



Dear Sir or Madam:

FRED29 Property, plant and equipment; borrowing costs Question ASB (iii)

I am writing in response to question ASB (iii) in Exposure Draft No. 29 'Reporting property, plant and equipment; borrowing costs' concerning renewals accounting.

In common with the rest of the water industry United Utilities Water PLC currently accounts for its underground infrastructure assets using renewals accounting as permitted by FRS 15 paragraphs 97—99. This approach allows underground infrastructure assets to be accounted for in a practical and cost effective way and represents an integral part of the economic, regulatory and accounting framework within the water industry.

We strongly believe that the current approach be retained for the following reasons:

- The infrastructure network is treated as a single system - the underground infrastructure network of mains and sewers represents a single system to be maintained at a specified level of service potential. The individual component assets are of no separate economic use and have no determinable asset life, any attempt to estimate these would be subjective.
- Asset records do not exist for pre-1974 assets - many infrastructure assets were acquired/created prior to 1974. Insufficient records exist for these assets to allow depreciation to be calculated on conventional bases. In the absence of these records the use of annual expenditure from an independently certified asset management plan provides a more robust auditable and practical basis of estimating depreciation.
- Consistency with regulatory accounting - OFWAT have indicated that they will continue to require us to account for infrastructure assets in the regulatory accounts using renewals accounting. We would prefer to retain consistency between statutory and regulatory reporting to avoid confusion for users and the need to maintain two sets of assets records. The current presentational differences relating to infrastructure assets between the two sets of accounts are easily reconcilable and result in consistent profit figures.

Renewals accounting per FRS 15 provided a workable solution to the issues outlined above. We believe that this solution should be retained and specific guidance to this effect should be included in the revised accounting standard. In the absence of this, the water industry would face major practical difficulties that would result in increased costs and therefore charges to customers in the long term.

Yours sincerely

Steven Beaumont
Finance Director
United Utilities Water PLC