

South East 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 'SEW' denotes the company South East 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](#).

Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	SEW.AV.A1	Required	<p>South East Water is the only WoC that has not tested the acceptability of its combined water and wastewater bill.</p> <p>South East Water should test the acceptability and affordability of its combined bill for 2020-2025 and report the results. South East Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice.</p>	1 April 2019
	SEW.AV.A2	Required	<p>South East 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>South East Water should undertake customer engagement on long-term bill profiles and provide sufficient evidence to demonstrate customer support for each of the profiles tested. South East Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice.</p>	1 April 2019
	SEW.AV.A3	Required	<p>South East Water has not set out the social tariff cross-subsidy level or the support for it. It has acknowledged that it has not undertaken the final round of social tariff acceptability testing.</p> <p>South East Water should undertake engagement with customers to confirm the level of cross-subsidy they are willing to pay to support the social tariff.</p>	1 April 2019
	SEW.AV.A4	Required	<p>South East Water has already proposed a reputational performance commitment on Priority Services Register (PSR) growth (PR19SEW_J.1). It is proposing to increase its PSR reach from 1.7% in 2019/20 to 6.8% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has only checked 7.7% of PSR data over the past two years.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): South East Water should adapt its performance commitment on 'Household customers receiving non-financial support' (PR19SEW_J.1). It should increase its proposal for PSR growth 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.</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
	Advised actions	Advised	No advised actions	N/A
Delivering outcomes for customers	SEW.OC.A1-38	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and ODI risk/return package. Please see 'South East Water: Delivering outcomes for customers detailed actions'.	Please see dates in 'South East Water: Delivering

Test area	Action reference	Action type	Action	Date required
				outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions.	N/A
Securing long-term resilience	SEW.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 set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	1 April 2019
	SEW.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 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
	SEW.LR.A3	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
	SEW.LR.A4	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.	1 April 2019
	SEW.LR.A5	Required	Please explain how the company has taken account of the risks associated with: <ul style="list-style-type: none"> its plan to reduce gearing to around 75%, including the certainty that the proposed £55 million equity investment will be made; any application of the gearing outperformance mechanism for PR19; and outline associated risk management/mitigation approaches identified by the company to provide assurance on long term financial resilience. 	1 April 2019
	SEW.LR.A6	Required	Please outline the risks and risk management/mitigation approaches the company has identified in the context of the requirement to refinance a significant amount of debt prior to 2020, referred to in Appendix 14 of the company's business plan.	1 April 2019
	Advised actions	Advised	No advised actions.	N/A

South East Water: Actions summary table

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Targeted controls, markets and innovation	SEW.CMI.A1	Required	The company should revise its bid assessment framework to detail how they will protect commercially sensitive information they receive from third parties. The company should also develop an appeals process that covers all options and commit to maintaining an audit trail that will be made available to Ofwat.	15 July 2019
	SEW.CMI.A2-3	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 'South East Water: Direct procurement for customers detailed actions'.	1 April 2019
	Advised actions	Advised	No advised actions.	N/A
Securing cost efficiency	SEW.CE.A1	Required	We provide 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"> the need for investment is not compelling; or there is no need for a cost adjustment claim beyond our existing cost baseline. 	1 April 2019
	SEW.CE.A2	Required	There is significant investment proposed in the activity to reduce the risk of INNS transfer and therefore the company is required to propose an outcome delivery incentive in order to ensure customer protection for efficient delivery. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment 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.	1 April 2019
	SEW.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 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.	1 April 2019
	Advised actions	Advised	No advised actions	N/A
Aligning risk and return	SEW.RR.A1	Required	The company should amend its overall assessment of RoRE outcomes, or provide convincing evidence to explain why it is reasonable to assume totex outcomes should be asymmetrically skewed to the downside within an incentive based regime.	1 April 2019
	SEW.RR.A2	Required	The company has targeted a credit rating for its actual corporate structure that is one notch above a minimum investment grade. The company should provide further evidence, with Board assurance, to support its view that this is reasonable for the financeability of the company given the proposed investment and the funding requirement of the company.	1 April 2019

South East Water: Actions summary table

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	SEW.RR.A3	Required	There is an inconsistency between the business plan and the business plan tables; the company should clarify the target credit rating for the notional company.	1 April 2019
	SEW.RR.A4	Required	The company should provide further evidence to support the calculation of RCV run-off rates and demonstrate that the rates are consistent with the approach set out in the business plan. The company should reconsider or reduce the scope of the PAYG adjustment in the context that: <ul style="list-style-type: none"> The adjustment should clearly address only a notional financeability constraint. Evidence that underpins the cost of capital for the 2025-30 bill profile should be compelling, to ensure the company's conclusion that its' chosen bill profile reflects customers' preferences is robust. The company should consider revising the bill profile for 2020-30 if appropriate to maintain customer preferences for stable bills. 	1 April 2019
	Advised actions	Advised	No actions required.	N/A
Accounting for past delivery	SEW.PD.A1-5	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'South East Water: Accounting for past delivery detailed actions'.	Please see dates in 'South East Water: Accounting for past delivery detailed actions'
	SEW.PD.A6-7	Required	The company should develop and provide further evidence to support the continuous improvement and deliverability of outcomes. Please see 'South East Water: Accounting for past delivery detailed actions'.	Please see dates in 'South East Water: Accounting for past delivery detailed actions'
	SEW.PD.B1-2	Advised	The company should develop and provide further evidence to support the continuous improvement and deliverability of incidents handling. Please see 'South East Water: Accounting for past delivery detailed actions'.	Please see dates in 'South East Water: Accounting for past delivery detailed actions'
Securing confidence and assurance	SEW.CA.A1	Required	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' to include: <ul style="list-style-type: none"> clear Board commitment to publish detail on dividend policies in the APR. <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

South East Water: Actions summary table

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	SEW.CA.A2	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' to include:</p> <ul style="list-style-type: none"> • 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; • clearer explanation of how the policy will be rigorously applied and monitored; and • commitment to report how changes, including the underlying reasons, are signalled to customers. <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
	SEW.CA.A3- SEW.CA.A4	Required	<p>The company is required to provide a revised financial model and data tables on 1 April 2019 and complete actions regarding its risk and return data. Please see 'South East Water: Securing confidence and assurance detailed actions.'</p>	1 April 2019
	SEW.CA.B1	Advised	<p>The company has advisory actions regarding its financial model and associated data tables. Please see 'South East Water: Securing confidence and assurance detailed actions.'</p>	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)	Residential retail	Company level
Business plan totex (£m)	127.6	877.5	81.5	1,086.6
Our view of totex (£m)	115.4	703.9	85.0	904.3
Efficiency challenge (£m)	12.2	173.6	-3.5	182.3
Efficiency challenge (%)	9.6%	19.8%	-4.4%	16.8%

Costs by residential retail and water

Costs	Residential retail	Wholesale water	Company level
Business plan totex (£m)	81.5	1,005.1	1,086.6
Our view of totex (£m)	85.0	819.3	904.3
Efficiency challenge (£m)	-3.5	185.8	182.3
Efficiency challenge (%)	-4.4%	18.5%	16.8%

Costs by base, enhancement and residential retail

Costs	Wholesale base costs	Enhancement costs	Residential retail	Company level
Business plan base/enhancement costs (£m)	683.6	321.5	81.5	1,086.6
Our view of base/enhancement costs (£m)	649.7	169.6	85.0	904.3
Efficiency challenge (£m)	33.9	152.0	-3.5	182.3
Efficiency challenge (%)	5.0%	47.3%	-4.4%	16.8%

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:** New development and growth -£95m; WINEP non-native species -£10m; Supply-demand balance (leakage) -£25m