



Regulatory accounts working group 24 September 2013

Meeting notes

Attendees

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

2012-13 Regulatory accounts

Ofwat gave an overview of its review of the 2012-13 regulatory accounts and issues it had found. It presented proposed best practice documents for bad debt and remuneration policy disclosures. Ofwat confirmed that these best practice disclosures will be included in the regulatory accounts information notice for 2013-14 and that the RAGs will not be updated until 2015-16.

In relation to bad debt, one company was concerned whether some of the suggested disclosures involved sensitive information. Ofwat clarified that the level and nature of information to disclose was ultimately a judgement for the company to make.

One company made a general point that the amount of information included in the annual reports continues to increase and the documents become bigger each year. Ofwat pointed out that the bad debt policy template was a 'catch all' template, and that it was for companies to pick and choose the elements of the template relevant to them. For example, if companies choose to follow the template, they should only be including one of the five paragraphs under "Changes in bad debt write-off policy" and one of the four paragraphs under "Changes in bad debt provision policy". Ofwat also stated that where statutory and regulatory accounts are bound together, cross referencing could be used to reduce the level of disclosure / avoid duplication.

Another attendee thought that the suggested tabular format in the directors' remuneration policy guidance could be helpful in reducing the length of the text.

Ofwat clarified that it was only interested in disclosures relating to that part of the remuneration that applies to the appointee company and not the group.

Ofwat noted that the best practice was not intended to be prescriptive and companies could amend it as necessary to suit their own circumstances.

2012-13 Accounting separation

Ofwat gave an overview of accounting separation information included in the audited regulatory accounts. It noted improved levels of disclosure in companies' methodology statements, but that there was still room for improvement in the level of transparency in how companies had allocated costs.

Ofwat confirmed that the information notice for the 2013-14 regulatory accounts would reiterate the business planning guidance and clarifications and detail information which companies should disclose either in their regulatory accounts or in their published methodology statements. Ofwat was also looking to implement agreed upon audit procedures for the retail tables and the upstream services trial.

Upstream services trial

Ofwat talked through its analysis of the trial of cost separation to upstream services. The group confirmed that some companies had no raw water storage facilities and therefore incurred no costs relating to this service. Ofwat noted that the costs of the water treatment service did not always reconcile to the water treatment costs within the regulatory accounts. The group thought this was likely to be because corrections made as a result of the regulatory accounts audit may not have flowed through to the unaudited trial data.

The group discussed whether it would be helpful for Ofwat to provide a hierarchy of indicators of trunk and local mains. One attendee thought this would be helpful and would aid consistency. However, another attendee thought it was more appropriate for companies to decide the best indicator and explain their allocations in the commentary.

The group noted that assumptions on how to split electricity costs would have a big impact on the split between trunk and local treated water distribution.

Ofwat noted that some companies had included liquor treatment costs within the sewage treatment business unit. However, Ofwat's view was that while the liquor may be treated at a sewage treatment works, it is the sludge business which is driving the cost. If sludge were a separate business, it would receive a recharge from the sewage treatment works.

The group considered the impact of different methods of allocating sewage collection costs between foul, surface water and highway drainage. Allocating based on

capacity would result in more costs being allocated to surface water drainage. Length of sewer was not considered to be the most cost reflective basis, but was the most readily available data. The number of maintenance jobs may be a reasonable indicator of costs, depending on the customer base. For example, fats, oils and greases create blockages which drive maintenance costs.

Ofwat had made some minor amendments to the service definitions which it would circulate (with tracked changes) to the group for comment. **Action: Ofwat.**

Ofwat intended to extend the services trial to include unit cost reporting from 2013-14. It provided the group with some suggestions of suitable units for the upstream services and asked for feedback on the most appropriate units, the availability of data and alternative units. **Action: All.**

Ofwat confirmed that the services trial would be published by companies as for 2012-13 and it did not intend to require a further breakdown of the costs for 2012-13.

Regulatory accounts post 2015

Ofwat outlined areas where the regulatory accounts would need to diverge from future UK GAAP. These included revenue recognition, capitalisation of interest, capex / totex disclosures and segmental reporting. Other areas which required further consideration included adopted assets, business combinations, related parties, associate trading and directors' remuneration, and fair value derivatives – Ofwat to report at next RAWG. Ofwat stated that they will seek input from the Water UK IFRS group.

Any other business

The group thought it would be useful to have a further meeting in early January 2014 before the regulatory accounts information notice for 2013-14 was issued. A further discussion of suitable units for upstream service costs would be useful.

Ofwat
October 2013