

July 2019

Trust in water

# PR19 draft determinations

**SES Water – Accounting for past delivery actions and interventions**

## PR19 Draft Determinations: SES Water - Accounting for past delivery actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for 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.

Table 1 below sets out the required and advised actions, the model the action relates to, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each action and further intervention that is not resulting from an action has a unique reference. The prefix 'SES' denotes the company SES Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions. Actions whose numbers are preceded with a 'B' denote advised actions. Interventions not resulting from an action are preceded with a 'C' followed by a three digit code for the model the intervention is relevant to, and a two digit reference for the interventions in that model. The model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011

For all other documents related to the SES Water draft determination, please see the [draft determinations webpage](#).

**Table 1 – SES Water’s response to required actions and interventions for draft determinations**

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Land disposals	SES.PD.A1	Required	<b>PR14 Land sales:</b> SES Water is required to correct the data error in table App9 and provide more evidence to support the forecast trajectory.	1 April 2019	SES Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	N/A
Outcomes	SES.PD.A2	Required	<b>PR14 outcome delivery incentives:</b> SES 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:	15 July 2019	No company action required for the draft determination.	No intervention required. We will review SES Water’s updated data before making any interventions for the final determination.	N/A
Outcomes	SES.PD.A2a	Required	A7: Water softening programme	15 July 2019	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2
Outcomes	SES.PD.A2b	Required	A6: Taste, odour and discolouration (number of contacts received)	15 July 2019	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	SES.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to round SES Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.	We are rounding to two decimal places, modification factor figures for 2015-16 to 2019-20 associated with the following lines in business plan table R9: <ul style="list-style-type: none"> <li>unmetered water-only customer;</li> <li>unmetered wastewater-only customer;</li> <li>unmetered water and wastewater customer;</li> <li>metered water-only customer;</li> <li>metered wastewater-only customer; and</li> <li>metered water and wastewater customer.</li> </ul> Our intervention reduces the total residential retail revenue payment at the end of the 2015-20 period from £0.130 million to £0.129 million (2017-18 FYA CPIH deflated price base). Please see published draft determination residential retail reconciliation model for SES Water.
Residential retail	SES.PD.C008.02	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to apply the appointee WACC as the discount rate to be used to provide a financing adjustment for the time value of money of the reward or penalty in line with the 'PR14 reconciliation rulebook'. This may be required if the materiality threshold for financing adjustment is exceeded.  Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.	For SES Water we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 2% contained in SES Water's April 2019 submission.  Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period because the materiality threshold is not exceeded.  Please see published draft determination residential retail reconciliation model for SES Water.
SIM	SES.PD.A3	Required	<b>PR14 Service incentive mechanism:</b> SES Water is required to provide more evidence to support the forecast trajectory in table R10.	1 April 2019	SES Water provides an explanation for its forecast trajectory in its business plan data table commentary for R10.	No intervention required.  Commentary supplied to support the data is sufficient.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
SIM	SES.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to adjust SES Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	We are intervening to set the service incentive mechanism adjustment to -7.94% of household retail revenue, which is - £2.471million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in the 'Accounting for past delivery technical appendix'.
Totex	SES.PD.A4	Required	<b>PR14 Totex:</b> SES Water is required to provide more detailed information on the re-phasing of the capital programme and expected efficiencies referred to in the evidence for table WS15.	1 April 2019	SES Water provides further information in its submission and subsequent engagement to explain that the re-phasing of its capital programme is to ensure it is using the latest available information to achieve its performance commitments. And that it has updated its forecast based on updated information on 2018-19 costs and the agreed budget for the final year of AMP6.  The company confirms that there is no risk to its delivery of PR14 outputs due to its reduction in expenditure for 2019-20.	No intervention required. SES Water provides a satisfactory response to this action.	N/A
All models	SES.PD.A5	Required	<b>PR14 reconciliations:</b> 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 of the actual 2018-19 performance.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review SES Water's responses to its actions and further information provided for all the PR14 reconciliation models before making any further interventions for the final determination.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Revenue adjustments	SES.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are standardising the discount factor used to profile revenue adjustments.</p> <p>Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers.</p> <p>We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in SES Water's choices for profiling revenue adjustments in 2020-25.</p>	We are using our view of the wholesale WACC (3.09%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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July 2019

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