

10<sup>th</sup> April 2009

**To Chief Executive of NIW**

**WR 8: Regulatory Accounts**

**Regulatory accounts for 2008-09**

**Reporting requirements – RAG 3.06**

This letter sets out the reporting requirements for NI Water's regulatory accounts for the 31 March 2009 year-end.

## **1. General requirements**

Regulatory accounts should be submitted as soon as possible after the end of the financial year. You should submit **eight** copies of:

- regulatory accounts;
- confidential information (if not included in regulatory accounts);
- statutory accounts (if not bound with regulatory accounts);

You should also publish your regulatory accounts on your website on the date they are submitted to us. Please include the web path to your regulatory accounts in a covering letter.

The deadline for submitting regulatory accounts and the associated documents is **15 July**. This is set out in condition F of your licence.

NI Water was advised in WR4 (dated 4<sup>th</sup> July 2008) that regulatory accounts should be prepared in accordance with the most recent Ofwat RAGs. You should draw up your regulatory accounts for 2008-09 on the basis of the revised regulatory accounting guidelines issued by Ofwat on 20 February 2007 in [RD 04/07 'Update of the regulatory accounting guidelines 1, 3 and 4'](#). All UK accounting standards extant at 31 March 2009 should be complied with (except FRS12 as detailed in RAG 1, RAG 3 and in [RD 11/00](#)). Issues noted in [RD 05/08](#) and corresponding letters in previous years remain relevant.

## **2. Specific regulatory accounts issues**

### **2.1 Regulatory accounts formats**

As stated, regulatory accounts should follow the formats set out in the latest versions of the RAGs, particularly RAG 1.04 and RAG 3.06 as issued by Ofwat in February 2007. We draw NI Water's attention to the following aspects:

## **2.2 RAG 3.06 Pro-forma 3 – Reconciliation between statutory and regulatory accounts:**

This pro-forma should be used to explain differences between the statutory accounts and regulatory accounts. This includes profit and loss account items. Therefore, where the turnover figures differ between statutory and regulatory accounts due to revenue recognition policies, we would expect this difference to be noted here.

In Pro-forma 3 of RAG 3.06 there is an example of best practice for the profit and loss account differences.

## **2.3 PPP reporting**

AIR09 has additional PPP reporting requirements as compared with AIR08. NI Water should provide comprehensive commentary to support PPP information submissions. This should include: a statement of policy, accounting treatment and justification and the implication of treatment on the regulatory accounts. In addition, NI Water should include details of any departures from AIR08 in terms of costing and accounting treatment. It should detail the findings of any consultancy studies and how their recommendations, if any, have been implemented.

## **2.4 ‘Other operating income’ and ‘Other income’**

‘Other operating income’ will principally include income from fixed asset disposals. NI Water should note that where there are significant changes in operating income, for example for a one-off building or land sale, then this should be highlighted in the Annual Information Return commentary for table 23.

‘Other income’ should normally only include rental income receivable.

Both of these categories will create differences between the statutory accounts and the regulatory accounts. This should therefore be disclosed in the reconciliation as described above.

## **3. Annual Information Return audit reports**

NI Water is required to have its Annual Information Return information audited. We expect information in the Annual Information Return submission and the regulatory accounts to be consistent

If there are any differences between your Annual Information Return submission and the regulatory accounts, they should be detailed and explained in a covering letter with the regulatory accounts.

If you consider that the requirements of these conflict with those included in accounting standards, please contact Joe Craig or Deirdre Trainor.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Aston', consisting of a stylized 'J' followed by 'Aston'.

**J Aston**  
**Director of Water Regulation**