

# Appendix 10.1.A – Third party report on financial resilience

Wessex Water

September 2018

Business plan section	Supporting document
	Board vision and executive summary
1	Engaging customers
2	Addressing affordability and vulnerability
3	Delivering outcomes for customers
4	Securing long term resilience
5	Markets & innovation: wholesale
6	Markets & innovation: open systems & DPC
7	Markets & innovation: retail
8	Securing cost efficiency
9	Aligning risk and return
10	<b>10.1 Third party report on financial resilience, viability and stress testing</b>
	10.2 PAYG ratios
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11	Accounting for past delivery
12	Securing trust, confidence and assurance
13	Data tables and supporting commentaries

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# Letter of assurance— Wessex Water’s viability statement

Note prepared for Wessex Water

13 July 2018

Strictly confidential

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## 1 Overview

Wessex Water has commissioned Oxera to provide independent assurance of its long-term financial viability statement, published in its annual report 2018–19. It has requested that the assurance of its statement and of its statements made on financial resilience in its PR19 submission be completed in June 2018 and July 2018 respectively.

This note provides the results of Oxera’s review of the following statements made by Wessex Water:

- the financial viability statement in its annual report 2018-19;
- the financial resilience statement made to be included in its business plan and approved by the company’s Board in July 2018.

## 2 Assurance statement

In 2016, Wessex Water commissioned Oxera to create a scenario modelling tool that aimed to inform the long-term viability statement issued by the company’s Board. Since then, Wessex Water has updated the tool on an annual basis, with Oxera reviewing the changes made by the company and the results of the model. The latest of these updates was conducted in July 2018.

Given this context, this assurance exercise has included checking for the following aspects:

- whether the changes to the model made by Wessex Water are appropriate and whether the model functions correctly as a result of these changes;
- whether Wessex Water has interpreted the results of the model correctly in its statements related to financial viability and financial resilience.

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We can confirm that we have not found any outstanding problems with the changes to the model made by the company. With regard to the stated aims of the checks, we have found nothing that undermines the model's internal consistency, or its ability to perform as intended, in terms of producing financial ratios under a number of modelled scenarios.

We can also confirm that the company has interpreted the results of the model correctly in its financial viability and financial resilience statements. Where we had queries around the wording in the statement, these have been clarified or addressed appropriately by the company.

For example, we queried with Wessex Water whether the level of severity of the scenarios presented was sufficient for the purpose of providing the statements. The company has explained that it considers that more severe scenarios than those already presented would be outside of the reasonable P10/P90 range. It has also expressed the view that the financial viability and financial resilience statements do not require companies to state that they would be viable under very extreme circumstances, and that it is appropriate to consider more credible events for the purpose of financial resilience testing. We agree that very extreme outcomes are unlikely to form a requirement of the financial resilience framework.

We note the reference to a potential reopening of revenue allowances under the terms of the company licence, in particular the "substantial effects" clause. We concur with the company that the levels of additional expenditure modelled would under some scenarios be sufficient to meet the materiality levels set-out in the licence. We note that the company would still need to make a sufficiently compelling case that the effect could not have been foreseen or avoided by prudent management action for allowed revenues to be adjusted.

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