

Southern 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 'SRN' denotes the company Southern 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	SRN.AV.A1	Required	Southern Water has included neutral responses as positive in its results for acceptability and affordability testing which may lead to customer support metrics being overestimated. The company should remove neutral responses from its support metrics or provide sufficient and convincing evidence to justify including them in the results.	1 April 2019
	SRN.AV.A2	Required	Southern Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 0.4% in 2019/20 to 1.1% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has checked no PSR data over the past two years. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Southern Water should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to checking at least 90% of its PSR data every two years. 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.	1 April 2019
	Advised actions	Advised	No advised actions.	N/A
Delivering outcomes for customers	SRN.OC.A1-A78	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and outcome delivery incentive risk/return package. Please see 'Southern Water: Delivering outcomes for customers detailed actions'.	Please see dates in 'Southern Water: Delivering outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions.	N/A
Securing long-term resilience	SRN.LR.A1	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	1 April 2019

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Test area	Action reference	Action type	Action	Date required
			corporate governance framework. The action plan should work toward understanding the baseline resilience risk of the water and wastewater operational activities as well as steps that will improve resilience (operational, financial and corporate).	
	SRN.LR.A2	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
	SRN.LR.A3	Required	Clarify that the possible outcome of all extant regulatory investigations have been taken into account in the company's assessment of financial resilience.	1 April 2019
	SRN.LR.A4	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
	SRN.LR.A5	Required	Please explain how the company has taken account of the risks associated with its current credit ratings of Baa2 (negative) with Moody's and A- (stable) with Standard and Poor's and its plan to achieve higher ratings in the period from 2020 onwards.	1 April 2019
	SRN.LR.A6	Required	The company should set out: <ul style="list-style-type: none"> • how the company will achieve the planned reduction of gearing to 70% or lower referred to in its plan; • the company's assessment of the impact of the gearing outperformance mechanism for PR19 on its financial metrics in case the planned gearing reduction is not achieved; and • outline associated risk management/mitigation approaches identified by the company to provide assurance on long term financial resilience. 	1 April 2019
	SRN.LR.A7	Required	Please explain how the company has taken account of the risks associated with capital for the business raised as debt elsewhere in the corporate group.	1 April 2019
	SRN.LR.A8	Required	The company should clarify and provide board assurance that the assessment of financial resilience set out in the business plan remains current in the context that the financial restructuring was finalised after business plan submission	1 April 2019
	Advised actions	Advised	No advised actions.	N/A
Targets, controls, markets and innovation	SRN.CMI.A1	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 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.	1 April 2019
	SRN.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	1 April 2019

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Test area	Action reference	Action type	Action	Date required
			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.	
	SRN.CMI.A3	Required	The company has not provided information or provided insufficient detail of the arrangements for risk sharing with customers relating to the development of large new water resource options (Fawley desalination plant and Havant Thicket). The company should develop appropriate risk sharing arrangements or provide further detail to ensure that customers are adequately protected from large scale risks. In relation to the development of Havant Thicket reservoir to facilitate new supplies to the company, please explain how the proposed commercial arrangement would protect customers over the longer term.	1 April 2019
	SRN.CMI.A4	Required	The company should update its bid assessment framework document to provide greater clarity on the process for appeals and explain how the process ensure that there is no bias in the assessment.	15 July 2019
	SRN.CMI.A5-8	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 'Southern Water: Direct procurement for customers detailed actions'.	1 April 2019
	SRN.CMI.A9	Required	The company should explain how it will work together with neighbouring companies to explore strategic water resource options and knowledge sharing on demand-side measures.	1 April 2019
	SRN.CMI.B1	Advised	<ul style="list-style-type: none"> The company should provide further information on potential bioresources trades with other companies. 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. 	1 April 2019
Securing cost efficiency	SRN.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
	SRN.CE.A2	Required	There is significant investment proposed in the delivery of internal interconnections and long-term supply-demand benefits (benefits delivered after 2024-25) and therefore the company is required to propose an outcome delivery incentive in order to ensure customer protection for efficient delivery. 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
	SRN.CE.A3	Required	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 Abingdon reservoir, a regional transfer from Thames Water, and Fawley desalination/local transfer schemes. The following actions are required to ensure the efficient delivery of this development programme.	1 April 2019

Test area	Action reference	Action type	Action	Date required
			<ul style="list-style-type: none"> 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. 	
	SRN.CE.A4	Required	We note the company's proposal that for Bathing and Shellfish requirements any changes to the environmental requirements are treated on a bespoke basis (even though there are no company-driven Amber schemes in WINEP3). The company should confirm our assumption that this means that any changes would be dealt with in the same way as Chiddingfold and Buriton. The company should clarify its proposals for Amber schemes in WINEP3 with the following drivers: INNS_ND, NERC_INV1,SSSI_INV and WFD_IMP-WRFlow. The company should provide the total cost included for Amber WINEP requirements in its business plan and the breakdown of this cost between the relevant lines in tables WS2 and WWS2 (capex and opex).	1 April 2019
	SRN.CE.A5	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	SRN.RR.A1	Required	The company targeted a credit rating for the notional company with that is one notch above a minimum investment grade and lower than the target for its actual structure. The company should provide evidence to support its view that this is reasonable for the long term financeability of the notional company or actions that could be taken to secure the long term financeability of the notional company.	1 April 2019
	SRN.RR.A2	Required	The company should provide further evidence to support the calculation of PAYG rates and demonstrate that the rates are consistent with the approach set out in the business plan.	1 April 2019
	SRN.RR.A3	Required	The company should set out how the approach to setting RCV run-off rates reflects the underlying RCV for the company for each wholesale control and provide more evidence to demonstrate that the rates are consistent with the company's approach.	1 April 2019
	SRN.RR.A4	Required	The company should provide further evidence that the level of the proposed adjustments to RCV run-off rates do not result in overall revenue being transferred between price review periods and are supported by customer preferences.	1 April 2019
	SRN.RR.A5	Required	The company should check that the base RoRE value of 3.8% shown in the business plan has been calculated correctly and amend/re-present if necessary.	1 April 2019

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	SRN.RR.A6	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 for a notional company within an incentive based regime.	1 April 2019
	SRN.RR.B1	Advised	Acknowledging the explanatory material that the company has provided on its assessment of P10/P90 values for RoRE risk scenarios, and that values have been presented on a post-mitigation basis, please provide views on why Southern's risk ranges are relatively low, compared to the majority of companies.	1 April 2019
Accounting for past delivery	SRN.PD.A1-5	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'Southern Water: Accounting for past delivery detailed actions'.	Please see dates in 'Southern Water: Accounting for past delivery detailed actions'
	SRN.PD.A6-9	Required	The company should develop and provide further evidence to support the continuous improvement and deliverability of outcomes and incidents. Please see 'Southern Water: Accounting for past delivery detailed actions'.	Please see dates in 'Southern Water: Accounting for past delivery detailed actions'
Securing confidence and assurance	SRN.CA.A1-SRN.CA.A3	Required	The company is required to restate a number of forward looking Board assurance statements. Please see 'Southern Water: Securing confidence and assurance detailed actions.'	1 April 2019
	SRN.CA.A4	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 and to signal changes to stakeholders; and • 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.	1 April 2019
	SRN.CA.A5	Required	On executive pay the company is required to confirm that it committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include: <ul style="list-style-type: none"> • 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. 	1 April 2019

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Test area	Action reference	Action type	Action	Date required
			<ul style="list-style-type: none"> • commitment to report how changes, including the underlying reasons, are signalled to customers. • commitment to publish the executive pay policy for 2020-25 once it has been finalised. <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>	
	SRN.CA.A6- SRN.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 'Southern Water: Securing confidence and assurance detailed actions.'	1 April 2019
	SRN.CA.B1	Advised	The company has an advisory action regarding its financial model and associated data tables. Please see 'Southern 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)	123.1	1,165.2	204.1	2,440.1	228.6	4,161.1
Our view of totex (£m)	105.1	960.2	201.2	1,899.3	267.4	3,433.1
Efficiency challenge (£m)	18.0	205.0	3.0	540.8	-38.8	727.9
Efficiency challenge (%)	14.6%	17.6%	1.5%	22.2%	-17.0%	17.5%

Costs by residential retail, water and wastewater

Costs	Residential retail	Wholesale water	Wholesale wastewater	Company level
Business plan totex (£m)	228.6	1,288.3	2,644.2	4,161.1
Our view of totex (£m)	267.4	1,065.3	2,100.5	3,433.1
Efficiency challenge (£m)	-38.8	223.0	543.8	727.9
Efficiency challenge (%)	-17.0%	17.3%	20.6%	17.5%

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)	788.8	1,504.4	2,293.2	499.5	1,139.9	1,639.4	228.6	4,161.1
Our view of base/enhancement costs (£m)	672.7	1,383.3	2,056.0	392.6	717.2	1,109.8	267.4	3,433.1
Efficiency challenge (£m)	116.1	121.1	237.2	106.9	422.7	529.6	-38.8	727.9
Efficiency challenge (%)	14.7%	8.0%	10.3%	21.4%	37.1%	32.3%	-17.0%	17.5%

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:** Supply-demand balance (leakage) -£33m; New development and growth -£37m.
- **Wholesale wastewater:** WINEP P removal -£81m; growth -£67m.

We make an allowance of £75m for development of strategic regional water supply solutions.