

South East Water's
response to Ofwat's
additional WRFIM
consultation

August 2015

1 INTRODUCTION

This document provides South East Water's response to the additional WRIFM consultation issued as part of the PR14 reconciliation rulebook.

2 ANSWERS TO SPECIFIC CONSULTATION QUESTIONS

Below are responses to the issues outlined in the rulebook document.

Proposed drafting for a licence modification to allow consistency with the original WRIFM formula

Please find below our proposed wording for a licence modification allowing recovery on any shortfall in-period under the original WRIFM. We have prepared the following draft amendment having regard to the wording of our licence Condition B.

[8.12] Wholesale Revenue Forecasting Incentive Mechanism

[8.12(1)] Notwithstanding anything to the contrary in sub-paragraphs [8.1] and [8.4(1)], the Appointee shall be entitled in any Charging Year in the period commencing on 1 April 2017 and ending on 31 March 2020 to levy charges best calculated to recover any Relevant Shortfall including where this results in an overall percentage change in charges greater than the percentage change determined under sub-paragraph 8.4(1).

[8.12(2)] In this sub-paragraph [8.12], "Relevant Shortfall" means any positive amount (RFIMt) calculated in accordance with the Wholesale Revenue Forecasting Incentive Mechanism (WRIFM) formula published by the Water Services Regulation Authority in December 2014.

Comments on drafting (including Ofwat's suggested draft)

Please see below our views on the drafting suggested by Ofwat.

We believe there is no need to provide for an expiry date of the paragraph, as any shortfall recovery can only apply in a "Relevant Charging Years" i.e. in the period from 1 April 2017 to 31 March 2020.

The words "for the Relevant Charging Year" in the definition of "Relevant Shortfall" in the Ofwat's draft should be deleted as the years in respect of which the shortfall is calculated are not only the years between 1 April 2017 and 31 March 2020. The period 1 April 2017 to 31 March 2020 is only relevant to the year during which the recovery can be made. In other words, the Charging Years for the purpose of calculating the shortfall are different from the Relevant Charging Year for the purpose of recovering the shortfall, and the same definition cannot be used for both. In our wording we have not referred to a year for the calculation of the shortfall because (i) the relevant year for the calculation of the shortfall is defined in the WRIFM formula itself (ii) only the definition of the "recovery year" is relevant for the

proposed licence amendment (as only the recovery would be potentially inconsistent with sub-paragraph 8.1 of our licence).

Questions on preferred approach

In respect of the other questions relating to the proposed approach to the implementation of the WRIFM we respond as follows:

- We support a licence modification to allow for the application of the original WRIFM formula.
- We support the approach allowing individual companies to apply the original WRIFM formula. Therefore, each company should be allowed to choose between a licence amendment (and the original WRIFM formula) or no change to the licence (and the use of a revised WRIFM formula).
- We therefore oppose any approach requiring all companies to apply the revised WRIFM formula, or any condition that all companies should agree to the licence modification for it to be implemented. We believe that the pragmatic approach proposed is sufficient to allow the WRIFM to be implemented as originally intended at PR14.