

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

Representation reference: Outcomes O6

Representation title: Sewer collapses

Summary of issue

Ofwat has intervened to set our incentive rates to -£0.388 million, based on the average of the 'reasonable range'. This is despite the fact that Ofwat said our customer research and triangulation were both high-quality. Ofwat's decision does not reflect the views or preferences of our customers and so should be reversed.

Our original incentive rates were -£0.230 million.

Change requested

We request that Ofwat sets our incentive rates at the values we proposed in our business plan, which are supported by customers and based on research and triangulation that Ofwat has called 'high quality' and has been assured by a respected and independent third party.

Rationale (including any new evidence)

We do not support the use of Ofwat's 'reasonable range'. Our customer research and triangulation has been widely praised and we are very confident that we have provided ODI rates that accurately reflect customer preferences.

It is important to ensure that the quality of research undertaken by different companies is high before assessing 'reasonable ranges' – there is no evidence that Ofwat has undertaken this at either IAP or DD stage. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced and supported by recognised good practice. This is not currently the case.

Below, we set out the specific valuations we received from each piece of research, the triangulation weightings applied to each and the calculation applied to define the incentive rate.

Figure 1-1

	Data source	£ / hh / incident	Weighting
	2017 Conjoint Analysis	0.00	67%
	Website game - data set 1	0.10	7%
	Website game - data set 2	0.10	9%
	Website game - data set 3	0.10	18%
	Weighted Average	0.03	£ / hh / incident
	Equivalent to	0.019	£m / incident
	Which creates a marginal benefit of	0.659	£m / incident / '000 km
	With a marginal cost of £0.87m & a 50% sharing rate this gives us an incentive rate of	0.23	

We consider that the setting of the enhanced underperformance level remains valid as it is around the lower quartile of current industry performance.

Should Ofwat decide to follow this approach, we note that our incentive rate was within Ofwat's reasonable range anyway and Ofwat has arbitrarily decided that this is not appropriate in this case.

Why the change is in customers' interests

Our customers supported our business plan, with evidence of high acceptability and affordability. Our incentive rates are aligned with our high-quality customer research. We should not be forced to align our incentive rates to those of companies whose customer research is not of such good quality.

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

DD representation - Outcomes summary

Response to IAP – standalone document

Chapter 1 and associated appendices of business plan

Chapter 3 and associated appendices of business plan