

Wessex Water Services Ltd Response to Ofwat's PR19 Draft Determination – August 2019

Representation reference: Cost Assessment C23

Representation title: Totex sharing rate

Summary of issue

You state that our final totex sharing rate will be calculated based on the difference between the average of our original and final submission and our final allowance.

We reduced totex in response to the IAP that was not the result of inefficient scope or costs. These reductions should be included in the calculation of our final sharing rate.

Change requested

You adjust our initial submission value by the £14.5m we removed in March relating to totex for sewer flooding and pollutions where we initially proposed service levels beyond the upper quartile.

Rationale (including any new evidence)

We do not disagree with the principle that inefficiencies can arise from proposing excess scope as well as on the costs delivering efficient scope; and that it is not inappropriate to capture this in the proposed sharing rate.

We do however maintain that the totex we removed was delivering efficient and cost beneficial scope that was going beyond the future upper quartile service levels of the industry. Thus, it should not be included in the view of inefficient scope that should be included in setting sharing rates.

Critically this scope reduction came off the back of less stretching industry wide performance commitment targets that were announced by Ofwat in January 2018 – this is what distinguishes it from other reductions in totex.

Not adjusting for this would mean that we would be being penalised for proposing ambitious improvements in our initial submission.

Why the change is in customers' interests

This ensures that companies are still incentivised to offer the best possible services for customers.

Links to relevant evidence already provided or elsewhere in the representation document

Please see Appendices 4 and 7 of our response to IAP for full details of why this totex was reduced.