

Consultation on the 2010-15 final reconciliation

2nd November 2016

This paper sets out South East Water's views in response to Ofwat's consultation of the 2010-15 final reconciliation.

1 INTRODUCTION

This document provides South East Water's (SEW) response to the consultation on the 2010-15 final reconciliation.

It sets out firstly a series of general comments arising from the consultation documents and as requested in the consultation, sets out SEW's approach to recovering the Revenue Correction Mechanism (RCM) adjustment arising from the blind year reconciliation.

2 GENERAL COMMENTS ON THE CONSULTATION

We welcome this consultation paper and the comprehensive documentation provided by Ofwat in terms of the company specific appendix and detailed excel models supporting the initial decisions.

We have a number of comments on various aspects of the consultation documents and accompanying published models which are set out below:

- The figures that Ofwat has published for SEW are closely aligned with our own estimates of the blind year adjustments using the published Rulebook models.
- Table A1 & Table A10 – CIS RCV adjustments. Despite the notes in the text we believe there is a risk that the figures could be misinterpreted by mistaking them for the Ofwat proposed RCV midnight adjustment at March 2020. To avoid any unnecessary confusion on these important numbers we would suggest that a table showing the proposed RCV midnight adjustment to be applied at March 2020 presented alongside the 'RCV CIS adjustments' would be helpful. A suggested revised table is provided below which we believe provides the necessary clarity to address this potential issue:

Proposed Revised Table A10 – CIS RCV adjustments.

	Water Service CIS adjustments	March 2020 RCV midnight adjustment
FD position	7.464	–
Impact of CIS RCV indexation adjustment	-25.778	-25.778
Offsetting impact of RCV runoff 2015-2020	–	4.480
Corrected FD position	-18.314	-21.298
Impact of updated actuals	0.507	0.507
Ofwat BYR position	-17.807	-20.791

We also propose that a similar approach would be helpful for the RCV adjustments in the summary Table A1.

- WRFIM model – the formula in the WRFIM excel model provided with the consultation is not consistent with the latest rulebook and therefore does not take account of those companies accepting the proposed licence amendment.

PR14 Rulebook (revised Oct 2016) Section 3.7 WRFIM calculations Line 5 p47	Baseline revenue for calculation of penalties (AR*)	Minimum of the adjusted allowed revenue (AR) and the allowed revenue from FD for companies that do not change license arrangements. <u>For companies that do change license</u> arrangements AR* will equal AR.
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We understand that Ofwat is to update and reissue the WRFIM model to be aligned with the current rulebook such that AR* will equal AR for companies which sign up to the proposed licence amendment.

3 RECOVERY OF THE RCM SHORTFALL

We are pleased that Ofwat is proposing flexibility in the recovery of the RCM blind year adjustment of £4.96m (2012-13 prices). The proposed mechanism allows for this adjustment to be spread across 2017/18, 2018/19, 2019/20 or into the next AMP (with indexation and cost of capital applied each year). We support Ofwat's view that this flexibility be applied in the best interests of customers.

We can confirm that we intend to apply this adjustment in 2019/20. However, we would like to retain the option to defer part or all of this until PR19 should our assessment of charges for 2019/20 show this would be in the best interests of customers. This would allow us to take into consideration the level of inflation in 2019/20 and whether there is a WRFIM revenue recovery adjustment that would need to be applied due to any variation in 2017/18 revenue.

We anticipate that we should be in a position to confirm our final position in our business plan due for submission in September 2018.