



Regulatory accounts working group 15 January 2014

Meeting notes

Attendees

Anglian Water, Thames Water, United Utilities, Yorkshire Water, South West Water, Southern Water, Bristol Water, Wessex Water.

2013-14 Regulatory accounts

Ofwat explained that the Regulatory accounts reporting for 2013-14 would be on the same basis as 2012-13 as promised. The information notice for 2014 would be published later this month with clarification for treatment of scientific services and accounting separation guidance.

Companies requested more guidance on general and support allocation (and household/non-households etc), where the RAG is on best estimate basis and business plans guidance is on FTE basis for consistency. A suggestion was made to have the regulatory accounts on the same basis as the business plans.

Ofwat accepted there would be inconsistency between the business plans and the regulatory accounts until we consult on the RAG's again for changes for the 2015-16 year end.

The group requested additional clarity within the information note on the allocation of costs of economic regulation, scientific services and general and support.

The targeted review by Ernst and Young concluded that in general, companies had allocated costs between the business units in an acceptable way so why had Ofwat introduced new guidance for the business plans. The clarification is to provide consistency across companies for price setting.

Unit cost reporting

Ofwat provided feedback on company responses on unit costs reporting.

The group stated that for abstraction licences, the size of the licence will have a big impact on the unit cost. A suggestion was made to use megalitres extracted rather than no. of licences as this metric is scaleable.

Another issue was on allocation of costs between trunk and local mains. Each company would decide differently which would give inconsistency across the industry. Ofwat should give guidance on the allocation, which in some cases would not match companies approach. Companies would prefer not to use kilowatt hours as data was not available. The alternative was to use length of mains.

The definition of peak flow was clarified as the amount of sewerage inflow to the site.

The group noted there was a mismatch in allocating costs between surface water and foul water treatment and a preference was expressed for Ofwat to deem a proportion as companies would struggle to allocate.

Ofwat outlined the proposed table to report on upstream services data against unit costs. The direct costs and indirect costs lines are to be removed. The group discussed the inclusion of unit costs, marginal and average lines. The companies would calculate the operating costs per unit, which would be the same as average costs. The marginal or incremental unit cost would be different at each sewerage treatments works for example. Ofwat agreed to remove the marginal and average costs lines following challenge about how these would be calculated.

In the business plan there were prescribed changes to cost allocation for general and support assets and the depreciation recharge for general and support which was held in wholesale with a recharge to retail. For the 2013-14 regulatory accounts costs should be allocated following the RAGs, which means there will be a different allocation basis for these costs between the regulatory accounts and business plans.

The companies are expected to publish the table and detailed commentary on their website. It is up to companies to decide on the amount of detail to publish.

Ofwat confirmed that it would not publish the Agreed Upon procedures report from the auditors that will be submitted in July. Companies are free to publish if they wish.

Network plus

The definition of Network plus is subject to consultation with the aim of splitting costs and revenues. The definition will help provide non-binding controls during the next review period, and possibly binding controls at the 2019 periodic review.

The group discussed the allocation at boundary points. Pumps may have different costs for abstraction and distribution, and would be open to interpretation. A schematic may be good starting point but could be applied differently by each company.

The group discussed the issue of costs of dewatering at a combined sewerage/sludge site = how the costs should be allocated to treatment/sludge. The combined site may not have any transport costs.

The group was requested to send any further views to Ofwat on where judgement is needed in allocating costs at boundary points, and for suggestions for what more prescriptive rules Ofwat could set in driving industry consistency.

Segmental reporting

Ofwat reiterated that we will also be looking to introduce revenue reporting for network plus within AMP6.

**Ofwat
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