

Chapter 25

Regulatory Accounts

Current cost accounting

Covering:
Analysis of fixed assets by asset type

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Please note that the current cost depreciation charge, as defined in this table, is the gross figure, i.e. before the amortisation of deferred credits. This figure is not the same as the current cost depreciation charge stated in table 29 line 5.

Guidance

Section 1.7 of Regulatory Accounting Guideline 1.04 'Accounting for capital maintenance charges and current costs; and the analysis of regulatory capital values' explains the principles for asset valuation, including:

- To a business the CCA value of tangible assets means what potential competitors would find it worth paying for them in the absence of barriers to entry and exit from the business, even if competition were hypothetical. This will be the cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued - a Modern Equivalent Asset ('MEA') - if the asset would be worth replacing, or the recoverable amount if it would not (paragraph 1.7.3. of RAG 1.03); and
- The gross MEA value is what it would cost to replace an old asset with a technically up-to-date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value, taking into account the remaining service potential of an old asset compared with a new asset and is stated gross of third party contributions (paragraph 1.7.4 of RAG-1.04).

Table 25 categorises assets as follows:

Infrastructure assets include the following: underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Information about infrastructure assets (general mapping and updating of networks records) is also to be regarded as an infrastructure asset.

Operational assets include the following: intake works, pumping stations, treatment works, boreholes, operational land, offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies. Land which is not currently in operational use but is expected to come in to use in the foreseeable future, should be included, as should plant and machinery inherent in the nature of the works.

Other assets include the following: non-operational plant, machinery, vehicles, surplus land and all other assets not listed in the categories above.

AMP adjustments (when applicable)

The AMP adjustment lines (2, 8, 9 and 10) within table 25 are to be used to book the result of an MEA revaluation **where these have taken place**.

AMP adjustments to gross replacement cost line 2

This line is to be used to book the impact of the MEA revaluation to the gross replacement cost.

Adjustments to asset values arising as a result of an MEA revaluation could occur for the following reasons:

- The assessment provided better evidence that the gross cost of initial assets had been derived on an incorrect basis;
- The assessment revealed a change in technology or an intention to re-configure a group of assets on replacement, which results in a different calculation of MEA compared with the figure which was previously included in the regulatory accounts. This will include increases and reductions in replacement costs of assets;
- The assessment produced evidence of a difference between current specific prices and the RPI - updated previous valuation. (Note: opening values, after adjustment by the AMP adjustment, are to be restated each year using the RPI. The amounts at which asset values are carried will therefore be frozen in real terms (of financial capital maintenance) between AMP reviews); or
- The process revealed a need to reassess and change an asset's remaining useful life to reflect its operational life. This will include changes to asset lives as a result of the assessment of condition, performance and risk. We expect that this will apply to most companies.

Adjustment to accumulated depreciation lines 8 to 10

These lines are to be used to book the impact of an MEA revaluation to the accumulated depreciation. The total adjustment to accumulated depreciation is shown in line 8. The adjustment is then to be appropriately allocated to line 9 'gross MEA revaluation' and line 10 'amendment to remaining useful economic lives'.

All four of the gross replacement cost adjustments (noted above) may have an impact on the accumulated depreciation and will be reported in the regulatory accounts as follows:

- Adjustments 1, 2 and 3 result in a change in gross MEA value and consequently the associated accumulated depreciation provision (to be recorded in the 'Gross MEA revaluation' line); and
- Adjustment 4 results in a change to accumulated depreciation and net MEA value but not gross MEA value (to be recorded in the 'Amendment to remaining useful economic lives' line).

Capital expenditure

NI Water to provide a reconciliation between additions to fixed assets in line 5 to total capital expenditure reported in the statutory accounts (note 12) and also to total expenditure in the Capital Works Programme.

Company commentary

NI Water should:

- Explain the basis of adjustments made in line 2, 8, 9 and 10. In addition it should fully explain how the adjustments have been calculated;
- Explain any significant additions and or disposals;
- Explain any significant increase or decrease in the current cost depreciation charge in the year; and,
- Detail the PPP element of any line in the table.

NI Water should reconcile the total in line 5 column 9 of Table 25 to line 6 column 12 of Table 33 (total) plus the sum of line 8 columns 4 and 8, line 14 columns 4 and 8 of both the NI Water and PPP Table 34.

Guidance to Reporters

The Reporter should comment on the reasonableness of any AMP adjustments made by NI Water in table 25.

Guidance to Auditors

See "Auditors' guidance."

Column definitions

Column 4 is the sum of entries in columns 1, 2 and 3

Column 8 is the sum of entries in columns 5, 6 and 7

Column 9 is the sum of entries in columns 4 and 8

Table 25 line definitions

A GROSS REPLACEMENT COST

1	Gross replacement cost at 1 April	£m	3dp
Definition	This is the gross MEA brought forward from the previous year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability. For definition of asset types and asset valuation see the guidance.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

2	AMP adjustment	£m	3dp
Definition	The adjustment to GMEA as a result of an MEA revaluation. This aligns the gross asset value brought forward, with the value of the MEA revaluation.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input (a positive figure represents an increase in asset value)		
Responsibility	Regulatory Finance Team		

3	RPI adjustment	£m	3dp
Definition	Adjustment for valuation from previous year to current year prices using year end RPI by asset type.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

4	Disposals	£m	3dp
Definition	The reduction in gross value of assets caused by disposal of assets, by type.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input (negative number)		
Responsibility	Regulatory Finance Team		

5	Additions	£m	3dp
Definition	Increase in gross value of assets by type caused by purchase. These comprise non-infrastructure expenditure on the base service, plus all enhancement expenditure as defined in RAG 2.03 and in chapter 32 guidance.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input (positive number).		
Responsibility	Regulatory Finance Team		

6	Gross replacement cost at 31 March	£m	3dp
Definition	This is the total gross MEA at the end of the year. The gross MEA value of an asset is what it would cost to replace an old asset with a technically up to date new asset with the same service capability.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Calculated: sum of lines 1, 2, 3, 4 and 5; The gross replacement cost of infrastructure assets relating to water and sewerage brought forward at the beginning of the financial year plus the AMP adjustment, plus the RPI adjustment, less disposals and plus additions.		
Responsibility	Regulatory Finance Team		

B DEPRECIATION

7	Depreciation at 1 April	£m	3dp
Definition	Accumulated depreciation brought forward on assets by type at the beginning of the year.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

8	AMP adjustment	£m	3dp
Definition	The adjustment to accumulated depreciation as a result of a MEA revaluation. For more details please see section 'Adjustment to accumulated depreciation lines 8 to 10' above.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Calculated: sum of lines 9 and 10.		
Responsibility	Regulatory Finance Team		

9	AMP adjustment – gross MEA revaluation	£m	3dp
Definition	The proportion of the total adjustment in line 8 above that relates to an adjustment to gross replacement cost.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input (a positive figure represents an increase in asset value; a negative figure will result in a decrease)		
Responsibility	Regulatory Finance Team		

10	AMP adjustment– amendment to remaining useful economic lives	£m	3dp
Definition	The proportion of the total adjustment in line 8 above that relates to an amendment to remaining useful economic lives.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input (a positive figure represents an increase in depreciation; a negative figure will result in a decrease)		
Responsibility	Regulatory Finance Team		

11	RPI adjustment	£m	3dp
Definition	The depreciation on the adjustment of valuation from previous year to current year (adjustment by year end RPI recorded in line 3) by asset type.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input (a positive number represents an increase in depreciation charge for the year).		
Responsibility	Regulatory Finance Team		

12	Disposals	£m	3dp
Definition	A negative number representing the reduction in depreciation caused by disposal of assets by type.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input (negative number)		
Responsibility	Regulatory Finance Team		

13	Charge for year	£m	3dp
Definition	Depreciation charge on assets by type. For the definition of asset types see page 2 above. This figure is before the amortisation of deferred credits and intangible assets.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input The value in column 4 should equal table 33 line 4 column 4 and is validated by the sum of table 21 lines 26, 29 and 31. The value in column 8 should equal table 33 line 4 column 8 and is validated by the sum of table 22 lines 25, 28 and 30.		
Responsibility	Regulatory Finance Team		

14	Depreciation at 31 March	£m	3dp
Definition	Accumulated depreciation carried forward by asset type at the end of the charging year. (Accumulated depreciation brought forward by asset type plus AMP adjustments, RPI adjustment, less disposals and the charge for the year for those assets.)		
Primary Purpose	Informing future price limit determinations		
Processing rule	Calculated: sum of lines 7, 8, 11, 12 and 13.		
Responsibility	Regulatory Finance Team		

15	Net book amount at 31 March	£m	3dp
Definition	Net book value by asset type at the year end. (Gross replacement cost by asset type at the year end less accumulated depreciation relating to those assets at the year end.)		
Primary Purpose	Informing future price limit determinations		
Processing rule	Calculated: sum of line 6 minus line 14.		
Responsibility	Regulatory Finance Team		

16	Net book amount at 1 April	£m	3dp
Definition	Net book value by asset type at the beginning of the year. (Gross replacement cost by asset type relating to water at the beginning of the year less accumulated depreciation relating to those assets at the beginning of the year.)		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Calculated: sum of line 1 minus line 7.		
Responsibility	Regulatory Finance Team		

CHANGE CONTROL SHEET

CHAPTER 25

2008/1.0	First issue of chapter for the SBP period
2009/1.0	<ul style="list-style-type: none"> • Second issue of chapter for the SBP period; • Amended processing rule for line 13.
2010/1.0	Third issue of chapter for the SBP period. <ul style="list-style-type: none"> • Minor changes to processing rule for line 13. • Additional requirements for the presentation of capital expenditure in commentary.
2011/1.0	First issue of chapter for the PC10 period. <ul style="list-style-type: none"> • No changes.