

July 2019

Trust in water

# PR19 draft determinations

**SES Water – Securing cost efficiency actions  
and interventions**

## PR19 Draft Determinations: SES Water – Securing cost efficiency 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, 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.

Each 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 and actions whose numbers are preceded with a ‘B’ denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each 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. Intervention numbers are preceded with a ‘C’.

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**

| Test area                | Action reference | Action type | Action   | Date required | Summary of company response to action  | Our assessment and rationale   | Required interventions   |
|--------------------------|------------------|-------------|--|---------------|--|--|--|
| Securing cost efficiency | SES.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:<br>the need for investment is not compelling; or<br>there is no need for a cost adjustment claim beyond our existing cost baseline. | 1 April 2019  | SES Water does not make significant changes to its costs in response to the initial assessment of plans.<br>The company retained its single cost adjustment claim for water softening which we partially accepted at the initial assessment of plans and submitted two new claims for mains replacement and electricity usage. | Intervention required.<br>The company does not withdraw any investments proposals and does not provide sufficient evidence to justify its high costs either. | We provide our view of efficient costs for the company along with our reasoning.<br>We expect the company to continue to address areas of inefficiency and lack of evidence. |
|                          | SES.CE.A2        | 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  | 1 April 2019  | The company has revised its submission in relation to metaldehyde treatment. The company has removed £0.066m over 2020-25 for product substitution costs to farmers.   | No intervention required for draft determination but further action needed by the company.   | Company to provide evidence to confirm DWI agreement with its submitted plans/ revised undertakings and  |

|  |                 |         |  |     |  |   |   |
|--|-----------------|---------|--|-----|--|---|---|
|  |                 |         | 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. |     |  | We accept the revisions and assess the revised expenditure. | that no metaldehyde specific treatment costs are included in the requested allowance. |
|  | Advised actions | Advised | No advised actions   | N/A |  |   |   |

**Table 2: Further interventions for draft determinations**

| Intervention reference  | Our assessment and rationale | Interventions |
|---|------------------------------|---------------|
| <p>We explain our approach to cost assessment, including the allowances we set for each control, assumption on revenue recovery from grants and contributions, opex-capex split and totex profiling, in 'Securing cost efficiency technical appendix'. We set out other company specific interventions, and the allowances we set for each control, in section 3 of the company's draft determination summary and its cost efficiency appendix.</p> |                              |               |

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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