

July 2019

Trust in water

PR19 draft determinations

**South East Water – Targeted controls, markets
and innovation actions and interventions**

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PR19 Draft Determinations: South East Water– Targeted controls, markets and innovation 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 ‘SEW’ denotes the company South East 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 ‘SEW’ denotes the company South East 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 South East Water draft determination, please see the [draft determinations webpage](#).

Table 1: South East 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
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	The deadline for the updated bid assessment framework document was 15 July 2019. We have not yet analysed the submissions.	N/A	N/A
	SEW.CMI.A2	Required	<p>Bewl Darwell Transfer</p> <p>A summary of the key elements of the Bewl Darwell Transfer scheme. This should include all of the relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to South East Water.</p> <p>An economic analysis of the scheme including a Net Present Value analysis using the standardised</p>	1 April 2019	<p>The company provided a high level summary of the key elements of the Bewl Darwell Transfer scheme including the key deliverables and projected scheme costs.</p> <p>The company’s technical analysis indicated that the scheme was <u>marginal</u> but if the WTW only was considered this was more suitable. This was then assessed with an</p>	<p>No interventions required.</p> <p>The technical analysis was unconvincing as to why the total scheme was not suitable for DPC due to a lack of evidence.</p> <p>The Net Present Value analysis provided sufficient</p>	N/A

			assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.		NPV analysis comparing the DPC versus in-house delivery which indicated that in-house was better value. The company rejected the scheme for DPC based on the VfM analysis	information to allow a high level review but insufficient detail to be able to confirm the absolute values. In some areas the assumptions used were unsubstantiated. The company's decision that this project was likely to offer the better value for money for customers through in-house procurement was supported by the small size of the project and the NPV analysis provided.	
SEW.CMI.A3	Required	Aylesford Newsprint WTW A summary of the key elements of the Aylesford Newsprint WTW scheme. This should include all of the relevant scheme information including but not limited to the key deliverables. A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to South East Water. An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.	1 April 2019	The company provided a high level summary of the key elements of the Aylesford Newsprint WTW scheme including the key deliverables and projected scheme costs. The company's technical analysis indicated that the scheme was <u>suitable</u> . This was then assessed with an NPV analysis comparing the DPC versus in-house delivery which indicated that in-house was better value. The company rejected the scheme for DPC based on the VfM analysis	No interventions required. The Net Present Value analysis provided sufficient information to allow a high level review but insufficient detail to be able to confirm the absolute values. In some areas the assumptions used were unsubstantiated. The company's decision that this project while suitable offered the better value for money for customers through in-house procurement was unconvincing. The size of the project indicated that any potential benefits to customers would be small.	N/A	
Advised actions	Advised	No advised actions.	N/A				

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
SEW.CMI.C1	<p>Intervention required.</p> <p>We have reviewed the company's Annualised Unit Cost (AUC) that inform the water resources price control. We judge that the company incorrectly transferred the '£000s' value from the Reckon model into table Wr7 and did not correctly reflect the '£' units as required for the AUC line in table Wr7.</p> <p>We are therefore intervening to correct the conversion from £000s to £.</p>	<p>We are intervening to set the AUC to be used in the water resources control.</p> <p>We have reflected this in 'Table 4: Price Control for Water Resources Activities bilateral entry adjustment numbers' of the company's 'Notification of the PR19 draft determination of price controls' letter.</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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