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Anthony Ferrar  
Managing Director  
SES Water  
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3 July 2019

Dear Anthony

### **PR19 update**

I wanted to provide you with an important update about our assessment of SES Water's revised business plan, submitted to us on 1 April.

We set out in our methodology that we expect water companies to make a step change in efficiency over the next five years so that customers get more of what matters. We are concerned that there is a substantial difference between our view of efficient and justified expenditure and the expenditure that was included in your revised business plan for retail costs. We are providing this information early to give you the maximum amount of time available to ensure your cost submission for the final determinations is efficient and well justified. At draft determination, we will set out full information on our assessment of the efficient allowance for total expenditure across all price controls for base and enhancement costs.

We assessed SES Water's plan as falling significantly short of demonstrating cost efficiency. However SES Water's revised plan in April 2019 submitted retail costs that were largely unchanged from its September 2018 plan.

Our current assessment of your revised plan suggests that there will remain a significant gap between the retail costs proposed in your plan and our view of the efficient level of retail costs. Customers expect water companies to deliver essential water services in an efficient manner. The gap on retail costs reveals inefficiency compared to other water companies in providing retail services to domestic customers. Efficient costs are essential for a well-functioning company.

The table below summarises the gap for retail costs. We will provide full details of our assessment on totex for all price controls as part of your draft determinations to be published on 18 July.

### Key differences between Ofwat and company views of base costs

#### SES Water

	April plan (£m)	Our current view (£m)	Gap (%)
Retail	37.4	26.7	28.5%

Retail figures in nominal prices.

Our current view is still subject to change, although at this stage we do not expect any material changes to the size of the gap before the draft determination. We note that we have not necessarily been able to take full account of all late evidence, submitted after the 1 April business plan. While we will reflect on this information for the final determination, we consider that SES Water needs to take urgent action to address the efficiency challenge on retail costs.

Given the material difference for SES Water, we want to give you as much time as possible to reflect on your plan for 2020-2025 and reconsider your proposals in responding to our draft determinations.

It is not our intention to discuss this further until we publish our draft determinations, but we expect this issue to form part of the consultation process after that date.

Yours sincerely



**David Black**  
**Senior Director, Water 2020**