

## Northumbrian Water: Actions summary table

### *Actions guidance*

#### Company actions

We categorise actions that slow-track and significant scrutiny companies need to do as the following:

- **required actions** for companies which in general are required so that we can make draft determinations (or final determinations for some aspects of past delivery); and
- **advised actions** for companies to do by a specific date but that are not required for our draft determinations.

Each action has a unique reference. The prefix 'NES' denotes the company Northumbrian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 initial assessment of plans: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

#### Timings and required response

- **Required actions:** Slow-track and significant scrutiny companies should address all **required actions** by the date shown in the 'date required' column in the table below (the majority of these are by 10am on 1 April 2019). The response to actions should be set out by companies in their resubmitted business plans and data tables. The template action tracker should be completed with a short description of the response and relevant business plan and/or data table references and should be submitted by 10 am on 1 April 2019. We will review the response to these actions in our assessment of company submissions ahead of determinations.
- **Advised actions:** Slow-track and significant scrutiny companies should set out their response to their **advised actions** by the date shown in the 'date required' column in the table below. For advised actions due on 1 April 2019 companies should include details of their response in their actions tracker.
- **Actions tracker:** Each company must complete and submit the template action tracker by 10 am on 1 April 2019 for review. For additional guidance, please see the cover page of the template action tracker.
- **Assurance:**
  - Assurance must be provided where requested as part of an action.
  - Companies must indicate the assurance that they have undertaken for all changes to data tables.
  - Where Customer Challenge Groups (CCGs) have provided assurance this should be indicated. In some instances, we have stated where we expect companies to work with CCGs as part of their re-submission of (parts of) their business plans. Please use our PR19 methodology as the guide for where their assurance of the quality of engagement with customers may be required.
  - If additional assurance is not required, companies may still provide it if they deem it appropriate.

For all the detailed actions documents referenced in the table below, the template action tracker and glossary, please see the [initial assessment of plans webpage](#).

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Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	<b>NES.AV.A1</b>	Required	<p>Northumbrian Water has not provided sufficient evidence to demonstrate that it has tested multiple bills profiles with customers beyond 2025, particularly for the 2025-30 period.</p> <p>Northumbrian Water should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to demonstrate customer support for each of the profiles tested. Northumbrian Water should confirm that testing has been assured by its CCG and conducted in line with social research best practice.</p>	1 April 2019
	<b>NES.AV.A2</b>	Required	<p>There is insufficient evidence that Northumbrian Water has customer support for the £2.92 customer cross-subsidy. It is uncertain whether Northumbrian Water will contribute the necessary funds towards the social tariff if it does not get customer support for the cross-subsidy. Northumbrian Water stated that "If required we will flex other aspects of our plan to compensate in order to achieve our target".</p> <p>Northumbrian Water should undertake further social tariff testing with customers to provide sufficient evidence to confirm that the proposed cross-subsidy of £2.92 is acceptable to customers. If the proposed cross-subsidy is not acceptable to customers, Northumbrian Water is to confirm the steps that it will take to achieve its target for the "Percentage of households in water poverty" performance commitment (PR19NES_BES06).</p>	1 April 2019
	<b>NES.AV.A3</b>	Required	<p>Northumbrian Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 7% in 2019/20 to 10% of households in 2024/25. This is a sufficiently ambitious target. However, it has only checked 10.5% of PSR data over the past two years.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Northumbrian Water should include a Performance Commitment to increase its PSR reach to at least 7% of its customer base (measured by households) by 2024/25. Its Performance Commitment should also commit to checking at least 90% of PSR data every two years.</p> <p>For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.</p>	1 April 2019
	<b>NES.AV.A4</b>	Required	<p>Northumbrian Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services but has not provided a Performance Commitment or plan on how it will do so.</p> <p>Northumbrian Water should propose a Performance Commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020 to 2025 period.</p>	1 April 2019
	Advised actions	Advised	No Affordability and Vulnerability actions are advised	N/A

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Test area	Action reference	Action type	Action	Date required
Delivering outcomes for customers	<b>NES.OC.A1-74</b>	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and ODI risk/return package. Please see 'Northumbrian Water: Delivering outcomes for customers detailed actions'.	Please see dates in 'Northumbrian Water: Delivering outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions	N/A
Securing long-term resilience	<b>NES.LR.A1</b>	Required	The company should ensure that its common and bespoke performance commitments associated with operational resilience are clearly defined, sufficiently demanding for AMP7 and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation to the outcomes areas ensuring a line of sight between risks to resilience and the package of outcomes.	1 April 2019
	<b>NES.LR.A2</b>	Required	The company should provide a commitment that it will, by 22 August 2019, prepare and provide to us an action plan to develop and implement a systems based approach to resilience in the round and ensure that the company can demonstrate in the future an integrated resilience framework that underpins the company's operations and future plans showing a line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework.	1 April 2019
	<b>NES.LR.A3</b>	Required	The company should also provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019
	<b>NES.LR.A4</b>	Required	The company shall explain the steps it has taken/will take in response to its consultant's view that improvements should be made to ensure that the business adopts an integrated approach to its resilience arrangements.	1 April 2019
	<b>NES.LR.A5</b>	Required	Please explain how the company has taken account of the risks associated with its current credit ratings of BBB+ (negative) and its targeted ratings of BBB+/Baa1 for the period from 2020 to 2025.	1 April 2019
	<b>NES.LR.A6</b>	Required	The company has noted the possibility of additional equity investment as a financial risk mitigation measure. Please explain the steps and risk management approaches the company has taken to ensure equity will be available if such support is required.	1 April 2019
	Advised actions	Advised	No advised actions.	N/A
Targeted controls,	<b>NES.CMI.A1</b>	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced, particularly where cost lines are partly incremental and partly fixed. We are also intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis to avoid setting revenue controls that may distort the development of trades. We will set out our view in the draft determinations	1 April 2019

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Test area	Action reference	Action type	Action	Date required
markets and innovation			based on the updated tables bio 1,Bio3 and Bio4. We will treat the funding of the 2020 RCV (run-off, returns and tax) as fixed for these purposes, along with revenues to recover local authority rates; some fees; and a proportion of direct and indirect costs of bioresources treatment and transport.	
	NES.CMI.A2	Required	The company should provide a commitment to provide a detailed work programme by end August 2019 to assure us that the company will deliver appropriate drainage and wastewater management plans. The programme should ensure that the company can prepare and consult on its first drainage and wastewater management plan no later than the summer of 2022 to enable revised plans to be prepared in early 2023 to inform PR24 business plans.	1 April 2019
	NES.CMI.A3	Required	The company should explain the steps that Essex and Suffolk water are taking to engage with other companies in the south east around the development of strategic water resource options. We are intervening to disallow the water trading export incentive claim, where the net effect of the trade is to implement a reduction in the amount of water that could be imported from Thames Water rather than a net increase in exports.	1 April 2019
	NES.CMI.A4	Required	The company should updates its bid assessment framework document to provide greater clarity on the information requirements on bidders and the process for appeals.	15 July 2019
	NES.CMI.A5	Required	For DPC, the company is required to provide further evidence to support the decisions that determined why some schemes were not suitable for DPC. The list of schemes and the required evidence is detailed in 'Northumbrian Water: Direct procurement for customers detailed actions'.	1 April 2019
	NES.CMI.B1	Advised	<ul style="list-style-type: none"> <li>The company should provide further information on potential bioresources trades with other companies.</li> <li>The company should consider how it can collaborate with other companies to maximise the opportunities for research to address common challenges (eg leakage detection, water efficiency and wastewater treatment processes) rather than companies progressing research independently.</li> <li>The company should consider the opportunities for partnerships in delivering sustainable drainage solutions.</li> </ul>	1 April 2019
Securing cost efficiency	NES.CE.A1	Required	We have provided our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: <ul style="list-style-type: none"> <li>the need for investment is not compelling; or</li> <li>there is no need for a cost adjustment claim beyond our existing cost baseline.</li> </ul>	1 April 2019
	NES.CE.A2	Required	The company has included 71 Amber schemes which are costed at £128m or about 70% of all WINEP investment. However, it is not possible to reconcile this cost or scheme numbers with figures in Table 2 and Table 5 in Appendix 3.9. The company should advise the costs included for each Amber scheme and the lines in tables WS2 and WWS2 to which these costs (capex and opex) have been allocated. Secondly, we note the company's proposal that any initial spend made prior to a decision not to proceed with a scheme should be accounted for in any adjustment, however the company should clarify what it is doing to minimise the possibility of abortive expenditure and why this risk could not be eliminated with appropriate scheduling.	1 April 2019
	NES.CE.A3	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment	1 April 2019

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Test area	Action reference	Action type	Action	Date required
			and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	
	Advised actions	Advised	No advised actions	N/A
Aligning risk and return	<b>NES.RR.A1</b>	Required	The company should amend its assessment of revenue variance in its RoRE analysis or provide convincing evidence that its exposure to revenue variation is as wide as its analysis suggests, particularly given the PR19 methodology.	1 April 2019
	<b>NES.RR.A2</b>	Required	The company should explain in more detail the assumptions underpinning the low water trading RoRE scenario or amend the scenario.	1 April 2019
	<b>NES.RR.A3</b>	Required	There is inconsistency between the notional cost of equity in financial model and the data tables. The company should ensure its subsequent submission is consistent in this respect.	1 April 2019
	Advised actions	Advised	No required actions.	N/A
Accounting for past delivery	<b>NES.PD.A1-8</b>	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'Northumbrian Water: Accounting for past delivery detailed actions'.	Please see 'Northumbrian Water: Accounting for past delivery detailed actions'
	<b>NES.PD.B1-4</b>	Advised	The company should develop and provide further evidence to support the continuous improvement and deliverability of outcomes and incidents handling. Please see 'Northumbrian Water: Accounting for past delivery detailed actions'.	Please see 'Northumbrian Water: Accounting for past delivery detailed actions'
Securing confidence and assurance	<b>NES.CA.A1- NES.CA.A2</b>	Required	The company is required to restate two forward looking Board assurance statements. Please see 'Northumbrian Water: Securing confidence and assurance detailed actions.'	1 April 2019
	<b>NES.CA.A3</b>	Required	On gearing benefits sharing the company forecasts gearing close to 70% over 2020-25. It does not commit to applying a sharing mechanism if gearing exceeds 70%. It should incorporate our default sharing mechanism from 'Putting the sector in balance' position statement into its published business plan, so that customers will receive bill reductions if gearing in any year is above the 70% threshold.	1 April 2019

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	NES.CA.A4	Required	<p>On dividend policy the company is required to confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' position statement to include:</p> <ul style="list-style-type: none"> <li>• clear Board commitment to publish detail on dividend policies in the APR and to signal changes to stakeholders; and</li> <li>• commitment to transparency about how the dividend policy in 2020-25 takes account of obligations and commitments to customers for the dividend policy that is applied in 2020-25 and when determining dividends.</li> </ul> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	NES.CA.A5	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' position statement to include:</p> <ul style="list-style-type: none"> <li>• providing full details and commitment to publish, including all performance metrics, the executive pay policy for 2020-25;</li> <li>• visibility and evidence of substantial linkage of executive remuneration to delivery to customers;</li> <li>• clear explanation of stretching targets and how they will be applied;</li> <li>• clear explanation of how the policy will be rigorously applied and monitored; and</li> <li>• clear commitment to transparency of reporting.</li> </ul> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	NES.CA.A6- NES.CA.A8	Required	The company is required to provide a revised financial model and data tables on 1 April 2019 and complete actions regarding its outcomes and risk and return data. Please see 'Northumbrian Water: Securing confidence and assurance detailed actions.'	1 April 2019
	NES.CA.A9	Required	On voluntary benefit sharing, the company should provide more specific detail on how its unutilised tax funding will be invested to provide lasting customer benefits.	1 April 2019
	NES.CA.B1	Advised	The company has advisory actions regarding its financial model and associated data tables. Please see 'Northumbrian Water: Securing confidence and assurance detailed actions.'	1 April 2019

## Securing cost efficiency

The tables below set out your performance on cost at different services and for different cost types. Costs are in £m of 2017-18. We index wholesale controls with consumer price inflation (CPIH). We do not index retail controls.

### Costs by control

Costs	Water resources	Network + (water)	Bioresources	Network + (wastewater)	Residential retail	Company level
Business plan totex (£m)	264.3	1,456.0	74.1	1,173.2	279.6	3,247.2
Our view of totex (£m)	239.9	1,323.0	122.8	886.1	252.9	2,824.7
Efficiency challenge (£m)	24.3	133.0	-48.6	287.1	26.7	422.5
Efficiency challenge (%)	9.2%	9.1%	-65.6%	24.5%	9.6%	13.0%

### Costs by residential retail, water and wastewater

Costs	Residential retail	Wholesale water	Wholesale wastewater	Company level
Business plan totex (£m)	279.6	1,720.3	1,247.3	3,247.2
Our view of totex (£m)	252.9	1,562.9	1,008.9	2,824.7
Efficiency challenge (£m)	26.7	157.3	238.4	422.5
Efficiency challenge (%)	9.6%	9.1%	19.1%	13.0%

### Costs by base, enhancement and retail

Costs	Wholesale base costs			Enhancement costs			Residential retail	Company level
	Water	Wastewater	Total	Water	Wastewater	Total		
Business plan base/enhancement costs (£m)	1,421.4	771.9	2,193.3	298.9	475.5	774.4	279.6	3,247.2
Our view of base/enhancement costs (£m)	1,364.3	726.4	2,090.7	198.6	282.5	481.2	252.9	2,824.7
Efficiency challenge (£m)	57.1	45.5	102.6	100.3	192.9	293.2	26.7	422.5
Efficiency challenge (%)	4.0%	5.9%	4.7%	33.5%	40.6%	37.9%	9.6%	13.0%

Efficiency challenge (%) = efficiency challenge (£m) divided by business plan totex.

Note, the costs in the tables do not include pension deficit repair costs (for which we make an allowance in accordance with our policy set out in Information Notice 13/17) and third party costs. The costs are gross of grants and contributions.

Key areas where we disallow enhancement costs.

- **Wholesale water:** resilience (considered to be base) -£49m; raw water deterioration -£33m; and supply-demand balance -£18m.
- **Wholesale wastewater:** growth -£145m; security -£12m; and WINEP P removal -£7m.