

7 August 2015

PR14 Reconciliation Rulebook WRFIM Response
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Dear Sir

**PR14 Reconciliation Rulebook
Consultation on Wholesale Revenue Forecasting Incentive Mechanism issues**

Thank you for asking for our views on the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) prior to finalising how this mechanism will work. You make a number of points of clarification in your latest publication which has been helpful. In particular clarifying that irrespective of the option chosen you are expecting companies to adjust the revenue they recover from customers via charges in a year to account for any over-recovery in revenue two years prior.

Your options then focus on whether the same rules should apply where we have under-recovered revenue in a year. Our preferred approach is for the mechanism to operate as originally intended. By this we mean that the incentive should apply equally to over- and under-recovery of revenue and we should be able to adjust allowed revenue during the AMP6 period to correct for a previous over- or under-recovery. This ensures that the mechanism operates symmetrically so that companies focus on setting tariffs that will recover their allowed revenue, no more no less. It also reduces the potential for a step change at the next price control to account for the over- or under-recoveries of revenue during the AMP6 period that may have built up over the five years.

You have decided that this requires a licence change. We support the intent of the proposed text for the licence. The sentence "This sub-paragraph shall cease to have effect on 1 April 2020." is unnecessary as a Relevant Shortfall can only be recovered in a Relevant Charging Year which is defined as ending on 31 March 2020.

Our support for the licence modification is on the condition that this licence change applies to all companies. It would not be acceptable to us for companies to be operating under different WRFIM rules as this incentive forms a fundamental part of the price control framework.

If you have any questions on our response please get in touch with Joanna Campbell, Economic Regulation Manager (JoannaC@waterplc.com, 01737 785 692).

Yours faithfully



John Chadwick
Finance and Regulation Director