

Wessex Water: Response to consultation on economic asset valuation for the bioresources RCV allocation at PR19

Q1: Do you agree that the focused RCV allocation should be based on the economic value of assets as set out in section 3? If you disagree, please explain what variations to this approach, or alternative approach, you prefer and why it would be more desirable than our preferred approach. Please include in your explanation how it would meet the objectives of the focused allocation of pre-2020 RCV to the bioresources control.

The approach set out in section 3 seems reasonable, although it is likely that as companies try and implement this approach, there will be additional questions, some of which will not become clear until later in the process. With this in mind, we would ask that Ofwat considers setting up an issues log with questions (and answers) to ensure that these are available to all interested parties.

We do not have an alternative solution.

Q2: Do you agree that companies should consider impact on customers and markets and propose an alternative RCV allocation if this will better protect customers, including by promoting a level playing field for markets?

No, we believe that Ofwat and Reckon have done a lot of work in deriving their proposed approach. We think that all companies should follow this approach to ensure a level playing field.

Q3: Do you agree that the assumptions in table 4.1 are appropriate for companies to use for the valuation exercise? We welcome any comments on these assumptions; suggestions of further assumptions you consider all companies should use; or requests for clarification. If you disagree that any of the above assumptions are appropriate to be used by all companies please explain why and if relevant suggest an alternative.

Yes, given the methodology proposed, the assumptions are generally appropriate, with the following comments:

Boundary for Assets

We suggest that the second paragraph of the guidance is deleted or should make it clear this is an extract, not an alternative definition to RAG 4.06. The definition in RAG 4.06 should be adequate and used as the master set of definitions.

We have previously commented to Ofwat (during consultation on RAG 4.06) that the boundary diagram should define where sludge liquor balancing sits, which we consider should be within Network+. (Note this is not liquor treatment, which we agree should be within the Bioresources business unit).

Capacity of facilities

We recognise in some cases that judgement will be required on the choice of assets that a hypothetical new entrant would provide. An explanation will be expected when such a judgement is made.

Level of valuation

We believe that remote thickening sites should be valued in the same manner as STCs.

Sub site processes

We assume that screening should be included under thickening, please confirm?

We assume that cake storage on a STC should be included under digestate dewatering/drying, please confirm?

Choice of technology

No comment

Ownership of assets

No comment

Treatment of sludge liquors

Can you clarify the ownership of liquor balancing plants; we believe that if used for balancing only, this should not be a bioresources asset?

Q4: Do you agree that the assumptions in table 4.2 are appropriate for companies to use for the valuation exercise? We welcome any comments on these assumptions; suggestions of further assumptions you consider all companies should use; or requests for clarification. If you disagree that any of the above assumptions are appropriate to be used by all companies please explain why and if relevant suggest an alternative.

We consider the assumptions are appropriate.

Q5: Do you have any further suggestions of potentially useful cross checks, beyond those presented in table 4.4 that companies may want to consider?

At this stage, we have no other suggestions.

Q6: Do you have any comments on our timetable?

The timetable for this piece of work is stretching but achievable in isolation. However, there are numerous additional requirements emerging from Ofwat that, collectively, are putting pressure on resources.

Most importantly, our assurance process is in place and meetings of our Board and CCG arranged. Therefore, we will expect to subject the first submission to our normal internal assurance processes but the dates mean that we will not be able to give full board assurance at this stage. This should not be an issue for the price control as full board assurance will be given in September 2017.

Q7: Do you have any comments on our assurance expectations?

Ofwat wants companies to provide Board assurance on their proposals. To achieve this we will submit the proposals to the Board when it meets on 25th September 2017, the Board can sign off on our proposals, with external assurance provided by Mott MacDonald, our technical auditor.

Clearly, it is important that Boards are fully engaged and that Ofwat feels there is full Board assurance for the price control. However, we feel it may be counterproductive, where Ofwat are requiring data early, to expect Board assurance at each discrete stage of the process. We will, of course, submit all of these submissions to our internal assurance processes and the final plan submission will have full Board assurance.

Q8: Do you agree that companies should publish information on their websites to allow other stakeholders to comment, and when this could happen?

While Ofwat clearly favours publication of more rather than less data, we note that information exchanges can have the effect of suppressing competition rather than enhancing it. We would therefore be cautious about publishing information that raises the prospect of us being in breach of competition law.

Q9: At what level of detail do you think that this information should be published at? Please comment as to what you consider the benefits or disadvantages to companies publishing information at a site level?

We consider that information should be published at an aggregate, rather than a site-specific level, to ensure that it is not deemed to be an anti-competitive information exchange. Given that each company will be undertaking its own checks and assuring the quality of its own data, we do not think that external scrutiny at a site-specific level is appropriate. Should Ofwat determine that site-specific information should be published, we believe that each company should be able to decide which information will be redacted.

Q10: Do you have any comments or require any clarification on the proposed tables? Where you have alternative proposals, please set out how this meets the objectives of the asset valuation for the purposes of allocating the legacy wastewater RCV to the bioresources control.

The tables appear to make sense, however, it is not possible to confirm whether the tables as published are adequate until we have tested them with real data.

Some specific comments identified to date:

We believe there would be benefit in standardising the calculations particularly in Tables 3 & 4 Column J-K. Otherwise, this could result in inconsistent and incomparable responses. An additional column should be added to allow deviations from this now standard calculation.

One example is that the consultation says there is no need to separate infra expenditure and yet Tables 3-5 require it.

Table 6: There are a few errors and inconsistencies between line titles and definitions eg. lines 2 & 3.

Table 6: The line definition for Line 4-19 appears to complicate matters, it should just refer to RAG 4.06 as the master definition.

Table 6: The definitions for Block I & J need clarification.