transport.
<b>Bioresources</b>	Sludge Treatment	The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of sludge treatment. Salary costs are posted at service level based upon management assessment and power costs are a split of whole site costs based on management assessment of power usage.
	Sludge Disposal	The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of sludge disposal. Salary costs are posted at service level based upon management assessment. A focused sludge disposal team means all disposal costs are allocated to one budget, and collating these costs is much easier than other upstream services.

# Significant changes in cost, or movements in a cost type between upstream services

## Water

A summary of movements by upstream service is shown in the below table:

Water Network Plus						
Water year on year movements in operating expenditure (£m)	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total water
2022/2023 total operating expenditure	42.712	15.674	3.165	85.283	146.950	<b>293.784</b>
FY23 drought impact	-3.387	-0.632	0.000	-18.810	-1.915	<b>-24.746</b>
FY24 power movements	0.508	-0.587	0.007	11.017	1.987	<b>12.931</b>
FY24 other operating costs movements	1.080	-0.476	0.870	11.092	9.934	<b>22.500</b>
FY24 non-domestic rates movements	-1.798	-0.483	-0.341	-0.249	-7.389	<b>-10.262</b>
Other year on year movements	0.265	0.000	0.000	-0.006	-0.507	<b>-0.248</b>
2023/2024 total operating expenditure	39.378	13.495	3.701	88.327	149.059	<b>293.960</b>

For further information please refer to detailed table commentaries included within the Annual Performance Report. See tables 2B, 4D and 4J.

## Capital expenditure

- We have seen a net increase of £159m from 2022/2023 reported level of expenditure. This was due to an increase of £158m of gross expenditure, and a decrease in grants and contributions by £1m.
- The large increase in gross expenditure is due to the increase in enhancement expenditure in Year 4 of £159.7m, this is still behind the cumulative FD enhancement allowance, however we are on target to deliver regulatory dates.
- The table commentary we have provided in Section 4 of the APR focuses on the variance to Final Determination.

## Wastewater

A summary of movements by upstream service is shown in the below table:

Wastewater	Sewage collection			Sewage treatment		Bioresources			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport treatment	Sludge treatment	Sludge disposal	
2022/2023 total operating expenditure	41.197	6.667	14.094	105.868	-0.023	9.632	14.629	9.361	<b>201.425</b>
FY24 power movements	2.806	1.112	0.420	17.234	0.059	0.007	-6.332	-0.032	<b>15.273</b>
FY24 other operating costs movements	4.430	10.592	-8.235	3.598	0.028	1.679	-0.121	-0.677	<b>11.293</b>
FY24 non-domestic rates movements	0.180	0.133	0.033	4.372	0.002	0.006	0.879	0.002	<b>5.606</b>
Other year on year movements	0.052	0.028	0.099	0.035	0.000	0.000	-0.360	-0.214	<b>-0.360</b>
2023/2024 total operating expenditure	48.664	18.531	6.411	131.106	0.067	11.323	8.694	8.441	<b>233.237</b>

For further information please refer to detailed table commentaries included within the Annual Performance Report. See tables 2B, 4E and 4K.

## Capital expenditure

- We have seen a net increase of £159m from 2022/2023 reported level of expenditure. This was due to an increase of £158m of gross expenditure, and a decrease in grants and contributions by £1m.
- The large increase in gross expenditure is due to the increase in enhancement expenditure in Year 4 of £159.7m, this is still behind the cumulative FD enhancement allowance, however we are on target to deliver regulatory dates.
- The table commentary we have provided in Section 4 of the APR focuses on the variance to Final Determination.

## Retail Household

A summary of movements by upstream service is shown in the below table:

Wastewater	Customer services	Debt mgmt	Doubtful debts	Meter reading	Other operating expenditure	Non-domestic rates	Depreciation	Principal use recharge	Total retail
2022/2023 total operating expenditure	31.003	3.805	21.721	1.474	4.385	0.000	5.744	3.057	<b>71.190</b>
FY24 doubtful debt movements	-	-	4.386	-	-	-	-	-	<b>4.386</b>
FY24 non-domestic rates movement	-	-	-	-	-	0.111	-	-	<b>0.111</b>
FY24 depreciation/amortisation movements	-	-	-	-	-	-	-0.404	-	<b>-0.404</b>
FY24 recharge movements	-	-	-	-	-	-	-	0.327	<b>0.327</b>
Other operating expenditure movement	0.454	0.046	0.000	-0.017	0.715	-	-	-	<b>1.198</b>
2023/2024 total operating expenditure	31.458	3.851	26.107	1.458	5.099	0.111	5.340	3.384	<b>76.808</b>

For further information please refer to detailed table commentaries included within the Annual Performance Report. See tables 2B and 2C.

# Planned improvements for future years

**We continue to reduce the number of adjustments required to produce the regulated accounts from our SAP system. We are now producing quarterly updates for each Directorate on the regulatory accounts.**

**The areas for future improvements are:**

- Streamlining cost driver process
- Quarterly Totex reporting
- Improved management information.

# Thank you for reading



Yorkshire Water Services Limited,  
Western House, Halifax Road, Bradford, BD6 2SZ.  
Registered in England and Wales No.02366682

[yorkshirewater.com](http://yorkshirewater.com)



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