

# Information notice

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## Change to company business plan guidance for the 2014 price review – costs of scientific services

This information notice updates our guidance to monopoly water and sewerage and water only companies in England and Wales on allocating the costs of scientific services in preparing their business plans for the 2014 price review.

The 2014 price review is our process for setting the price and service package (the 'price controls') that each of the companies must deliver in each of the five years between 2015 and 2020. We will do this during 2014-15.

### Background

Each monopoly water company is a 'source-to-tap' monopoly in its area and controls:

- supplying and treating water and sewerage;
- the network of water supply pipes and sewers; and
- selling water and sewerage service to customers.

Since 2009-10 we have required each company to prepare

accounts – including costs, revenues, assets and liabilities – on the different activities ('business units') they carry out. We call this 'accounting separation'.

Since we introduced accounting separation, the companies have allocated an element of scientific services costs to their retail business unit. In '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)', which we published in July 2013, we said that companies should include all costs of sampling drinking water at customers' taps within their retail business unit. This is because this activity is customer-facing and could potentially be open to competition in the future ('contestable').

However, since issuing our guidance, we have received representations from the Drinking Water Inspectorate (DWI) – the regulator of drinking water standards – that all costs relating to scientific services should be included within the companies'

wholesale business. Some companies also made this argument and indeed in Scotland, where there is already a market for retail water and sewerage services, these costs are included as wholesale costs.

We have been persuaded by the arguments made.

### Implications for companies' business plans for 2015-20

In preparing their business plans for 2015-20, we require the companies to allocate all of their costs relating to scientific services to their wholesale business. None of these costs should be included within companies' retail business.

We expect that the impact of this change will be small. This is because the companies already allocate most scientific service costs to their wholesale business.

In order to enable us to compare a company's business plan data with its regulatory accounts for 2012-13, each company should tell us the amount of retail

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

scientific services costs that it has reallocated to its wholesale business in its business plan.

### Implications for companies' regulatory accounts 2013-14

As part of our [guidelines to companies on preparing their regulatory accounts](#) (RAG 4.04), we currently require them to include an element of scientific services costs within their retail business unit.

In January 2014 we will confirm in our annual information notice to the companies on preparing their regulatory accounts that they should not follow RAG 4.04 in this area. Instead, we will ask them to allocate all scientific services costs to their appropriate wholesale business unit.

### Enquiries

For further information, please contact Giles Stevens (our Portfolio Director) on 0121 644 7521 or by email at [price.review@ofwat.gsi.gov.uk](mailto:price.review@ofwat.gsi.gov.uk).

## More information

['Setting price controls for 2015-20 – final methodology and expectations for companies' business plans'](#), July 2013

[Regulatory accounting guidelines](#) webpages

[Price review](#) webpages

[Accounting separation](#) webpages



**Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.**

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