Severn Trent Water: Actions summary table

Actions guidance

Company actions

We categorise actions that fast-track companies need to do as the following:

- **agreed actions** that fast-track companies committed to implement to ensure that their plans meet the threshold for fast-track status; and
- **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).

Each action has a unique reference. The prefix ’SVE’ denotes the company Severn Trent 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.

Timings and required response

- **Agreed and required actions:** Fast-track companies should address all **required** and **agreed actions** by the date shown in the ‘date required’ column in the table below (the majority of these are by 10am on 11 February 2019). Companies must submit information including updated business plan tables and evidence of completed actions. We will review this evidence in setting draft determinations.
- **Actions tracker:** Fast-track companies are not required to submit a completed template action tracker to us. However, they may use this as a way to demonstrate completing the actions if desired.
- **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.
    - 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.

Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	**SVE.AV.A1**	Agreed	The company has proposed to increase its PSR reach from 0.7% (2019/20) to 5% (2024/25). However, there is no Performance Commitment on PSR reach and the proposed target is insufficiently ambitious. The company stated that it has checked 11.9% of its PSR data in the past 2 years, but there is no Performance Commitment proposed in relation to ensuring future checks. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): The company should include a Performance Commitment to increase its PSR reach to at least 7% of its customer base (measured by households) by 2024/25. It should also commit to checking at least 90% of PSR data every 2 years via its Performance Commitment. 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.	10am, 11 February 2019
	Required actions	Required	No required actions.	N/A
	Advised actions	Advised	No advised actions.	N/A
Delivering outcomes for customers	**SVE.OC.A1**	Agreed	The company has proposed discontinuing a Performance Commitment on value for money and cited the introduction of C-MeX and a financial vulnerability Performance Commitment as justification for this. The financial vulnerability Performance Commitment measures the percentage of struggling to pay customers supported through tailored schemes, so it does not cover the same issue as C Mex. Equally, the purpose of C-MeX is to test customer satisfaction, not value for money. The Performance Commitments that have been dropped are W-C1 & S-B1: Customers rating our services as good value for money. The company was meeting its targets for both commitments. The company should continue its PR14 Value for Money Performance Commitments as a reputational performance commitment, as the introduction of C-MeX and a new financial vulnerability Performance Commitment is not sufficient justification for dropping.	10am, 11 February 2019
	SVE.OC.A2	Agreed	The company has not put forward sufficient customer protections for high outperformance payments. In particular, the company's' upper RoRE estimate is one of the highest in the sector, yet it has proposed almost no protections to customers, including outperformance sharing mechanisms, re-investment schemes or through caps. With regard to Individual performance commitments, there is concern that the company has adopted an approach that affords limited customer protection in the event that outcome delivery incentive payments turn out to be much higher than expected. This is particularly evident in the lack of caps and collars across its performance commitments and comes despite the relatively large size of some outcome delivery incentives. As a result of this there is large potential for outperformance exhibited across individual performance commitments, which exposes customers to significant financial risk in the event of higher than expected outperformance.	N/A (to be reflected in Draft Determination)

Test area	Action reference	Action type	Action	Date required
			The company has proposed enhanced outperformance rates for internal sewer flooding and pollution, where we hold significant concerns regarding the appropriateness of the outcome delivery incentive rates. The company has not placed caps on these outcome delivery incentive, which exposes customers to significant financial risk. Additionally, the company has not provided details on how bill smoothing will be undertaken going forward. The company should apply additional protections through an appropriate outperformance payment sharing mechanism and implementing caps on performance commitments which could result in material outperformance. The payment sharing mechanism requires companies to share 50% of any outperformance payments above the 3% annual RoRE with customers through bill reductions**.** For the caps and collars on material performance commitments, we have provided details on which performance commitments these are in the performance commitment-specific actions below.	
	SVE.OC.A3	Agreed	**PR19SVE_C01 – Treatment works compliance:** The company has proposed an underperformance rate that does not provide a sufficient incentive against service underdelivery. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should increase its outcome delivery incentive underperformance rate from £1.573m/% to £1.945m/% compliance.	10am, 11 February 2019
	SVE.OC.A4	Agreed	**PR19SVE_F01 – Internal sewer flooding:** Our PR19 methodology expectation for the Internal sewer flooding performance commitment was upper quartile performance in each year of the 2020-25 period. Based on the forecast data provided by companies in the September 2018 business plan submission the upper quartile values are: • 2020/21 = 1.68; • 2021/22 = 1.63; • 2022/23 =1.58; • 2023/24 = 1.44; • 2024/25 =1.34. For this common performance commitment we expect all companies' service levels to reflect these values each year.	10am, 11 February 2019
	SVE.OC.A5	Agreed	**PR19SVE_F01 – Internal sewer flooding:** The company has not provided sufficient evidence to justify the scope for outperformance payments assigned to this performance commitment. In particular, the company has not provided sufficient evidence to justify its triangulation approach in forming marginal benefit estimates. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should reduce its outcome delivery incentive outperformance rate from £22.602m/incident per 10,000 connections to £18.720m/incident per 10,000 connections.	10am, 11 February 2019
	SVE.OC.A6	Agreed	**PR19SVE_F01 – Internal sewer flooding:** The company has not provided convincing evidence that the enhanced outcome delivery incentives entail a target level that require a level of performance by the company that would place it at the frontier. The company should set a more challenging threshold before it can earn enhanced outcome delivery incentive outperformance rewards. The target in 2020-21 should be 1.24 incidents per 10,000 customers. This target should get progressively more challenging over the subsequent years, such that by 2024-25 it should not exceed 1.11 incidents per 10,000 customers. The company should ensure that its enhanced outcome delivery incentive rate remains at a multiple of 1.5 times the revised standard outcome delivery incentive rate. The company's enhanced outcome delivery incentive payments will be naturally capped at 0 internal sewer flooding incidents.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.OC.A7	Agreed	**PR19SVE_F01 – Internal sewer flooding:** The company proposes to apply an underperformance collar to this performance commitment. We note that the proposed collar is significantly lower than company performance in 2016-17. This suggests that the proposed collar could have a significant impact on the extent to which customers are compensated for poor performance. The company should increase the level of its proposed collar to at least 2.35 incidents per 10,000 sewer connections or higher for all years of the 2020-25 period.	10am, 11 February 2019
	SVE.OC.A8	Agreed	**PR19SVE_F02 – Pollution incidents (Cat 1-3):** Our PR19 methodology expectation for the Pollution Incidents performance commitment was upper quartile performance in each year of the 2020-25 period. Based on the forecast data provided by companies in the September 2018 business plan submission the upper quartile values are: • 2020/21 = 24.51; • 2021/22 = 23.74; • 2022/23 = 23.00; • 2023/24 = 22.40; • 2024/25 = 19.50. For this common performance commitment we expect all companies' service levels to reflect these values for each year.	10am, 11 February 2019
	SVE.OC.A9	Agreed	**PR19SVE_F02 – Pollution incidents (Cat 1-3):** We have found substantial variation in proposed outcome delivery incentive rates across companies for common and comparable performance commitments. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should increase its outcome delivery incentive underperformance rate from £0.597m/incident per 10,000 km sewerage network to 0.610m/incident per 10,000 km sewerage network.	10am, 11 February 2019
	SVE.OC.A10	Agreed	**PR19SVE_F02 – Pollution incidents (Cat 1-3):** The company has not provided convincing evidence that the enhanced outcome delivery incentives entail a target level that require a level of performance by the company that would place it at the frontier. The company has also not provided convincing evidence that the proposed threshold levels for enhanced penalty payments are adequate to protect customers. The company proposed an enhanced outcome delivery incentive for this performance commitment, without sufficient evidence that its customers are willing to pay for the significant improvements in this measure. The company should remove its enhanced outcome delivery incentive from this performance commitment.	10am, 11 February 2019
	SVE.OC.A11	Agreed	**PR19SVE_F02 – Pollution incidents (Cat 1-3):** We have concerns about the potential for very large outperformance payments, which could arise if the company significantly outperforms its performance commitment targets. This could leave customers exposed to large bill increases. The company should apply an outperformance cap and underperformance collar for each year of the AMP7 period (2020-2025). The company should set its outperformance cap at its estimated P90 performance level, and it should set its underperformance collar at its estimated P10 performance level.	10am, 11 February 2019
	SVE.OC.A12	Agreed	**PR19SVE_F03 – Sewer collapses:** The company has proposed an outcome delivery incentive underperformance rate that does not provide a sufficient incentive against service underdelivery. We have found substantial variation in proposed outcome delivery incentive rates across companies for common and comparable performance commitments. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should increase its outcome delivery incentive underperformance rate from £0.983m/collapse per 1,000km of sewer to £1.045m/collapse per 1,000km of sewer. The company should decrease its outcome delivery incentive outperformance rate from £0.983m/collapse per 1,000km of sewer to £0.345m/collapse per 1,000km of sewer.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.OC.A13	Agreed	**PR19SVE_G01 – Water supply interruptions:** Our PR19 methodology expectation for the Water supply interruptions performance commitment was upper quartile performance in each year of the 2020-25 period. Based on the forecast data provided by companies in the September 2018 business plan submission the upper quartile values are: • 2020/21 = 00:04:17; • 2021/22 = 00:03:58; • 2022/23 = 00:03:40; • 2023/24 = 00:03:22; • 2024/25 = 00:03:00. For this common performance commitment we expect all companies' service levels to reflect these values for each year.	10am, 11 February 2019
	SVE.OC.A14	Agreed	**PR19SVE_G01 – Water supply interruptions:** We have concerns about the potential for large outperformance payments, which could arise if the company significantly outperforms its performance commitment targets. This could leave customers exposed to large increases in bills. The company should apply an outperformance cap and underperformance collar for each year of the 2020-25 period. The company should set its outperformance cap at its estimated P90 performance level, and it should set its underperformance collar at the industry average level (which we currently calculate as 00:14:40) in each year of the 2020-2025 period.	10am, 11 February 2019
	SVE.OC.A15	Agreed	**PR19SVE_G02 – Leakage:** We identified in the APR18 submission evidence (shadow reporting table 3S) that there are sub-components of some common performance commitments assessed as 'Amber' or 'Red'. The company has not provided sufficient evidence to demonstrate that plans and timetables are in place to achieve compliance with these measures by 2019/20. The company should provide a clear statement that it has all the necessary plans in place to comply with the standard definition for 2019-20.	N/A (company has already met this action)
	SVE.OC.A16	Agreed	**PR19SVE_G03 – Per capita consumption (performance commitmentC):** The company provided insufficient evidence that justifies setting of this performance commitment as non-financial and has not provided sufficient evidence of how it plans to maximise reputational incentives. The company should apply an underperformance payment. The company should set its outcome delivery incentive underperformance rate of £0.350 m/litres per head per day. This is aligned within the range of companies' outcome delivery incentive rates for common and comparable performance commitments.	10am, 11 February 2019
	SVE.OC.A17	Agreed	**PR19SVE_G04 – Mains bursts:** The company is forecasting a deterioration in performance during AMP7 due to increased leak detection activity. The company provided insufficient evidence to demonstrate the relationship between leakage levels and the total number of repairs. Company to commit to providing further evidence to substantiate the increase in mains repairs due to active leakage control. As a minimum the evidence should show the historical correlation between active leakage control, and pro-active and reactive mains repairs. It should also show the impact of this relationship on forecast repair rates from the output of asset performance modelling.	N/A (company has already met this action)
	SVE.OC.A18	Agreed	**PR19SVE_G04 – Mains bursts:** The company has not provided sufficient evidence to justify the high outperformance standard outcome delivery incentive rate applied to this performance commitment, in particular regarding the formulation of marginal benefits. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should reduce its outcome delivery incentive outperformance rate from £0.563m/burst per 1,000km of mains to £0.185m/burst per 1,000km of mains.	10am, 11 February 2019
	SVE.OC.A19	Agreed	**PR19SVE_G04 – Mains bursts:** We have concerns about the potential for very large outperformance payments, which could arise if the company significantly outperforms its performance commitment targets. This could leave customers exposed to large bill increases. The company should apply an outperformance cap and underperformance collar for each year of the 2020-25 period (2020-2025). The company should set its outperformance cap at its estimated P90 performance level, and it should set its underperformance collar at its estimated P10 performance level.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.OC.A20	Agreed	**PR19SVE_G05 – Unplanned outage:** We identified in the APR18 submission evidence (shadow reporting table 3S) that there are sub-components of some common performance commitments assessed as 'Amber' or 'Red'. The company has not provided sufficient evidence to demonstrate that plans and timetables are in place to achieve compliance with these measures by 2019/20. The company should provide a clear statement that it has all the necessary plans in place to comply with the standard definition for 2019-20.	N/A (company has already met this action)
	SVE.OC.A21	Agreed	**PR19SVE_G05 – Unplanned outage:** We have some concerns that the company's forecast performance level is not determined using data consistent with the common definition. The company is required to provide fully audited 2018-19 performance data by 15 May 2019. This should take the form of an early APR submission, but only for Unplanned Outages. Board assured data can be provided with the main APR in July 2019, and any changes will be taken into account for the Final Determination. Based on the latest performance and updated methodologies, the company should re-submit 2019/20 – 2024/25 forecast data in the May submission. The company should also report their current and forecast company level PWPC (Ml/d), the unplanned outage (Ml/d) and planned outage (Ml/d) in their commentary for the May submission.	15 May 2019
	SVE.OC.A22	Agreed	**PR19SVE_G05 – Unplanned outage:** The company has proposed a non-financial incentive without providing sufficient justification. The company should add an underperformance payment. This should be set at rate of £3.025m/%, aligned with companies' range of outcome delivery incentive rates for common and comparable performance commitments.	10am, 11 February 2019
	SVE.OC.A23	Agreed	**PR19SVE_G06 – Risk of severe restrictions in a drought:** The company provided insufficient evidence that its presented risk is stretching. The company should submit the intermediate calculation outputs as shown in the common definition guidance published on our website for the drought resilience metric.	N/A (company has already met this action)
	SVE.OC.A24	Agreed	**PR19SVE_H01 – Water quality compliance (CRI):** The company has not provided convincing evidence for its proposal for a non-financial outcome delivery incentive for this measure. The company should add a financial incentive (underperformance) to this performance commitment. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should add an outcome delivery incentive underperformance rate of £1.260m/index point.	10am, 11 February 2019
	SVE.OC.A25	Agreed	**PR19SVE_H01 – Water quality compliance (CRI):** We are intervening to ensure companies perform to the regulatory requirement of 100% compliance against drinking water standards. As set out in the methodology we noted a deadband may be appropriate. It is important that the range of underperformance to the collar is adequate to provide clear incentives for companies to deliver statutory requirements. The company should set a deadband at 1.50 and collar at 9.0 for 2020-25.	10am, 11 February 2019
	SVE.OC.A26	Agreed	**PR19SVE_F05 – External sewer flooding:** The company has not provided sufficient evidence to justify the triangulation approach applied in calculating its marginal benefits. The approach applied has demonstrated insufficient consideration of the statistical robustness and cognitive validity of the data inputs, which results in the company overweighting willingness to pay values derived from smaller, less representative samples. The valuation derived is significantly larger than all other PR19 valuations for this area. Willingness to pay is subsequently doubled on the basis of the company's "Choices" research. Insufficient evidence of this research has been provided to justify this adjustment and the resulting outcome delivery incentive rates. We are intervening to ensure companies' outcome delivery incentive rates for common and comparable performance commitments sit within an aligned range. The company should reduce its outcome delivery incentive outperformance rate from £0.024m/incident to £0.010m/incident.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.OC.A27	Agreed	**PR19SVE_F05 – External sewer flooding:** The company proposes to apply an underperformance collar to this performance commitment but not an outperformance cap. We have several major concerns about this proposal. • Firstly, we note that the proposed collar is significantly lower than company performance over the entirety of the 2012-13 to 2016-17 period. This suggests that the proposed collar could have a significant impact on the extent to which customers are compensated for poor performance. • Secondly, we note that the company proposes not to apply an outperformance cap on the grounds that severe weather is always unfavourable to the company and outperformance is bounded by zero. However, we do not find this justification to be sufficient, because the performance range over which outperformance payments apply is far greater than the performance range over which underperformance payments apply. It appears from the company's P90 estimate that extremely large outperformance payments would be earned in an upside scenario, and we note that the company has a history of strong performance improvement on this metric. Overall, the financial design of this performance commitment appears to be materially tilted in the company's favour, to the detriment of its customers. The company should increase the level of its proposed collar to at least 7661 incidents (the level of 2015/16 performance) for all years of the 2020-25 period. The company should apply an outperformance cap for each year of the AMP7 period (2020-2025) at its estimated P90 performance level.	10am, 11 February 2019
	SVE.OC.A28	Agreed	**PR19SVE_F06 – Sewer blockages:** The company provided insufficient evidence to support its outperformance payment. The company should revise its outperformance incentive rate to £3,722/incident.	10am, 11 February 2019
	SVE.OC.A29	Agreed	**PR19SVE_F07 – Public sewer flooding:** The company has not provided sufficient evidence to justify the triangulation approach applied in calculating its marginal benefits. The approach applied has demonstrated insufficient consideration of the statistical robustness and cognitive validity of the data inputs, which results in the company overweighting willingness to pay values derived from smaller, less representative samples. The valuation derived is significantly larger than all other PR19 valuations for this area. Willingness to pay is subsequently doubled on the basis of the company's "Choices" research. Insufficient evidence of this research has been provided to justify this adjustment and the resulting outcome delivery incentive rate. The company should reduce its outperformance outcome delivery incentive rate by removing the uplift performed on the basis of its choices research	10am, 11 February 2019
	SVE.OC.A30	Agreed	**PR19SVE_F07 – Public sewer flooding:** We have concerns about the potential for very large outperformance payments, which could arise if the company significantly outperforms its performance commitment targets. This could leave customers exposed to large increases in bills. The company should apply an outperformance cap and underperformance collar for each year of the AMP7 period (2020-2025). The company should set its outperformance cap at its estimated P90 performance level, and it should set its underperformance collar at its estimated P10 performance level	10am, 11 February 2019
	SVE.OC.A31	Agreed	**PR19SVE_F08 – Green communities:** The company has not provided sufficient evidence that its customers support the proposed outperformance payment only outcome delivery incentive. The company should apply a symmetric underperformance payment on this performance commitment to strengthen incentives on delivering baseline commitment level	10am, 11 February 2019
	SVE.OC.A32	Agreed	**PR19SVE_G12 – Increasing water supply capacity:** The company has not made clear the methodology it will use to measure this performance commitment. The company should summarise the methodology it will use to measure this performance commitment for all additional resource capacity that will be delivered for the benefit of Severn Trent customers by 31 March 2025.	N/A (company has already met this action)

Test area	Action reference	Action type	Action	Date required
	SVE.OC.A33	Agreed	**PR19SVE_G12 – Increasing water supply capacity:** This performance commitment overlaps with Supply Demand Balance (SDB) enhancement funding with any additional SDB requirements through this outcome delivery incentive not justified. The company should remove all outperformance rates associated with this performance commitment.	10am, 11 February 2019
	SVE.OC.A34	Agreed	**PR19SVE_G15 – Water trading – interconnector:** The company should remove this performance commitment as part of the action set out in CE.A3 to jointly work on a regional solution.	10am, 11 February 2019
	SVE.OC.A35	Agreed	**PR19SVE_H02 – Water quality complaints:** We have concerns about the potential for large outperformance payments, which could arise if the company significantly outperforms its performance commitment targets. This could leave customers exposed to large increases in bills. The company should apply an outperformance cap and underperformance collar for each year of the AMP7 period (2020-2025). The company should set its outperformance cap at its estimated P90 performance level, and it should set its underperformance collar at its estimated P10 performance level.	10am, 11 February 2019
	SVE.OC.A36	Agreed	**PR19SVE_H04 – Protecting our schools from lead:** The company has not provided sufficient evidence to justify its proposed uplift to the rate of this performance commitment. The company should remove the 20% uplift it applies to the standard formula.	10am, 11 February 2019
	Required actions	Required	No required actions.	N/A
	Advised actions	Advised	No advised actions.	N/A
Securing long-term resilience	**SVE.LR.A1**	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 in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes	See relevant outcomes deadlines
	SVE.LR.A2	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	10am 11 February 2019 for the commitment

Test area	Action reference	Action type	Action	Date required
			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.	
	SVE.LR.A3	Required	The company's assessment of financial stress scenarios extends only to 2025. The company should commit to demonstrating that its assessment of financial resilience extends beyond 2025 in its next Long Term Viability Statement.	10am, 11 February 2019
	Advised actions	Advised	No advised actions	N/A
Targeted controls, markets and innovation	**SVE.CMI.A1**	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.	10am 11 February 2019 for the commitment
	SVE.CMI.A2	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced. We are intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis across companies based on information set out in the business plan tables. Our view will be set out in the draft determinations	24 May 2019
	Advised actions	Advised	No advised actions	N/A
Securing cost efficiency	**SVE.CE.A1**	Agreed	Company should remove proposed outcome delivery incentive 'Water trading interconnector'. This outcome delivery incentive proposal now overlaps with the strategic regional solution development allocation which requires its own set of outcome delivery incentives.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.CE.A2	Agreed	Strategic regional solution development - We have identified from the plans that at least one strategic supply solution is required over the next 5-15 years to secure drought resilience in the south-east. The strategic regional solution development allocation is to allow the delivery of consistent and transparent investigations, planning and development of strategic options with the overall aim of optimum solutions being construction ready by 2025. The company's allocation is made on the basis of having clear deliverables and customer protection for the gated delivery of the development of the River Severn-River Thames transfer scheme. The following actions are required to ensure the efficient delivery of this programme: • In conjunction with the other companies involved, jointly propose methods for collaborative working including setting up the joint working group for individual schemes, and how consistent assumptions and decisions will be made within these groups and between them. • Provide more detail on the gated process, the deliverables, timings and expenditure allocations at each gate • Propose ODI-type mechanisms to allow allocated funding to be recovered by customers in the event of the scheme not progressing through each gate and for the non-delivery or late delivery of outputs.	N/A
	SVE.CE.A3	Agreed	For actions on cost efficiency thresholds, see data table below.	N/A
	SVE.CE.A4	Agreed	Real Options as applied to uncertain WINEP schemes - In principle we consider your Real Options mechanism proposals for excluded WFD schemes, based on a cost per 'benefit point' to be acceptable. However, we require clarity on exactly which of the 389 Amber schemes listed in your company's WINEP3 have been excluded from your business plan and how your proposals apply to non-WFD exclusions (if any), in respect of which 'benefit points' would not seem to be relevant (eg schemes with UWWTD drivers). In order to form a view on the reasonableness of the proposed unit cost of £1.42m per benefit point (and whether a different rate should be adopted for included Amber schemes for which the need is not eventually confirmed), we also need to know: i) how much expenditure on Amber schemes has been included in tables WS2 and WWS2 (and to which capex and opex lines it has been allocated), ii) the benefit points associated with the expenditure allocated to each line, and iii) to which lines in tables WS2 and WWS2 the £121m of excluded expenditure would have been allocated had it not been excluded from your plan.	10am, 11 February 2019
	Advised actions	Advised	No advised actions.	N/A
Aligning risk and return	**SVE.RR.A1**	Agreed	The company has provided insufficient evidence to support the uncertainty mechanism requested for climate change. The company should remove the uncertainty mechanism for climate change or provide compelling evidence that the proposed bespoke uncertainty mechanism exposes the company to risks that are not adequately covered by the risk provisions already in place, and, for example could not be addressed through mechanisms such as transitional arrangements at PR24. If the company proposes to retain a bespoke mechanism for climate change, it should provide convincing evidence that the trigger mechanism adequately protects the interests of customers. Other uncertainties covered by the real options mechanism, are covered in the areas of cost assessment (WINEP and the interconnector) and as an outcome delivery incentive (metering).	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.RR.A2	Agreed	The financial model submitted for the notional company and used for the assessment of financeability includes a different interest rate and inflation assumption for index linked debt to that set out in the PR19 methodology for the notional company. The company should use the prescribed assumptions for the notional company including index linked debt in assessing the key financial ratios and financeability. The RPI rate of inflation should be used to translate the nominal cost of debt to real for index linked debt. The company should reconsider the need for the adjustment to RCV run-off rates as a result of the revised assessment of notional financeability.	10am, 11 February 2019
	SVE.RR.A3	Agreed	We were not able to verify that the proposed RCV run-off rates are in line with the stated approach in the business plan and the company has proposed a 1.4% increase to RPI linked RCV run-off to achieve a claimed full transition to a CPIH basis. The CPIH:RPI wedge is inconsistent with the wedge set out in the early view cost of capital. The company should amend the RCV run-off adjustment to be consistent with our early view in the context of the 100bps wedge between RPI and CPIH referenced in Appendix 12 of our methodology.	10am, 11 February 2019
	SVE.RR.A4	Required	The company should provide further evidence to support its adjustment to taxable profits included in APP29, with regards to the basis of the calculation and justification that the adjustment is appropriate and is in customers interest. We note from the commentary to the data tables that an adjustment has been made in respect of tax relief that you consider is not available for certain pension fund contributions. It is our understanding that where Asset Backed funding arrangements are used a deduction is normally available in respect of the contribution made by the employing company to the pension fund as part of the arrangements. Please confirm the timing and quantum of these contributions and whether tax relief has been claimed in respect to each of the contributions and why this relief should not be taken into account when determining the tax liability to be funded at PR19. We need to be convinced that the adjustment is necessary and in the interest of customers if we are to make this bespoke adjustment to the financial model for the purpose of setting a draft determination.	10am, 11 February 2019
	Advised actions	Advised	No advised actions	N/A
Accounting for past delivery	**SVE.PD.A1**	Required	**PR14 Land sales:** The company should provide additional evidence to support the forecast trajectory reported in table App9.	15 July 2019
	SVE.PD.A2	Required	**PR14 Outcome delivery incentives:** Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated in particular the payments for performance commitments customers rating our services as good value for money (S-B1 and W-C1) for Severn Trent in 2018-19 and 2019-20 and 'A1: discoloured water contacts' performance commitment for Dee Valley Water. 'W-A3 Asset stewardship – number of sites with coliform failures (WTWs)': the company needs to include the underperformance payment for 2017-18 that is included in the annual performance report in its App27 table.	15 July 2019

Test area	Action reference	Action type	Action	Date required
			Severn Trent Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments. We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for: • W-B3: Speed of response in repairing leaks (% fixed within 24 hours) • S-C1: Improvements in river water quality against WFD criteria • W-B7: Customers at risk of low pressure • W-B10: Non-delivery of the outcome of the Birmingham resilience scheme • S-A1: Number of internal sewer flooding incidents • S-A2: Number of external sewer flooding incidents • S-A3: Partnership working • S-C4: Biodiversity • S-C7: Overall environmental performance (basket of environmental measures)	
	SVE.PD.A3	Required	**PR14 Residential retail:** The company should clarify what the correct value is in table R9 for actual number of wastewater-only customer in 2017-2018. It should provide further evidence to support its forecasts for unmetered wastewater-only customers in 2018-2019 and 2019-2020, metered water customers in 2018-2019 and 2019-2020 and metered water and wastewater customers in 2018-2019.	15 July 2019
	SVE.PD.A4	Required	**PR14 Service incentive mechanism:** The company should provide more evidence to support the forecast trajectory in table R10.	15 July 2019
	SVE.PD.A5	Required	**PR14 Totex:** The company should amend the PR14 final determination controls and targets data in tables WS15/WWS15 and the, in order for it to match the values agreed with Ofwat and provide more detailed and numerically sound explanation of its forecasted totex for years 2018-2019 and 2019-2020. It should also either re-submit the model without the changes made to cells L97-98, M97-98, N97-98, P97-08; or alternatively it should provide a credible explanation of why it has used a hard-coded value, rather than the formula.	15 July 2019
	SVE.PD.A6	Required	**PR14 Wholesale revenue forecasting incentive mechanism:** The company should use consistent values for the 2018-19 and 2019-20 wastewater recovered revenue values in its model and business plan table WWS13.	15 July 2019
	SVE.PD.A7	Required	**PR14 reconciliations:** Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account the actual 2018-19 performance.	15 July 2019

Test area	Action reference	Action type	Action	Date required
	Advised actions	Advised	No advised actions	N/A
Securing confidence and assurance	**SVE.CA.A1**	Agreed	The company has not included our default gearing outperformance benefit sharing mechanism in its plan. Although the company does not forecast gearing to exceed 70%, the company should confirm it will apply the default sharing mechanism from 'Putting the sector in balance' into its published business plan, so that customers will receive bill reductions if gearing in any year is above the 70% threshold.	10am, 11 February 2019
	SVE.CA.A2	Agreed	On dividend policy the company should confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include: • Provide an updated dividend policy that includes a specific reference to pension obligations. • Clear Board commitment to publish detail on dividend policies in the APR and to signal changes to stakeholders. • 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 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.	10am, 11 February 2019
	SVE.CA.A3	Agreed	On **executive pay** the company should confirm it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include: • Providing full details and commitment to publish, including all performance metrics, the executive pay policy for 2020-25 • Visibility and evidence of substantial linkage of executive remuneration to delivery to customers • Clear explanation of stretching targets and how they will be applied. • Clear explanation of how the policy will be rigorously applied and monitored. • Commitment to report how changes, including the underlying reasons, are signalled to customers 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.	10am, 11 February 2019
	SVE.CA.A4	Required	In App1 we identified some validation errors such as changes from % to Ml/day and text to numbers (for sewer collapses, mains bursts, leakage, and PCC). Also deadbands/caps/collars not inputted - breaks the max payments formula. The company should review and address these issues.	10am, 11 February 2019

Test area	Action reference	Action type	Action	Date required
	SVE.CA.A5	Required	The company should explain the assurance process it has taken to develop its tax forecasts to demonstrate that amounts proposed for tax take account of customer interests, in particular to clarify the scope of the assurance work that was undertaken and the outcome of that work.	10am, 11 February 2019
	Advised actions	Advised	No advised actions.	N/A

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)	352.3	2,820.0	311.7	2,648.3	462.0	6,594.4
Our view of totex (£m)	337.0	2,495.6	427.3	2,642.3	490.5	6,392.7
Efficiency challenge (£m)	15.3	324.4	-115.5	6.0	-28.5	201.7
Efficiency challenge (%)	4.3%	11.5%	-37.1%	0.2%	-6.2%	3.1%

Costs by residential retail, water and wastewater

Costs	Residential retail	Wholesale water	Wholesale wastewater	Company level
Business plan totex (£m)	462.0	3,172.3	2,960.1	6,594.4
Our view of totex (£m)	490.5	2,832.6	3,069.6	6,392.7
Efficiency challenge (£m)	-28.5	339.7	-109.5	201.7
Efficiency challenge (%)	-6.2%	10.7%	-3.7%	3.1%

Costs by base, enhancement and residential retail

Costs	Wholesale base costs			Enhancement costs			Residential retail	Company level
	Water	Wastewater	Total	Water	Wastewater	Total		
Business plan base/enhancement costs (£m)	2,360.9	2,193.3	4,554.2	811.5	766.8	1,578.2	462.0	6,594.4
Our view of base/enhancement costs (£m)	2,320.9	2,359.9	4,680.9	511.7	709.6	1,221.3	490.5	6,392.7
Efficiency challenge (£m)	39.9	-166.6	-126.7	299.8	57.1	356.9	-28.5	201.7
Efficiency challenge (%)	1.7%	-7.6%	-2.8%	36.9%	7.4%	22.6%	-6.2%	3.1%

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.

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

Key areas where we disallowed enhancement costs.

- **Wholesale water**: New development and connection costs -£127m; SEMD and non-SEMD -£65m; Leakage -£30m; Non-leakage SDB (unit cost challenge) -£23m; Resilience -£28m; Investment to address raw water deterioration -£12m.
- **Wholesale wastewater**: Sludge growth -£24m; Discharge relocation -£18m; non-WINEP investigations -£10m.

We have made an additional allowance of £25.7m for development of North-South strategic water supply solutions.