

Bournemouth & West Hampshire WATER

Mr Hans Nailor
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
LONDON
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Our ref AJF/ATN/5194.02

Your ref

Date 5 August 2002

Dear Mr Nailor

COMMENTS ON FRED29 - PROPERTY, PLANT AND EQUIPMENT

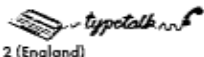
I am writing in response to the recent Exposure Draft 29 on the subject of Property, Plant and Equipment and in particular in relation to the important issue of renewals accounting raised in paragraph 38 ASB (iii) of the discussion document. We currently take advantage of the provisions in FRS 1 5 at paragraphs 97 - 99 to account for our underground infrastructure assets in a cost effective and meaningful way. In addition, infrastructure renewals accounting represents an integral part of the economic, regulatory and accounting framework within which water companies operate in the UK.

As you will be aware, detailed discussions took place on the subject of infrastructure renewals accounting prior to the issue of FRS 1 5 when the water industry, OFWAT and auditors stressed the importance of retaining this method of "depreciation" for infrastructure networks. The arguments which led to this approach being accepted by the ASB are still as relevant today and are as follows;

- Infrastructure renewals accounting was adopted by the water industry in 1 989 to provide a consistent way in which to account for the underground network of mains and sewers which represents a single system to be managed, operated and maintained as a network in perpetuity. As individual components are of no separate economic use and have no determinable asset life, any attempt to estimate these would involve great subjectivity and would be open to manipulation.
- A significant proportion of infrastructure assets in the water industry were created prior to 1 974 and insufficient records exist with which to calculate depreciation on a conventional basis. The use of an independently certified asset management plan to determine annual expenditure required to maintain the operating capacity of the network provides a robust auditable basis of calculating depreciation.

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- OFWAT have indicated to date that they will continue to require the use of infrastructure renewals accounting in the regulatory accounts and as part of the price-selling mechanism. It is important to ensure symmetry between the statutory and regulatory accounts in order to avoid confusion for users, in particular arising from potentially different historical cost profit figures. Although the current system involves presentational differences in relation to infrastructure assets between statutory and regulatory accounts, these are easily reconcilable and result in consistent profit figures.

It is crucial therefore that the current provisions are retained within the main body of the new standard to enable water companies to continue with this method of accounting and ensure consistency of approach in the water industry.

The possibility of continuing to adopt infrastructure renewals accounting in the absence of the specific dispensation would ultimately be a matter for auditors to decide. However, the inevitable lack of consistency in treatment between companies would be undesirable.

Prior to the issue of FRS 15, much valuable work was carried out involving the ASB, OFWAT and the water industry in developing a solution to address the need to depreciate infrastructure assets. The solution should be retained and specific guidance to this effect should be included in the revised accounting standard. The omission of such guidance would present the water industry with major practical difficulties that would inevitably increase costs and affect charges to customers in the long term.

Yours sincerely



Anthony Ferrar
Finance Director