

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

Representation reference: Outcomes O7

Representation title: Unplanned outage

Summary of issue

Ofwat has intervened to set our incentive rates at -£0.382 million, based on the average of the 'reasonable range'.

Our original incentive rates were -£0.0012 million. These have been increased by over 31,000%.

Ofwat has applied its assessment of the 'reasonable range' without due consideration of the individual company situation.

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 a specific set of conditions that make Wessex Water different to the rest of the industry.

Rationale (including any new evidence)

As mentioned in our business plan submission, our supply network is well interconnected which means that:

- an unplanned outage at one treatment works can be mitigated by using another treatment works whilst maintaining supplies to customers at all times
- we are able to have a maintenance strategy which optimises cost while still ensuring resilient supplies.

A prime example of our approach is maintenance of borehole pumps. Failure of a borehole pump would probably cause a temporary loss of peak week production capacity for more than 24 hours in accordance with the reporting guidance (depending on the number and capacity of borehole pumps at the site). Due to our ability to move water around the Grid and trunk main system, we are able to maintain supplies to customers throughout the outage and choose the most economic time to replace the pump. Typically, should the borehole pump fail on a Saturday we opt to schedule the replacement for the first working day of the following week. This does not impact on the long-term health or resilience of our assets – it is simply a different approach to maintenance than other companies take due to the nature of our network and the resilient approach we have to water supply.

For these reasons in our submission we set the incentive rate based on the short run marginal cost of the alternative water supply (specifically, the difference between the marginal cost of our most expensive water supply and our cheapest – in the knowledge that this is a worst case scenario and the most likely outcome is that costs balance over the course of time).

Page 157 of the Delivering outcomes for customers appendix shows that there is a wide range of incentive rates across the industry, which indicates that companies are in different situations regarding the resilience of their systems.

We are concerned that, by setting an incentive rate which is 300 times greater than the short run marginal cost difference, we will be driven to change our maintenance scheduling to a pattern which is less economic and more costly. This seems to be the wrong incentive and is not in customers' interests.

Why the change is in customers' interests

Our approach to maintenance of our water supply assets is one of extremely strong resilience to short term issues that works by employing a long-term resilience approach that keeps customers in supply even when those short-term issues arise.

We do not support the use of 'reasonable ranges' generally and, in this specific case, there are very clear reasons why our incentive rate should not be forced in to a range that reflects companies with entirely different characteristics.

We recognise the importance of the need to maintain our services over the long term and reputational and financial incentives contained in our plan are sufficient to do this. Ofwat's approach will potentially lead to customers paying for uneconomic outcomes.

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