

# Wessex Water

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22 November 2012

*Dear Keith*

This letter sets out our response to Ofwat's Section 13 proposals to modify the conditions of our appointment.

We support the proposals to set separate retail and wholesale price controls but note that the proposed changes go significantly further.

While the current proposals represent a reduction in regulatory discretion compared to those published in December 2011, the degree of flexibility to make further changes to wholesale is very material. The result has been significant investor concern, as evidenced by falling equity prices and negative comment by rating agencies, banks and bond investors.

However, we agree that some change is needed in the sector. As you know, we have already separated retail activities (through BWBSL in 2001) and our sludge activities (through GENeco in 2009). Moreover, we advocated deregulation of bulk supplies in our response to your consultation on setting wholesale prices at PR14.

We also note your assurances on protecting all efficiently incurred capex in the RCV at 31 March 2015, your commitment to consult on any future changes, and your primary duty to ensure that we can finance our functions.

Following discussions with Ofwat's Chairman, we have considered what our response would be if the Section 13 proposals were revised to make clear that any transfers out of the wholesale business are confined to retail activities, sludge treatment and disposal, and water resources. We also note the request in your Clarification Notice dated 20 November to set out constructive proposals on how our concerns might be addressed.

Accordingly, we confirm that we would consent to licence modifications if the Section 13 notice was changed as set out in the attached Schedule or on the basis of other detailed changes agreed with you.



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As you will be aware, Section 13 requires us either to consent or not to consent to the proposals put to us. Accordingly, as a formal matter, this means we are unable to consent to Ofwat's Section 13 proposals as they currently stand.

However, we are keen to work with you to reach agreement on the basis indicated.

A handwritten signature in black ink, appearing to be 'C. Skellett', written in a cursive style.

Colin Skellett  
Chairman

## SCHEDULE

Required changes to Ofwat's section 13 proposals draft licence.

1. Paragraph 2 (Defined Terms)

'Retail Activities' – to be redefined as:

'The retail services referred to in Pro Forma A8 of the Ofwat document 'Consultation on Changes to the Regulatory Accounting Guidelines (RAGs – Appendices)' as published on 31 July 2012 and activities that are incidental thereto as the Water Services Regulation Authority may from time to time designate'

2. Paragraph 8.4 (Part III. Periodic Reviews)

In line 1 after 'Wholesale Activities' add the words

'except Excluded Charges'

3. Paragraph 8.9

After the word 'activities' in line 3 add the words:

'defined as (1) Sludge Treatment and Sludge Disposal and/or (2) Water Resource Facilities in Ofwat's Guideline for Classification of Expenditure 'Regulatory Accounting Guideline 2.03' and activities that are incidental thereto'

4. Paragraph 15 (References to Competition Commission)

In paragraph 15.1.(3) (ii) add at the end of the sentence

'or designation as the case may be'.