

July 2019

Trust in water

PR19 draft determinations

**South Staffs Water – Securing cost efficiency
actions and interventions**

PR19 Draft Determinations: South Staffs 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 ‘SSC’ denotes the company South Staffs 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 ‘SSC’ denotes the company South Staffs 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 Staffs Water draft determination, please see the [draft determinations webpage](#).

Table 1: South Staffs 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	SSC.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: 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	The company has reviewed its developer services costs, including the way it works with contractors and has looked again at the assumptions relating to the types of sites that are likely to be requiring connections. It restated its booster pumping station numbers following an internal reporting error, provided additional information on forecast cost drivers, business rates, leakage funding and frontier shift. The company retained its single cost adjustment claim for treatment works investment which we	Intervention required. The company has considered many of the issues raised by the cost gap at the initial assessment of plans through providing further evidence and challenging our approach to setting cost allowances. The total cost gap at draft determination is significant, at 10%. The company did not respond sufficiently to our efficiency challenge and implicit modelled base costs in its resubmission.	We provide our view of efficient costs for the company along with our reasoning. We expect the company to continue to address areas of inefficiency and lack of evidence.

					partially accepted at the initial assessment of plans.	The company's retail costs are efficient.	
	SSC.CE.A2	Required	We note the company's exclusion of 9 Amber WINEP schemes (cf 10 (9 SST +1 CAM) by our count) on account of uncertainty over need, scope and solution and the implication that the company will bear the risk of a need for investment prior to PR24 without recourse to customers. Should the company's continuing engagement with the Environment Agency result in revisions to its plan, we expect the company to advise us of these in its April submission.	1 April 2019	The company confirms that owing to significant uncertainty it does not include costs within its business plan for the Amber WFD water resources schemes. It does not propose a cost adjustment mechanism. Some issues may be resolved in the current (AMP6) period and if any investigations are required in AMP7 the company will look to produce these in a proportionate, low cost way. Accordingly, our assumption remains that the company will bear the risk of a need for investment prior to PR24 without recourse to customers.	No intervention required	N/A
	SSC.CE.A3	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	The company has not included any additional spend related to metaldehyde over the period 2020 to 2025. The company includes metaldehyde mitigation activity within its general catchment management approach.	No intervention required for draft determination but further action needed by the company. We support the proactive catchment management activities and acknowledge these cover multiple drivers. The company does not specify if product substitution expenditure is included in plans.	Company to provide evidence to confirm DWI agreement with its submitted plans/revised undertakings and that no metaldehyde specific treatment or product substitution 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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

July 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

