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31 October 2012

Dear Rob,

Consultation on changes to the regulatory accounting guidelines (RAGs)

Thank you for the opportunity to respond to this consultation; please find our response enclosed.

We have two significant changes we believe Ofwat should make to its proposals. These relate to the use of principles based allocations and the failure to address IFRS adoption.

UUW believes that more prescriptive methodology would be preferable to merely publishing a common set of RAGs principles. A principles based approach will lead to greater reporting inconsistencies between companies and could undermine comparative efficiency and access pricing in the future. We think that before any changes are made to the RAGs, we, as an industry, should develop a common set of cost allocation guidelines and methodologies which could then be agreed by Ofwat. This would drive consistency across companies and enable the regulatory accounts to be used to compare companies on a level playing field.

We also believe that the reporting of financial information could be improved by the industry-wide adoption of IFRS, with additional regulatory disclosures, rather than amending the current RAGs as proposed. This would also have the additional benefit of tackling the broader issue around transition to IFRS.

If there are any points in our response that you would like to discuss further, please do let me know.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Bullock'.

James Bullock
Director of Economic Regulation