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22 November 2018

Dear Ian

‘Out in the Cold’ review and next steps

In addition to publishing our [‘Out in the Cold’ review](#) of companies’ performance after the ‘Beast from the East’ earlier this year, we wrote to each company, including Southern Water, highlighting specific concerns and issues we identified from our analysis.

In this [letter](#), we said that Southern Water needed to “take significant steps to make sure it is ready to service its customers better the next time there is bad weather”. We asked Southern Water to publish an externally assured action plan setting out how it is addressing, ahead of the winter, the issues identified in our review, the company specific letter and its own internal reviews.

We would like to thank you for your letter of 28 September 2018 and your published attached [plan](#). We acknowledge the level of effort that Southern Water has put into its response to this, and the steps it has already taken, and plans to take, to become more resilient in the face of future challenges.

This letter sets out our expectations and the areas of concern that we have identified when reviewing Southern Water’s response. We thank the Consumer Council for Water (CCWater) for their involvement throughout this process and have incorporated their comments into this letter.

This letter is without prejudice to and does not pre-judge any analysis or decisions to be made during the price review including, but not limited to, any additional expenditure that may be allowed in the next price review period for initiatives identified in response to the freeze thaw. The PR19 team are assessing the

robustness of all companies' business plans and will provide their determinations in 2019, in line with our published methodology.

Your responsibilities

Customers expect water companies to prepare for and manage weather incidents to ensure that they experience minimal interruptions to their service. It is for companies to ensure that they are sufficiently prepared to manage severe weather incidents and to make sure their customers are protected. Companies must assure themselves that they can meet their obligations, including under the Security and Emergency Measures Direction (SEMD) and Section 37 of the Water Industry Act 1991.

We note that the Board and Executive of Southern Water have approved this plan and that they are fully accountable for its delivery. The company had external assurance on its action plan and now must ensure it is ready and able to respond to any severe weather experienced this winter and beyond.

Our feedback

We have carried out a review of the information that Southern Water submitted and we note that the company has taken some positive steps as a result of our review. There are a number of areas where we expect Southern Water to make further progress to ensure that its customers are protected and supported. In particular, we have had three meetings with the company and provided feedback on the actions that it should focus on. Therefore, we expect Southern Water to ensure that it has taken all reasonable steps to ensure that it is ready for this winter.

Southern Water told us that at the time of submission it had completed 40% of its action plan. Some of the improvements that Southern Water and the sector will have to make to secure greater protection for the long term will take time. We accept this, but must make clear that companies must still take the necessary steps to ensure that their customers are protected and receive a resilient service right now, in line with their duties in delivering an essential public service.

We strongly encourage the company to ensure that where it has identified actions that practically it will not deliver by this winter, appropriate contingency measures are put in place to cope with events that could potentially disrupt its ability to supply essential services.

Further comments from our analysis are provided in the appendix to this letter.

Next steps

Winter is almost here and we expect Southern Water to deliver the actions it has committed to, taking on board these comments and recommendations, and ensure that its customers are better protected.

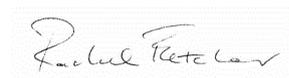
Companies need to continue to learn lessons and review their progress in delivering these action plans. The feedback from this letter should help inform this continued learning and effort to improve, which we have seen from the sector more widely.

We encourage the company to keep seeking out and adopting best practice from inside and outside of the sector to make sure they deliver for their customers and meet their statutory obligations. In doing this, Southern Water should continue to actively participate in the work that Water UK is co-ordinating to address sector-wide issues. We will be monitoring the progress of this work through the quarterly and annual updates that Water UK's Operations Strategy Group will be producing.

We have agreed with Defra, which oversees the Security and Emergency Measures Direction (SEMD), that issues identified in the freeze and thaw reviews should be considered as part of the forthcoming SEMD certification process this winter. This annual assessment process considers companies' ability to maintain essential water supply and wastewater services at all times.

We have intervened to hold companies to account and to make clear what we expect of them in response to severe weather. It is now for Southern Water to make sure that it is ready for the coming winter and beyond. We will be closely watching the company's performance to ensure that its customers are protected. If there is evidence of the company failing its obligations to customers, we will take further action to address this.

Yours sincerely



Rachel Fletcher
Chief Executive

Appendix – comments from our analysis

Planning and preparation

Southern Water explained how it will be taking a more proactive approach to extreme weather events. Although it has actions to develop and roll out an adverse weather plan and standby arrangements for incident response teams, we note that these will not be complete until 31 March 2019 or later. For example, the actions to:

- identify network risks by reviewing vulnerable critical assets (including critical air valves) and introduce proactive measures including planned maintenance; and
- roll out piloted telemetry improvements approach to all critical sites, so as to manage 'brown out' risks.

This means that some elements of its plan might not be in place for the coming winter. Southern Water must take action now on any areas where it considers service to its customers may be at risk in the event of a severe weather.

We expect Southern Water to ensure that its emergency response and planning is robust and flexible, and that it has considered and tested for different potential scenarios and events of different severities. We expect the company to have used the learning of the freeze and thaw incident, as well as the recent summer heatwave, to inform its processes so that it is continually improving. Southern Water should be taking ownership of the improvements that it has identified to meet the requirements of SEMD and protect customers.

An important part of this is being able to identify emerging issues early and mobilising resources in time to ensure customers are not affected for longer than is necessary. We note the work that Southern Water is progressing on improving its monitoring of overall supply-demand balance and forecasting. Improved use of data is key in better identifying risks and putting in place mitigating actions early.

We also note that the company is continuing to roll out its updated incident management framework, which was only partially completed at the time of the 'Beast from the East'. As this is something that the company had initiated before the freeze and thaw incident, we expect the company to learn the lessons from this experience and adapt its approach. Further, we encourage the company to benchmark its processes against industry practices.

Incident response

The freeze and thaw incident revealed that Southern Water had not anticipated and prepared for the scale of the impact and for the increased demand on its network, with part of the Isle of Wight coming close to losing supply. We emphasised in our letter that this was an area that Southern Water must improve on.

We note the company's plans to pilot a zonal resilience approach to address this issue, and the development of interconnection of systems to enhance resilience. However, the company has provided little visibility of the actions it has taken to mitigate the risks associated with these initiatives, or demonstrated its capability to react in an agile way to future challenges. For example, it is not expecting to review its contingency plans and roll out the awareness of and training associated with the adverse weather plan until March 2019.

Nevertheless, we also note that it has committed to increase the capacity of its field response team ahead of this winter. We encourage the company to continue to undertake practice exercises to test its plans and ensure that they work on the ground, and to adopt best practices from across the industry.

We note that the company has increased its own supply of bottled water and the volume held by a third-party supplier. It is for companies to ensure that they can meet customers' needs and fulfil their statutory obligations using their own resources or that of third parties. This includes considering how to directly deliver alternative supplies to those who need them.

Importantly, companies should note that bottled water is only a short term solution. All companies must ensure they have adequate plans in place to cope in situations where supply interruption persists on a wider scale. We encourage Southern Water to engage further with the Water UK work to improve the national co-ordination of alternative supplies.

Customer communication

We note Southern Water's efforts to increase its ability to deal with calls from customers, after this was highlighted as a key concern in our previous letter. It is vital that the company undertakes practice exercises, working closely with wider stakeholders, to ensure that its procedures and response are robust, effective and work on the ground. This includes ensuring that they can meet the resourcing demand for call centres.

As we set out in our letter in June, Southern Water must ensure that it effectively uses multiple channels proactively, with targeted messaging, to reach different customer groups. We note that Southern Water is looking to do this through a

customer segmentation tool, but that this is not intended to be introduced until March 2019. This is also the case for updates to the company's website.

We strongly encourage Southern Water to consider whether they can make these changes sooner (ahead of winter) to ensure that customers are communicated with effectively before, during and after any incidents. We also expect the company to ensure that it has appropriate processes in place to communicate with its customers before (and after) these changes are rolled out.

We are concerned that there is limited mention of how the company will engage with business customers, which we identified as a particular concern in our June letter. As we set out in the review, proactive, tailored messaging with different customer groups can reduce the likelihood of issues and reduce pressure on company staff.

Stakeholder communication

We note the efforts that Southern Water has made to engage with a wide range of stakeholders in developing this plan. These include local resilience forums (LRFs), local authorities and other companies through Water Resources South East. To be able to respond effectively, the company will need to continue to communicate effectively with these partners and other relevant stakeholders before, during and after future incidents.

We note that Southern Water has formalised its process of having calls with retailers before, during and after events to share information and align messaging. We encourage the company to continually review, in collaboration with retailers, the most appropriate methods for communicating effectively before, during and after incidents. In doing so, we encourage the company to engage with the Water UK co-ordinated sector-wide work on this.

We are concerned that although developing "Water Supply Disruption Plans" to improve engagement with LRFs is positive, this will not be completed until March 2019. We expect the company to ensure that it is able to respond effectively to supply interruptions, communicating appropriately with customers and wider stakeholders, prior to (and after) these plans being implemented, and we strongly encourage Southern Water to consider whether it can do anything more quickly in time for this winter.

Customers in vulnerable circumstances

Southern Water has set out a number of helpful actions to improve its identification and support of customers in vulnerable circumstances. These include Priority Services Register data cleansing, introducing a customer journey approach and

developing a customer inclusion panel (including members from Age UK and local authorities).

We believe there is still more that can be done to ensure that the company is able to proactively identify and support customers in vulnerable circumstances throughout its area. For example, one area where we expected to see more progress is in identifying and supporting people who are temporarily in vulnerable circumstances (e.g. because of short-term health issues or have new born children).

Therefore, we expect Southern Water to consider its processes for identifying customers in vulnerable circumstances who are not already on the company's Priority Services Register, as well as the needs of those already registered.

Having accurate information and making best use of data will be key, as we set out in our 'Out in the Cold' report. Therefore we encourage the company to consider and engage more with the Water UK co-ordinated sector-wide work on this, the recent [UKRN cross-sector data sharing report](#) and CCWater's [Vulnerability in the Water Sector](#) report.

Compensation

We welcome Southern Water looking to refine its governance processes in light of the issues it faced in processing payments for customers in the Isle of Wight after the freeze and thaw. The company should regularly review its processes to ensure it is providing its customers with fair, fast and free from hassle compensation when something goes wrong.

We have published a recommendation to the UK and Welsh Governments about changes to the minimum statutory compensation scheme – the Guaranteed Standards Scheme. While any changes to the current arrangements are being considered, we expect all companies to reflect on our recommendations in compensating their customers.