



Water 2020
Ofwat
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Your Ref:

Our Ref:

Date: 4 November 2016

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2010-15 final reconciliation: Southern Water

Thank you for the opportunity to provide our response to Ofwat's final 2010-15 reconciliation. Overall we accept Ofwat's proposals against each of the incentive mechanisms. Our comments on each of the adjustments are set out below.

Revenue Correction Mechanism (RCM)

We note the overall revenue adjustment for the RCM as set out in the final reconciliation consultation document:

- Water service £4.356m
- Wastewater service (£5.349m)

However, we understand that these figures are subject to review by Ofwat, and we await confirmation of the correct figures to inform the setting of our final wholesale charges for 2017-18.

The consultation paper recognises that the RCM revenue adjustment has the potential to cause a spike / trough in customers' charges if applied solely in one year. In order to manage the impact on customer bills in 2017-18, we propose to apply the adjustment in the current price control period.

We also propose to spread both the under-recovery of water supply revenue and the over-recovery of sewerage service revenue over three years in order to meet our objective of mitigating bill volatility for customers, as well as cash-flows for the business. We believe that this is in line with the guidance in the PR14 reconciliation rulebook.

Subject to approval from our Board, and confirmation from Ofwat of the correct value of the adjustment, we are currently minded to defer 100% of the adjustment for the water supply service, and 50% of the adjustment for the sewerage service, when setting final wholesale charges for 2017-18. We would expect, all else being equal, to evenly spread the remaining adjustment over the last two years of this price control period, but our Board will need to take a considered view on this when setting 2018-19 charges, so that we can take into account other pressures on charges, such as the true-up from 2016-17 and RPI.

Change protocol and the Capital Expenditure Incentive Scheme (CIS)

We agree with Ofwat's final position on the 2010-15 change protocol adjustments in relation to our final logging up, logging down and shortfall claims.

We note the error in our calculation of the logging down adjustment with respect to our Universal Metering Programme. As this is not material, and works in the customer interest, we accept Ofwat's proposal not to correct this in the final CIS adjustment.

Serviceability assessment

We have been able to replicate Ofwat's serviceability figures based on the data that we provided as part of the 2014-15 reconciliation work. As such we accept Ofwat's assessment of Southern Water's final serviceability position and welcome recognition of the improvement in our performance in relation to flooding for 2014-15, and the corresponding reduction in the shortfall calculation.

Updates to the PR14 Reconciliation Rulebook

We accept Ofwat's proposed changes to the PR14 reconciliation rulebook.

If you would like to discuss any of these comments, please do not hesitate to contact me on 01903 272336, or by email nikki.deeley@southernwater.co.uk.

Yours sincerely,

Nikki Deeley
Head of Economic Regulation