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Consultation on changes to RAGs

It is not my normal practice to comment on OFWAT consultations.

OFWAT's introduction of regulatory accounting guidelines were one of the early successes of the evolving methodology; unquestionably, OFFER was hindered by failing to adopt a comparable approach for the DNOs.

In the enthusiasm to scale back reporting requirements it's important to remember that both the June returns and the RAGs which ensure their consistency of data serve not just OFWAT and the companies (eg pseudo risk management) but also the financial community, eg ratings agencies and providers of finance.

Yes, it is important that reporting requirements are proportionate and targeted. But, equally, in making decisions about the future scope and granularity of the RAGs, OFWAT should not lose sight of other users' requirements. Thus standard formatting (Q4) should be mandatory.

It's quite correct that there's been inconsistency in respect of revenue recognition and the classification of customer debt. One or two companies are gaming, in this context. Scaling back disclosure (Q3) would be an adverse development for transparency.

Looking ahead to IFRS: a key differentiator is the treatment of infrastructure renewals expenditure which is fundamentally different under UK GAAP. Banking covenants are typically written using UK GAAP and thus it's definition of EBITDA is key. IFRS, with infrastructure renewals expenditure split between depreciation and opex artificially raises depreciation and thus EBITDA.

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