Water today, water tomorrow

Consultation on changes to the regulatory accounting guidelines (RAGs) – summary of responses

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About this document

This document summarises the responses we received to our 'Consultation on changes to the regulatory accounting guidelines (RAGs)' and how we have responded.

We held the consultation between 31 July and 31 October 2012.

Contents

1. Introduction

In July 2012, we published our 'Consultation on changes to the regulatory accounting guidelines (RAGs)'. The consultation set out our proposed changes to the RAGs from the year 2012-13.

We received 17 written responses from stakeholders to the consultation. Three respondents did not answer each question in turn but provided free-form comments. Their responses have been counted in relation to each question where relevant. In addition, other comments made by respondents have been addressed separately where not specifically related to a consultation question.

Appendix 1 contains a full list of respondents. Copies of the responses are available on our website.

Ahead of the consultation we held a workshop with representatives from all companies and from auditor firms. Alongside the consultation we have continued to work with the regulatory accounts working group and have received feedback on our proposals. We also held a meeting with a representative from an audit firm.

The consultation posed a number of questions that fell into two areas:

- regulatory accounts format and requirements (section 2.1); and
- accounting separation (section 2.2).

The remainder of this document draws together what respondents told us and what we have done in response.

2. Responses

2.1 Regulatory accounts format and requirements

2.1.1 General comments

Several respondents suggested we should hold off making changes to the RAGs now as the introduction of international accounting standards (IFRS) will necessitate further changes in two years' time. We think that as part of the exercise to integrate the accounting separation tables into the regulatory accounts it is right to look at our existing requirements and challenge whether they are fit for purpose and targeted to provide relevant information to users of the accounts.

Four respondents questioned why we are continuing with current cost accounting. We feel that to maintain the ability to measure actual performance against the 2009 price determination we need to continue to use current cost accounts. But we will continue to review the requirements in the context of our proposed changes to price controls after 2015.

2.1.2 Detailed responses

Q1 Are there areas where we could reduce disclosure requirements further? Have we reduced the requirements too far in other areas? Are there any additional requirements we need?

Several respondents questioned the publication of an accounting separation methodology statement especially within the regulatory accounts themselves. We address this issue in section 2.2.1.

Narrative reporting

Seven respondents noted the increase in narrative reporting (focusing on the key areas of customer (bad) debt, revenue recognition and capitalisation policy). Three said that overall requirements have not been reduced. Two respondents said that it mixes accounting policy with performance commentary and that it is not appropriate to include performance commentary in a set of accounts. Another respondent wanted flexibility to include disclosures in its statutory accounts as they would sit better. One response suggests removing all narrative requirements, as an assurance statement from the company (confirming compliance) and an independent audit opinion should be sufficient.

Our view

There has been an overall reduction in narrative following the removal of the operating and financial review (OFR) requirement. We proposed the expanded narrative reporting on revenue recognition following feedback from companies that raised concerns about what other companies were doing. The note will increase transparency across the sector to address the concerns raised.

Narrative reporting for customer debt is critical as it is a material cost for the retail business unit. Increased transparency in this area will enable us to better regulate the retail business.

Non- financial information

Five respondents questioned the inclusion of the non-financial data table B1 in the regulatory accounts. Some companies noted that by collecting non-financial information in the regulatory accounts we were transforming them into an alternative data collection tool. Ofwat could collect data by alternative means, such as some sort of yearly return. Some respondents mentioned that some of the data is already included in the principal statement or could be collected as part of the price setting process.

Our view

We need specific non-financial data to carry out our functions (for example, for the purposes of the revenue correction mechanism) and we consider that these data can be of interest to stakeholders other than Ofwat. Where such data are needed to carry out our functions we reserve the right to use our powers to collect them separately. However, we also want to minimise the frequency that we collect data with, and so we think that it is right to use the regulatory accounts to collect consistent yearly information.

On the advice of audit firms, we have grouped all such information in a separate section because it is outside of the audit opinion.

Current cost balance sheet and RCV note

Three respondents specifically asked us to retain the current cost balance sheet because the regulatory accounts would be incomplete and of lower quality without it. Three different respondents stated that companies will still have to prepare a balance sheet for internal purposes anyway so there is no reduction in the data burden.

Three respondents asked us to retain the RCV note as it is useful information for investors and other stakeholders.

Our view

In our review of the regulatory accounting guidelines we looked to make sure they were fit for purpose. A part of this was to reduce the data burden by specifying in the disclosure requirements only what is needed under the existing regulatory framework.

But we are only setting a minimum level of content – if companies wish to include additional information, such as a current cost balance sheet or the RCV note, in their regulatory accounts to aid clarity for stakeholders then they are free to do so.

Q2 A statement on the links between directors' pay and standards of performance is required by the Water Act 2003. RAG3 currently specifies including the statement in the regulatory accounts. If we removed the requirement from RAG3, this would enable companies to decide where best to publish this statement to ensure it is easily accessible for their stakeholders. Should we remove the disclosure requirement in RAG3?

Respondents' views were mixed on this issue.

Eight respondents agreed with our proposal to remove the disclosure requirement in RAG3. Four responses stated that, for some companies, detailed information on directors' pay is already included in the statutory or group accounts. So it makes sense to give companies flexibility to incorporate the requirements of the Water Act 2003 within the same note to reduce duplication.

Six respondents disagreed with our proposal and thought that the disclosure requirement should remain in RAG3. This is because they are concerned that it may make the information less accessible for stakeholders, thus making industry comparisons more difficult. By retaining the disclosure requirement in RAG3, it would benefit stakeholders and potential investors by providing a consistent source of information for directors' pay and standards of performance.

Our view

We will remove the requirement to include the information in the regulatory accounts because most respondents agreed that the disclosure requirement in RAG3 should be removed. But to make sure that the statement remains accessible for stakeholders, the regulatory accounts should either contain the required statement or a clear cross-reference to where the statement can be found. If the statement is to be included in statutory or group accounts, companies should make sure that these sets of accounts are easily available to stakeholders, preferably alongside the regulatory accounts.

Q3 Although RAG3 requires annual provision of debt information, in practice we have only collected detailed information on debt at the base year for price setting. We propose to keep the annual provision requirement in RAG3, but then use the annual update letter[1] to exempt the requirement for years that it is not needed. Is this an acceptable approach?

Ten respondents supported our proposed approach. Four respondents expressed the view that this could confuse readers as the content of the accounts would change year on year. Five respondents agreed that we should ask for the data only when needed but through a separate submission or as part of the price setting process.

Our view

We have decided to implement our consultation proposal to include the data requirements in the RAGs as this would give companies clarity on what they would need to report (subject to any specific yearly exemption). At the workshop we held, companies raised concerns that they would be asked to report data without sufficient notice and it can be difficult to retrospectively compile data. Our proposal would not prevent companies continuing to provide this information regardless of any such yearly exemptions if they found it helpful for stakeholders. So we have decided to confirm this proposal in the RAGs.

Q4 We suggest that companies may wish to use a common format to publish the regulatory accounts electronically. This would mean that stakeholders could use the data more easily. What is the most appropriate common electronic format for regulatory accounts?

Respondents' views were mixed on this issue.

Eight respondents supported a common approach, mostly suggesting an Excel based regulatory file containing the proformas for companies to complete and publish alongside their regulatory accounts to facilitate sharing and industry-wide comparisons.

Four respondents did not support a common approach as it could increase the burden on companies and lead to additional costs. Companies should have flexibility to choose the most appropriate format for publishing their regulatory accounts for their circumstances.

[1] Each year, we publish an information notice that gives an update to the RAGs on current accounting issues. The most recent information notice is IN 13/01, which we published in February 2013.

One respondent suggested that the accounting separation tables could be published in PDF format alongside the regulatory accounts to ease benchmarking between companies without increasing the burden.

Our view

Companies initially suggested at the regulatory accounts working group meetings that it might be useful for them and other users of the data if we specified a common format for publishing the regulatory accounts electronically. Our view was that companies should lead this exercise rather than have an additional burden imposed by us. Based on the responses to the consultation, we do not have conclusive evidence to support a common format to publish the regulatory accounts electronically at this time.

We are committed to including the accounting separation tables within the regulatory accounts and think that it aids benchmarking between companies if they are in the same place with appropriate audit assurance.

2.2 Accounting separation

2.2.1 General comments

Methodology statement

Several respondents questioned the publication of an accounting separation methodology statement especially within the regulatory accounts themselves.

Three respondents thought that the methodology statement is disproportionate in length relative to the accounts and contains detailed procedural information that would not sit well alongside accounting policies.

Two other respondents stated that if the accounts are prepared in accordance with the principles set out in the RAGs then there should be no need for the methodology statement. One respondent suggested a board statement of compliance with the principles instead.

Other suggestions were that the methodology statement could be published separately or simply submitted to Ofwat with some respondents proposing a high-level statement on policy and approach in the regulatory accounts instead.

Our view

We agree that the methodology statement may be too detailed to include within the regulatory accounts. But we feel that it would be beneficial for companies to publish it to provide transparency and make the accounting separation data useful and meaningful for stakeholders.

Therefore we will require companies to include an accounting separation policy note in the regulatory accounts and cross reference to a separately published methodology statement. We will outline the minimum information that should be included in the methodology statement in our yearly information note and will require each company to publish it on its website at the same time as the accounts.

Publication of contestable retail data

One respondent highlighted that publishing contestable retail data is not compatible with an effectively functioning competitive market and that Ofwat should consider publication requirements in light of emerging competition.

Our view

We agree that publication requirements should be reviewed in the light of prevailing market circumstances. So we will continually review our publication requirements alongside developments in the market and regulatory framework. But at this stage in the current price control period we consider the proposed publication requirements to be appropriate for 2012-13.

Targeted review

Most responses raised the issue of inconsistency of cost allocations between companies.

Our view

We have appointed Ernst & Young to carry out a targeted review of areas of expenditure that we are most concerned companies are not allocating appropriately. The outcome of the targeted review may highlight the need for additional guidance or prescribed allocation bases in some areas. In extreme circumstances companies may be required to restate their 2011-12 data. If necessary we will revise the RAGs for future years accordingly.

Clarification requests and formatting suggestions

Some respondents asked for us to clarify aspects of the business unit summaries and definitions of services, or made suggestions for line items to be kept separate. One respondent suggested we should wait until the retail definition for the price review was finalised before making changes to the retail table.

Our view

We have updated the business unit summaries within RAG4 to take account of some of these points. We have also updated the service definitions where practicable and we will discuss these further at our regulatory accounts working group before finalising and publishing them in early February.

We published our proposed retail definition in our methodology consultation on 28 January and we have updated the retail table, business unit summary and definitions to reflect it. The main changes are that the activities of meter maintenance and installation, support for trade effluent compliance, performing disconnections and providing services to developers have been removed from retail and included within wholesale. The retail business unit remains responsible for deciding whether a disconnection is necessary.

The activity of services to developers has been split with part remaining in retail and part being included within the treated water distribution business unit. The retail business unit is responsible for providing information to developers with wholesale responsible for providing the physical connection. We anticipate that both parts will incur an element of administration costs.

The accounting separation requirements will continue to develop alongside regulatory and market reforms.

We will publish our consultation on price review information requirements in the spring. This consultation will set out the data that we will require to set prices in 2014. This means that the retail data required for the price review may differ from those to be included within the 2012-13 regulatory accounts. If this is the case, we will amend the retail table in the RAGs for 2013-14 in line with our final price review methodology and information requirements.

2.2.2 Detailed responses

Q5 We propose to provide companies with the principles and business unit summaries in appendix 4 to use when allocating their costs, rather than publishing prescriptive guidance. Do you agree with this approach? If not, please provide details of an alternative approach you think we should adopt.

Respondents' views were mixed on this issue.

Eight respondents wholly agreed with our proposals with one asking Ofwat to recognise and accept the inevitable flexibility in interpretation. Three respondents highlighted that even with prescriptive guidance there would still be inconsistencies between companies and one suggested that there would be no significant impact in adopting the principles-based approach.

One respondent generally preferred a less prescriptive approach to cost allocation but stated that the regulatory methodology for future modelling, cost comparison and price setting would have to include mechanisms to allow for inconsistencies between companies.

Two respondents broadly agreed with a principles-based approach but thought that specific prescriptive guidance from Ofwat may be required in certain areas – for example, those relating to comparative efficiency or price setting.

One respondent agreed that the principles and business unit summaries are sufficiently detailed to enable completion of the accounting separation tables but that they remain susceptible to differing interpretation. This could result in further variation and loss of confidence in the data. It suggested we should fully understand the differences that exist under the current prescriptive approach before changing to a principles-based approach.

Three respondents disagreed with our proposal to move to a principles-based approach. Two respondents were concerned that a principles-based approach would reduce comparability between companies and lead to more inconsistencies and so reduce the benefit to users of the published accounts.

And one respondent thought that a move to a principles-based approach was a backward step as it had found the prescriptive guidance useful in highlighting areas of improvement. Two respondents identified a compromise, suggesting Ofwat should publish its preferred method of allocation or standard model and companies should specify by note where they have adopted a different basis.

Our view

We still consider that a principles-based approach is generally appropriate and that, provided with no evidence to the contrary in a given area, the principles and business unit summaries are sufficient. We appreciate respondents' concerns about consistency and comparability. But those issues have been raised about prescriptive guidance when it has been applied as much as in relation to the risks of a principles-based approach itself leading to issues of consistency and comparability.

The methodology statements should provide transparency to address concerns about consistency and comparability. As discussed below, a more prescriptive approach may still be justified to facilitate effective regulation based on cost allocations in specific targeted areas.

Where respondents raised questions about consistency issues associated with the boundaries of business units we have addressed these in the revised RAG 4 that we have published on our website.

Q6 Do you think there are areas of expenditure that are at high risk of companies classifying inappropriately? If yes, please provide evidence and advise how we could mitigate this risk in a proportionate way.

Respondents' views on this area were mixed and respondents focused their answers on different aspects of cost allocation – namely the current requirements, the move to allocating costs to services, or both.

With respect to the current requirements and business units, one respondent was not aware of any allocations that would be inappropriately applied.

Seven respondents answered that there was a risk that companies would allocate costs inconsistently rather than inappropriately. In particular, respondents highlighted inconsistencies in how costs are allocated between retail and wholesale, and household and non-household, and proposed a targeted scrutiny of these allocations and the use of the reporter. One respondent suggested that Ofwat should consider providing specific guidance where there is a choice between contestable and non-contestable services.

One respondent thought that more guidance is needed, in particular, on the treatment of leakage expenditure.

One respondent suggested that, by using an auditor, companies could report on exceptions to a prescribed format to better aid comparisons between companies.

One respondent identified that general administrative costs were at risk of misallocation because of different accounting systems giving varying degrees of accuracy. The suggested mitigation was for Ofwat to compare each company's allocated costs, identify any outliers and explanations for differences, and take corrective action.

Another respondent thought that Ofwat could mitigate inconsistencies identified by issuing short notes clarifying the intention behind the RAGs.

One respondent thought that the more complex and detailed a regime framework becomes the greater the risk of inappropriate classification and overhead costs were difficult to split so complexity should be kept to a minimum. Ofwat should allow time for reporting to stabilise when introducing new requirements.

With respect to the trial of allocating costs to services, six respondents thought that a greater level of disaggregation would inevitably lead to increased inconsistency and less robust data. One respondent estimated that costs allocated on a subjective basis could increase from 7% to 22% with the proportion of directly allocated costs falling from 60% to 35%.

One respondent highlighted that the risk of inconsistent allocation was higher in the trunk and local treated water distribution services as well as the foul, surface water and highways sewerage collection services.

Our view

We appreciate the points raised about consistency and are pleased that respondents do not think that companies are inappropriately allocating costs.

The targeted review will look at the allocation of expenditure in areas that we are concerned are not being appropriately recognised as needing to be allocated. Part of the review will focus on allocations between retail and wholesale including general and support expenditure.

We will consider recommendations made as part of this review and provide further guidance or clarification as necessary. This may be as updated RAGs in our yearly information note for 2013-14 and final information requirements for the 2014 price review. We will make sure that, if allocations are found to be inappropriate, companies amend their methodologies for future reporting and, if necessary, data is restated.

Q7 We are proposing to merge the sludge treatment and sludge disposal business units into one called sludge treatment, recycling and disposal. Do you agree with this approach?

Most respondents agreed with our proposal to merge the sludge treatment and sludge disposal business units.

Of the seven respondents that agreed, four identified that it was a minor change with little impact on regulatory burden because separated data would still be required for the trial of allocating operating costs to services.

In addition, one respondent said that it would reduce inconsistent reporting between companies and eliminate incorrect cost comparisons. For example, currently incinerator costs could be classified as sludge treatment by one company and sludge disposal by another.

One respondent disagreed with the proposal since it thought there is little benefit and it is at odds with the drive for greater disaggregation.

Our view

We agree that merging the business units gives costs that are more consistent and comparable between companies. However, we also accept that merging the two business units is a minor change and that companies will still need to collect separated data to inform the trial of services.

Given that the reduction in burden would be small and that we are still in the process of finalising our approach to setting price controls from 2015, we have decided to retain the requirement for the existing split at least for 2012-13. But we will review the case for merging the business units in the longer term, following the completion of our work on the methodology for setting price controls.

Q8 We are proposing that all fixed assets should be recorded in the business unit of principal use. Do you agree with this approach?

Respondents' views on this proposal were divided.

Seven respondents agreed with the proposal to record assets in the business unit of principal use. One respondent thought that this would best reflect how a stand-alone business would operate and would be less burdensome. Another respondent asked for more guidance on the level to which assets are expected to be allocated to the business unit of principal use.

Of the seven respondents, four agreed with the proposal as far as was practicable and that assets used in more than one business unit should be allocated between business units. One said that the method used should be described in the methodology statement.

Four respondents did not agree with the proposal. Three respondents said that it would be an onerous task to go over all fixed asset records and reallocate assets into the business unit of principal use and one added that there was little benefit to it. One respondent thought that it was contrary to the move away from prescriptive guidance and that companies should decide which approach to adopt.

One respondent had concerns with the approach since it appears to contradict the cost allocation proposals and would not provide any further detail. It added that companies should be allowed to decide which approach to adopt.

One respondent had no concerns about recording assets in the business unit of principal use but did not think that one approach was significantly preferable to another.

One respondent was concerned that the cost of reanalysing thousands of assets would outweigh any benefit and recommended that any change be phased with possible revaluation requests during the price review. If a revaluation was not required then a time limit should be applied for the changes to be made.

Our view

We consider that companies currently report fixed assets inconsistently. We intend to pursue this proposal to ensure consistency, but we will adjust the timing of implementation. As a minimum, we will require that all assets used in both wholesale and retail are recorded in a single area of principal use for 2012-13, with recharges shown to the other for the use of the asset. Wholesale assets should be reported in either the water or sewerage service area of principal use. This is consistent with our proposals to develop separate price limits for the relevant services from 2015.

We can then evaluate extending this proposal to other assets shared between different reporting business units based on these initial implementations, aimed at supporting the next price control review.

For some asset categories such as general and support expenditure (G&S) that have no natural business unit should we allow them to be allocated or should we require the approach described above for fixed assets?

Respondents' views on this question were broadly in agreement.

Most respondents agreed that we should allow general and support assets to be allocated or that a separate general and support business unit should be set up for the assets with them being fully recharged to other business units.

One respondent said that we should better define G&S assets in our guidance to ensure consistency between companies. Another respondent was concerned that without prescriptive guidance the allocation of G&S assets would be inconsistent and require additional narrative.

One respondent suggested that retail assets should also continue to be allocated between household and non-household.

Our view

We agree that general and support assets should continue to be allocated between business units rather than in the business unit of principal use.

As part of our targeted review of the 2011-12 accounting separation data, we will review the consistency of the identification and allocation of general and support assets between companies and consider whether more prescriptive guidance is necessary as part of updated RAGs or information requirements for the price review.

We also agree that retail assets should continue to be allocated between household and non-household rather than allocated to the area of principal use.

Q9 We are proposing to trial the allocation of operating costs to services as detailed in appendix 6. As well as the service definitions in appendix 6, what information would companies need in order to report costs by these services?

Most responses to this question did not answer the question directly but rather raised other issues. Of the seven respondents that did answer, two considered the information in appendix 6 to be sufficient.

Seven further respondents required additional guidance in certain areas. The main areas requiring additional guidance are how to allocate assets and expenditure among:

- trunk and local treated water distribution;
- foul, surface water and highways drainage sewage collection; and
- liquor treatment.

One respondent asked for us to include a list of assets that we expect capital maintenance charges to be allocated to – and another highlighted that service reservoirs had not been included in either trunk or treated water distribution.

In particular, two respondents questioned the treatment of liquors generated through the dewatering process before sludge being transferred to the sludge treatment process.

Most respondents commented on the need for and appropriateness of the trial of allocating operating costs to services. One respondent expressed concerns about the increased regulatory burden and did not support this change in approach until there is a clearer explanation of the benefits. Another respondent wanted to understand how this information would be used.

In particular, respondents highlighted the areas of treated water distribution and sewage collection where the services that Ofwat proposed do not align with how companies are run. Respondents said that these areas would prove problematic and, without an agreed methodology, allocations will be arbitrary and inconsistent.

Several respondents suggested that companies should work with Ofwat to define the services while one suggested that Ofwat should set up a forum for companies to develop definitions and methodologies.

Our view

Service level data are important to support our proposed approach to price controls from 2015, as we need this information for transfer pricing and accounting separation between the controls. We intend to continue with this proposal because it takes time for new requirements to be implemented and for meaningful data to be achieved. So we recommend starting with the proposed trial of operating expenditure separation for 2012-13.

We will update the service definitions where respondents have raised queries or asked for additional clarity.

We agree that where liquor is generated through dewatering sludge at sewage treatment works before transporting it to sludge treatment then costs should be recorded in sewage treatment. We first published a report on possible services in June 2011. The regulatory accounts working group has discussed the definitions of services over a period of time. Attendance at this group and participation in developing this area of work has been open to all companies. We discussed these definitions at the last regulatory accounts working group meeting to inform the final definitions for the 2012-13 trial.

What incremental costs do you anticipate companies would incur in order to report operating costs by the proposed services to the same level of assurance as the regulatory accounts?

Respondents answered this question in different ways.

Four respondents provided the costs associated with the changes that would have to be made in order to report operating costs allocated to services. One-off costs ranged from £75,000 to an estimated cost of up to £1 million. One-off costs covered system changes and development as well as a cost reallocation exercise. Ongoing costs ranged from £20,000 to £120,000 a year and these included additional manpower for the increased analysis and increased audit and assurance costs.

One respondent provided an estimate of 119 days to complete initial work and then four days’ work a year. This estimate covers activities such as building new Excel models, auditing sites to allocate process costs and mapping asset records to allocate current cost depreciation (CCD).

One respondent referred to the high-level cost estimates it provided to Ofwat in November 2011.

Four respondents detailed the incremental changes that they would need to make. These included operational changes, such as sampling costs and additional flow meters, and changes to IT and financial systems, such as a redesign of financial hierarchies and work management systems.

One respondent thought that incremental costs would be relatively small with increased costs relating to independent audit provision.

Two respondents said that significant time would be required and that incremental costs are likely to be high.

Our view

We recognise that these changes come at some cost for companies. We have updated the impact assessment to reflect the costs that respondents provided.

Our view is that if companies incur high one-off costs then we would expect low ongoing costs or vice versa. This is because companies face a trade-off between implementation costs and ongoing costs.

We recognise that a key cost is in assurance. By phasing the assurance requirements of these data companies will have time to fully understand requirements and definitions before beginning wide-scale changes, which should minimise whole-life costs. We consider that whole-life costs remain low relative to the value affected by our effective regulation of companies' revenues and outcomes for consumers.

What are the implementation options available to companies to report operating costs by these services?

Respondents put forward a variety of implementation options.

Most respondents did not agree that the trial in 2012-13 should be published as an appendix to the regulatory accounts or elsewhere in the public domain. This is because of the uncertainty surrounding the service definitions as well as the fact that discussions about possible allocation methodologies are ongoing.

Respondents suggested that the data for 2012-13 will be reliant on management judgements and so will not be suitable for stakeholders to use with any degree of accuracy. Three respondents suggested that in the future companies can include this information in the regulatory accounts but only once processes are better developed and understood by the sector.

Two respondents suggested that implementation options will vary from company to company depending on the data that each company holds and the systems in place. In the short term these respondents would need to extend their current accounting separation processes.

Our view

We recognise respondents' concerns about publishing the services data before they are fully developed and robust. We have considered this issue carefully and have discussed it further with the regulatory accounts working group.

We consider that the benefits of this information being in the public domain outweigh concerns about the quality of the data.

If the information is published companies will have an incentive to improve their cost assessment and allocation methodologies. It would allow early comparisons in approach to be made and allow a wider range of stakeholders to comment on the usefulness of the information and help in the development of the definitions of services.

We require each company to publish its services data and accompanying commentary on its website by 15 July 2013 at the same time as its regulatory accounts. We expect each company to provide us with an electronic link to where this information is held on its website.

We understand respondents' concerns about the possible quality of the data. The purpose of the trial is to focus on companies' approaches and methodologies and companies can highlight that along with a view about the quality of the data when they publish it. Companies can use this opportunity to mitigate concerns about the quality of the data to make sure users understand how reliable the information is and its limitations.

Each company should provide a commentary accompanying its data. The level of commentary companies provide is for each company to decide. However, we would find it useful to understand:

- each company's approach;
- which cost drivers were used and why they were considered appropriate;
- any improvements that could be made; and
- suggestions for changes to the definitions or where further guidance is needed.

We have published the final definitions of the services, additional guidance and a pro forma alongside this document.

3. Next steps and future developments

We require companies to publish their regulatory accounts for 2012-13 by **15 July 2013**.

We will continue to run the regulatory accounts working group. This group is a forum for us to engage with companies on regulatory accounting issues, including the continuing development of accounting separation information. It provides companies with an opportunity to work with us in agreeing cost allocations and methodologies.

3.1 Future revisions to the RAGs

This responses document refers to changes to the RAGs from 2012-13. As discussed earlier in this document, the RAGs will continue to evolve alongside regulatory developments. In particular, we will consult on any future changes necessary as a result of:

- our targeted review of companies' 2011-12 accounting separation data (see section 2.2.1);
- price review information requirements (see section 2.2.1); and
- the transition from UKGAAP to IFRS from 2015-16 (see section 2.1.1).

Appendix 1: List of respondents

We received 17 consultation responses.

Water and sewerage or water only companies

- Anglian Water
- Bristol Water
- Cambridge Water
- Northumbrian Water
- Portsmouth Water
- Sembcorp Bournemouth Water
- Severn Trent Water
- Southern Water
- South East Water
- South Staffordshire Water
- South West Water
- Sutton & East Surrey Water
- Thames Water
- United Utilities Water
- Wessex Water
- Yorkshire Water

Other stakeholders

- Robert Miller-Bakewell

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