



**Regulatory accounts working group
25 January 2013
Meeting notes**

Attendees

Anglian Water	Thames Water
Bristol Water	United Utilities
Cambridge Water	Wessex Water
South West Water	Yorkshire Water
Southern Water	

Services cost allocations

Water distribution – allocations between trunk and local distribution

Ofwat gave an overview of issues to date including possible methods that had been suggested in pilot submissions received since the last meeting.

The group discussed the possible bases of allocation of costs between trunk and local treated water distribution, the extent of the work that would be required and difficulties that they would experience.

Companies thought that using DMAs to denote the boundary was not useful since trunk mains could go straight through a DMA. The use of maintenance costs were not considered a suitable basis for this reason. Jobs are often coded to a location which, if within a DMA, would then allocate the costs to local treated water distribution even if it was on a trunk main. Therefore trunk treated water distribution would be understated.

Companies suggested instead that a main's function could be examined with strategic mains considered as trunk treated water distribution and all else local. An alternative approach was for Ofwat to provide principles alongside the definitions and companies could apply them to fit their own circumstances.

Action: Ofwat to circulate services definitions for comment
Action: Companies to consider the definition of strategic main.

Sewerage collection – allocations between foul, surface water and highway

Ofwat gave an overview of issues to date including possible methods that had been suggested in pilot submissions received since the last meeting. Ofwat highlighted a suggestion of adding a fourth service, combined drainage, where a sewer serves the purpose of foul, surface water and highways drainage.

The group were keen on the addition of the fourth service as these costs could be more easily identified and would leave directly attributable costs in the existing three services. Companies noted that costs to maintain the network are mainly incurred on combined sewers. Blockages were most likely to occur during periods of rainfall but it would be foul sewage that caused the blockage so how would companies identify what was driving the problem and therefore driving the cost to be incurred?

The group discussed ways to improve the allocation between foul, surface water and highways drainage, such as increased flow metering, and whether the improvement would be proportionate to the cost involved.

Ofwat asked whether, if a combined drainage category was included, companies would provide details of possible ways to allocate it between foul, surface water and highways drainage and the impact each of these would have.

Publication of services data

The group discussed the advantages and disadvantages of the publication of the services data. The group also discussed the option of deferring publication until 2013-14.

The group highlighted that there is a demand for resources currently with the existing requirements being put into the RAGs, the ongoing targeted review and the price review. The services trial is a further demand for resources so perhaps the data could be provided later in the year than the 15 July deadline for the regulatory accounts.

The group also drew attention to the fact that the final definitions for 2012-13 are being published very late in the financial year to which they relate.

Another option was that Ofwat could publish anonymised data and narratives so that approaches and methodologies could be compared without reliance on absolute figures.

The group also discussed, if the data was published, how best to do so. If companies publish the data they can control the caveats around it so that users understand the reliability and accuracy of the data. Companies were concerned that stakeholders may not read the supporting information before using the data. If Ofwat publishes the data then one central explanation of the data could be published.

Regulatory accounts – future impact of IFRS

Ofwat gave an update on the RAG consultation and proposed publication date for the revised final RAG's. Ofwat agreed to share with the group a note highlighting all the changes between the draft and final RAG's.

Ofwat mentioned their recent attendance at the IFRS Water UK meeting where IFRS adoption and the options of FRS101 and FRS102 were discussed. The group were encouraged to complete an IFRS questionnaire that will be published with the information note and revised RAG's.

The possibility that business plan opening balance sheets for 2015-16 would have to be prepared using IFRS was discussed by the group. Some companies were concerned about the amount of work involved in terms of preparing comparative years, making accounting policy decisions and auditor sign-off. Other companies felt that they would only have to focus on the tax projections under IFRS when preparing the balance sheet as this would be the only part that impacts on price limits under our totex cost recovery proposals.

Action: Ofwat to circulate note on changes between draft and final RAG's

Action: Companies to complete the IFRS questionnaire.

Any other business

The Targeted Review of accounting separation data was mentioned and in particular how the results or outcome of the review would be shared. Ofwat stated that the method of sharing the outcomes would depend on what conclusions the review came to.

Ofwat
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