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31 October 2012

*Dear Keith*

Thank you for the opportunity to respond to your consultation on changes to the regulatory accounting guidelines (RAGs).

We support your aim of reducing the regulatory burden by applying a targeted and proportionate risk-based approach, but we do not feel that your proposed changes to the RAGs have achieved this objective as fully as they could.

To take things further we suggest:

- removing the requirements for narrative - an assurance statement that the company has complied with its obligations and the RAGs alongside an independent audit opinion should be sufficient
- removing the requirement to publish a methodology statement for accounting separation cost data. We think this is unnecessary if Boards instead assure that the tables have been prepared in accordance with Ofwat's published high level guiding principles for accounting separation
- removing all requirements to annually calculate and publish data where its only purpose is to inform a future 5 year price control. This includes data about property numbers, revenue related information and corporate debt.

We also suggest that you consider whether the publication of annual current cost accounts is necessary at all, given that even now the links between the annual accounts and the price control are not as absolute as they might initially appear, and that we seem to be moving further towards a total cash requirement based methodology for price setting in future price determinations.



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You will be aware that we have been a member of the pilot group for accounting separation from the outset, positively engaging in the development of accounting separation. We are concerned that the proposal to expand the published number of reportable activities is being proposed before even the value of the existing splits has been determined and maximised. We doubt there is any "correct" way to allocate system costs and the more granular the activities become the greater the danger that this information, if published could be misinterpreted. We are happy to continue to work with Ofwat on these analyses but we do not support their publication.

We look forward to continuing to work with you in this area and, as ever, we would be very happy to discuss any of these issues further.

Yours sincerely

*Best regards,*  
*Andy*

Andy Pymer  
Director of Customer and Retail Services