Wessex Water Services Ltd Response to Ofwat's PR19 Draft Determination – August 2019

Representation reference: **Risk and Reward R5**

Representation title: **PDRC on one side of the AICR calculation**

Summary of issue

The published financial model includes the allowed revenues for PDRC but not the costs. This creates an illusion of additional financial headroom against key credit metrics for the notional company.

Change requested

That the allowed costs and allowed revenues for PDRC are aligned when modelling the metrics related to the notional company.

Rationale (including any new evidence)

The determination assumes that pension liabilities beyond what was agreed to be funded in IN13/07 are a risk that is managed by equity and are excluded from the modelled notionally efficient company.

To the extent that the revenues arising from the funding of PDRC is included then the costs need to be included also. Not doing this overstates the financial headroom available against key credit rating metrics.

To amend this either:

The notionally efficient company has no allowance for revenues or cost, and instead the revenues are added in after the financeability tests are applied, as per additional revenues from PR14 reconciliation.

Include the costs equivalent to the revenue allowance to ensure no artificial headroom in the revenue allowance is created

Why the change is in customers' interests

It is clearly in customers interests to ensure the long term financial resilience of the company is not put at risk by assessing it including artificial headroom in the key financial metrics. This could lead to a credit rating downgrades and long term increases in the cost of debt – disadvantaging customers.

Links to relevant evidence already provided or elsewhere in the representation document

None