

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

Representation reference: Risk and Reward R4

Representation title: Capital allowances

Summary of issue

You have intervened and changed our totex but have not adjusted capital allowances. Consequently, you are over estimating the tax relief we will receive.

Change requested

To ensure that our capital allowances are consistent with our allowed totex programme.

Rationale (including any new evidence)

The company receives tax relief on the capital expenditure it incurs through its capital allowances. In our draft determination you have intervened and reduced totex, which will in turn reduce capital allowances and hence mean that there is less tax relief due. Ultimately the DD assumes more tax relief than the company would expect and so underfunds the companies tax allowance.

This was highlighted in our draft determination and companies were invited to make representations.

To aid in ensuring this is reflected we are providing 2 further versions of App29 as an appendix to this representation.

1. App29 (Appendix R4.2 – App29 corrected DD allowances) based on the totex allowance in the DD with corrected views on the opex / capex split which we are setting out in a separate representation. If you accept this change then this is the information you should use.

2. App29 (Appendix R4.1 – App29 DD allowances) based on the totex allowance in the DD with the capex / opex splits that have been reflected in your published financial model. If you reject the representation on correcting the capex / opex splits, this is the information that you should use for consistency.

We are separately making representations on the efficient level of totex and would be happy to provide an updated version of these numbers dependant on the final allowances through the query process.

We have calculated the capital allowances using the same methodology as at previous submissions based on work done by third party consultants Chandlers KBS.

Why the change is in customers' interests

Taxation policy is set centrally by UK government to meet society's objectives. It is appropriate that the impact of this flows through correctly to both businesses and end consumers.

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

Appendix R4.1 – App29 DD allowances

Appendix R4.2 – App29 corrected DD allowances