

July 2019

Trust in water

# PR19 draft determinations

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

## PR19 Draft Determinations: Southern 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 'SRN' denotes the company Southern 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

Table 2 below is supplementary to Table 1 and provides additional information on our assessment of the evidence provided in response to required actions on deliverability. This constitutes our feedback on these required actions as set out in '[PR19 initial assessment of plans: Summary of test area assessment](#)'.

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

**Table 1 – Southern 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
Outcomes	SRN.PD.A1	Required	<b>PR14 Outcome delivery incentives:</b> Southern Water is required to use the correct outcome delivery incentive rate for 'Interruptions to supply' and update table App27 accordingly.	1 April 2019	Southern Water recalculates the 2017-18 underperformance payment for its 'Interruptions to supply' performance commitment using the correct incentive rate.	No intervention required. Table App27 (PR14 reconciliation - financial outcome delivery incentives summary) includes the corrected 2017-18 underperformance payment for the 'Interruptions to supply' performance commitment.	N/A
Outcomes	SRN.PD.A2	Required	<b>PR14 Outcome delivery incentives:</b> Southern 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 Southern Water’s updated data before making any interventions for the final determination.	N/A
Outcomes	SRN.PD.A2a	Required	8: Per capita consumption (PCC) - five-year average target	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2b	Required	4: Interruptions to supply	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2c	Required	5: Odour complaints' (Portswood and Tonbridge treatment works	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	SRN.PD.A2d	Required	5: Mean Zonal Compliance (MZC)	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2f	Required	5a: Drinking water quality - discolouration contacts	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2g	Required	3: Leakage (including customer supply-pipe leakage) - five-year average target	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2h	Required	6: Wastewater treatment works numeric compliance	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2i	Required	8: Bathing waters with 'excellent' water quality (part 1)	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2j	Required	9: Bathing waters with 'excellent' water quality (part 2)	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2k	Required	10: Bathing waters with 'excellent' water quality (part 3)	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2l	Required	13: Thanet sewers	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	SRN.PD.A2m	Required	14: Woolston STW	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Outcomes	SRN.PD.A2n	Required	15: Millbrook sludge	15 July 2019	As SRN.PD.A2	As SRN.PD.A2	As SRN.PD.A2
Residential retail	SRN.PD.A3a	Required	<b>PR14 Residential retail:</b> Southern Water is required to provide further evidence to explain its table R9 forecasts which depart from the trend in the first three years of the control period.	1 April 2019	Southern Water provides evidence to support its forecasts by referring to details of its metering programme.	No intervention required. We consider the evidence to be sufficient to explain the forecast.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	SRN.PD.A3b	Required	<b>PR14 Residential retail:</b> Southern Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019.	1 April 2019	Southern Water responds to our action by making the reforecast customer numbers equal to the forecast actual customer numbers.	<p>Intervention required.</p> <p>We are intervening in Southern Water's reforecast customer numbers for 2018-19 to reinstate the values provided in September 2018. The reforecast customer numbers are based on the charges that the company set at the end of 2017. They cannot be changed after they are first provided in the July 2018 APR submission.</p> <p>The materiality threshold for financing adjustment is in part based on the company's accuracy in forecasting its customer numbers. Therefore, updating the reforecast customer numbers with more recent forecasts than the ones used for setting charges undermines the purpose of the materiality threshold.</p>	<p>We are intervening to reinstate the values for reforecast customer numbers for 2018-19 that Southern Water provided in September 2018 to replace the values for reforecast customer numbers provided in the April 2019 submission. The changes are to the following lines:</p> <ul style="list-style-type: none"> <li>• unmetered water-only reforecast customer numbers 2018-19 – 15,770</li> <li>• unmetered wastewater-only reforecast customer numbers 2018-19 – 279,662;</li> <li>• unmetered water and wastewater customer numbers 2018-19 – 109,141;</li> <li>• metered water-only customer numbers 2018-19 – 68,927;</li> <li>• metered wastewater-only customer numbers 2018-19 – 628,966; and</li> <li>• metered water and wastewater customer numbers 2018-19 – 832,224.</li> </ul> <p>Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at - £0.416 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Southern Water.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	SRN.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to round Southern Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.</p>	<p>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:</p> <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> <p>Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at - £0.416 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Southern Water.</p>
Residential retail	SRN.PD.C008.02	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>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.</p> <p>Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.</p>	<p>For Southern Water we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 3.6% contained in Southern Water's April 2019 submission.</p> <p>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.</p> <p>Please see published draft determination residential retail revenue reconciliation model for Southern Water.</p>
SIM	SRN.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust Southern Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.</p>	<p>We are intervening to set the service incentive mechanism adjustment to -12.00% of household retail revenue, which is - £36.726 million (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'.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	SRN.PD.A4a	Required	<b>PR14 Totex:</b> Southern Water is required to amend the value it has reported for transitional expenditure to match actual spend in tables WS15/WWS15 and model.	1 April 2019	Southern Water misunderstood the action and provides the forecast transitional expenditure figure rather than the outturn transitional expenditure figure.	Intervention required Southern Water does not update the transitional expenditure in tables WS15/WWS15 to match actual spend.	See SRN.PD.C006.01 and SRN.PD.C006.02.
Totex	SRN.PD.A4b	Required	<b>PR14 Totex:</b> Southern Water is required to ensure it has reported the correct values for third party costs in the tables and model.	1 April 2019	Southern Water responds to the action and reports third party values consistent with those reported in the annual performance reports.	No intervention required. Southern Water provides a satisfactory response to this action.	N/A
Totex	SRN.PD.A4c	Required	<b>PR14 Totex:</b> Southern Water is required to provide a detailed and numerically supported explanation to accompany its forecasted performance for years 2018-19 and 2019-20.	1 April 2019	Southern Water responds to the action and provides evidence in its 'Technical Annex 8 - accounting for past delivery' document (P.15) to explain its forecast performance.  For water this is mainly driven by increased investment in tackling leakage. For wastewater, the increased expenditure is mainly due to increased investment in asset maintenance which is partly driven by weather conditions and related asset failures.	No intervention required. Southern Water provides a satisfactory response to this action.	N/A



Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	SRN.PD.C006.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. Southern Water populates 2014-15 with its forecast water transitional costs figure of £10.2 million rather than the actual figure of £1.498 million.	We are replacing Southern Water's water transitional costs figure with the actual water transitional costs figure in 2012-13 prices as shown in Table 4.1 Actual transition expenditure (' <a href="#">Updated 2010-15 reconciliation</a> ').  Our intervention increases the water totex menu revenue adjustment from - £3.467 million to - £4.050 million (2017-18 FYA CPIH deflated price base) and reduces the water totex menu RCV adjustment from £34.828 million to £28.854 million (2017-18 FYA CPIH deflated price base).
Totex	SRN.PD.C006.02	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. Southern Water populates 2014-15 with its forecast sewerage transitional costs figure of £13.768 million rather than the actual figure of £14.255 million.	We are replacing Southern Water's sewerage transitional costs figure with the actual sewerage transitional costs figure in 2012-13 prices as shown in Table 4.1 Actual transition expenditure (' <a href="#">Updated 2010-15 reconciliation</a> ').  Our intervention increases the wastewater totex menu revenue adjustment from - £1.166 million to - £1.216 million (2017-18 FYA CPIH deflated price base) and reduces the wastewater totex menu RCV adjustment from - £80.527 million to - £79.761 million (2017-18 FYA CPIH deflated price base).
Totex	SRN.PD.C006.03	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. Southern Water incorrectly includes the value of sewer adoptions within its sewerage actual totex figures for 2016-17 and 2017-18.	We are deducting £17.067 million (2016-17) and £23.702 million (2017-18) (outturn prices) from the company's reported sewerage actual totex figures.
Totex	SRN.PD.C006.04	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. Southern Water incorrectly reports the value of sewer adoptions within its sewerage disallowances line for 2016-17 and 2017-18 to cancel out the figures reported within sewerage actual totex.	We are deducting £17.067 million (2016-17) and £23.702 million (2017-18) (outturn prices) from the company's reported sewerage disallowances figures.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
WRFIM	SRN.PD.C005.02	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We note small rounding differences on the recovered revenues in the Southern Water's model compared to tables WS13/WWS13 line 23 and the RPI indices in the model are not the same as the updated table App23 RPI indices.	We are intervening to use the recovered revenue values from tables WS13/WWS13 line 23 and the updated RPI values from table App23. Our intervention increases the total WRFIM adjustment at the end of the 2015-20 period from £0 million (£0 million for water and wastewater) to £0.844 million (£0.205 million for water and £0.639 million for wastewater) (2017-18 FYA CPIH deflated price base).
All models	SRN.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 Southern 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
Revenue adjustments	SRN.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments. 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. 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 Southern Water's choices for profiling revenue adjustments in 2020-25.	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.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	SRN.PD.A6	Required	<p>Southern Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> <li>the drivers of its past and current outcomes performance, including financial and reputational performance commitments;</li> <li>lessons learnt from good and poor past and current performance;</li> <li>the performance gap between current performance and proposed performance in the 2020-25 business plan; and</li> <li>the measures planned or already in place to ensure deliverability of the 2020-25 business plan.</li> </ul>	1 April 2019	<p>Southern Water provides additional evidence on deliverability in response to this action for the following performance commitments over which we had material concerns during our initial assessment:</p> <ul style="list-style-type: none"> <li>leakage; and</li> <li>mains repairs.</li> </ul>	<p>We have reviewed the company's response to this action on the performance commitments over which we had material concerns in our initial assessment of business plans. For our assessment and rationale see table 2.</p> <p><b>Leakage performance commitment</b></p> <p>No intervention required.</p> <p>Southern Water has a robust plan in place to deliver the 2020-25 stretch and Southern Water's outcome delivery incentive rate (which is within our reasonable range) is sufficient to incentivise this delivery. Therefore we consider that customers are adequately protected.</p> <p><b>Mains repairs performance commitment</b></p> <p>No intervention required.</p> <p>Southern Water has a robust plan in place to deliver the deliver the 2020-25 stretch and Southern Water's outcome delivery incentive rate (which is within our reasonable range) is sufficient to incentivise this delivery. Therefore we consider that customers are adequately protected.</p>	<p><b>These conclusions on interventions take account of the evidence submitted for actions SRN.PD.A6 and SRM.PD.A7.</b></p> <p>N/A</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	SRN.PD.A7	Required	<p>Southern Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> <li>• how Southern Water will continuously monitor performance against PR14 and PR19 performance commitments, including how this relates to section 3 of the Annual Performance Report and what evidence it will look for beyond itself and the sector;</li> <li>• how Southern Water will identify drivers of performance and lessons learnt from both good and poor performance;</li> <li>• how Southern Water will identify measures to improve performance and integrate these into its business; and</li> <li>• how Southern Water will ensure that this is a continuous rather than one-off process.</li> </ul>	1 April 2019	Southern Water provides an action plan for its performance commitments for 2020-25 at a general rather than performance commitment level.	<p>See assessment for action SRN.PD.A6 above for conclusions on interventions.</p> <p>We have reviewed Southern Water's response to this action on the performance commitments over which we had material concerns in our initial assessment.</p> <p><b>Leakage performance commitment; and</b></p> <p><b>Mains repairs performance commitment</b></p> <p>For detailed assessment and rationale see table 2.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	SRN.PD.A8	Required	<p>Southern Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> <li>the drivers of incidents performance and customer communication and support performance during and after major incidents, pollution incidents and where statutory and licence obligations enforced by the EA/NRW, DWI and Ofwat have not been met;</li> <li>lessons learnt from good and poor past and current performance;</li> <li>the performance gap between current performance and proposed performance in the 2020-25 business plan; and</li> <li>the measures planned or already in place to ensure deliverability of the 2020-25 business plan.</li> </ul>	1 April 2019	Southern Water provides additional evidence on deliverability in response to this action for incidents handling.	<p>No intervention required.</p> <p>Based on the quality of the company's submission and protections already in place (through performance commitments for category 1,2 and 3 pollution incidents, treatment works compliance, drinking water compliance and average interruptions), we consider that customers are adequately protected.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	SRN.PD.A9	Required	<p>Southern Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> <li>• how Southern Water will continuously monitor incidents performance and customer communication and support during and after major incidents and deliver targets set by the EA/NRW in the Environmental Performance Assessment (EPA), by DWI and by Ofwat's regulations, including what evidence it will look for beyond itself and the sector;</li> <li>• how Southern Water will identify drivers of performance and lessons learnt from both good and poor performance;</li> <li>• how Southern Water will identify measures to improve performance and integrate these into its business; and</li> <li>• how Southern Water will ensure that this is a continuous rather than one-off process.</li> </ul>	1 April 2019	Southern Water provides an action plan for incidents handling for 2020-25 in response to this action.	<p>See assessment for action SRN.PD.A8 above for conclusions on interventions.</p> <p>For detailed assessment and rationale see table 2.</p>	N/A

**Table 2 – Past delivery deliverability assessments supplementary table**

Action reference	Our assessment and rationale
SRN.PD.A6	<p><b>Leakage performance commitment</b></p> <p><b>Southern Water demonstrates some understanding of the drivers of its past and forecast performance and has it learnt lessons from this.</b></p> <p>Southern Water states it does not fully understand the root causes of poor performance, but has identified where the investigations should focus. This provides some confidence that the company understands that it cannot rely on just one source of evidence and have to explore other areas in order to identify the issues. However, in the evidence the company does not explore other more viable causes such as customers leaving taps on to prevent pipes from freezing (which is provided as a credible reason by at least 2 other companies).</p> <p>The company states that it is unlikely to meet its target for 2018-19 and that it thought the root cause was the freeze/thaw event in early 2018, however the company is not seeing the recovery in performance it would expect and is reassessing the root cause. This will involve - reassessment of the impact of the 2018 freeze/thaw event on their own network and customer pipes, independent investigation in to a number of customer meters understating water usage and review of processes and procedures related to leakage detection. The two areas the company is looking to address in the future to improve performance are the speed at which a leak can be found and the health of the assets</p> <p><b>Southern Water provides sufficient and convincing evidence of measures to improve performance and some evidence that these measures can deliver the level of stretch in the 2020-25 business plan.</b></p> <p>The company provides sufficient and convincing evidence of measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan at a PC level. However, there is limited evidence of senior management commitment to implementing these measures. The company has clear and ambitious plans to correct the performance issues and achieve targets, however, there appears to be limited evidence of senior level support to ensure the initiatives get implemented. There is lots of evidence related to executive oversight for reporting, but not for support. Many initiatives do not appear to have been started yet, except for root cause identification.</p> <p>The company provides detail of the measures that will be undertaken to improve leakage performance which includes:</p> <ul style="list-style-type: none"> <li>• making use of leakage detection tools updated by 2019/20;</li> <li>• reviewing of all the assumptions used within the water balance, including meter-under-registration, via independent assessment to ensure they are report leakage as accurately as possible;</li> <li>• expanding the leakage team from 120 full time equivalents in 2017-18 to 150 full time equivalents, up from 80 full time equivalents at the start of the 2020-25 period resulting in an additional 3,250 leak repairs a year (presumably a lot of these will be on customer pipes as the company is forecasting mains bursts to reduce);</li> <li>• accelerating leak detection capabilities, by deploying 10,000 acoustic loggers through AMP7;</li> <li>• deploying of active leakage control, utilising a Network Management Platform which the company is implementing in AMP6 in combination with new intelligent network hardware to increase find and fix efficiency;</li> <li>• deploying approximately 1,000 additional pressure monitors across the network to reduce bursts and leakage; and</li> <li>• investing in a £70m District Metered Area (DMA) scale mains replacement programme targeting reducing leakage, bursts, interruptions to supply and discolouration.</li> </ul> <p>The measures above will enable reductions in leakage and it appears some initiatives are already underway. However, there is a question around the timing of implementation with these and the subsequent impact on performance.</p> <p><b>Mains repairs performance commitment</b></p> <p><b>Southern Water provides sufficient and convincing evidence of performance drivers and lessons learnt.</b></p>

	<p>The company states it has not failed any mains repairs targets in 2015-20 and does not forecast any failures (although it is difficult to tell as mains repairs is only a sub-measure with no specific targets), but it has proposed a large improvement during the 2020-25 period. However, the company still goes on to state, in the “Accounting for Past Delivery Annex” of its revised business plan, the root causes of mains bursts performance as:</p> <ul style="list-style-type: none"> <li>• inconsistent approach to planning and decision making: as long term investment in mains replacement explains long term improvements in performance (the company provides a chart showing the correlation between mains replacement and bursts going back to 1995, it shows a clear correlation between burst rate and replacement rate); and</li> <li>• fragmented systems and data: as a lack of precise control and information about the company’s network continue to drive bursts.</li> </ul> <p>It also goes on to say: “We have learned that roughly a third of burst mains, are a result of transient events. The root cause of this problem is a lack of detailed hydraulic information and precise automated control of the network; control over this would enable us to reduce the number of these trigger events and; There has also been an indirect positive impact of leakage pressure management initiatives on the burst rate. These measures have reduced pressure in the network and so led to a reduced likelihood of a burst occurring.”</p> <p><b>Southern Water provides sufficient and convincing evidence of measures to improve performance and some evidence that these measures can deliver the level of stretch in the 2020-25 business plan.</b></p> <p>The company provides detail of the measures that will be undertaken to improve performance for mains bursts which include:</p> <ul style="list-style-type: none"> <li>• understanding the risk to each km of pipe against leakage, bursts, supply interruptions and discolouration;</li> <li>• investing in smart transient monitoring technology; and</li> <li>• making use of live control and optimisation of 2000 pressure reduction valves to better regulate pressure (for the benefit of leakage and bursts).</li> </ul> <p>The areas covered by these improvement measures should all deliver an improvement in performance, the question will be when it happens, there is no clear plan provided of when the initiatives will be put in place, except for the commitment to replace 330km of pipes in the period, which is higher than the historical average rate.</p>
SRN.PD.A7	<p><b>Leakage performance commitment and mains repairs performance commitment</b></p> <p><b>Southern Water provides some evidence of how it will continuously monitor performance against PR14 and PR19 performance commitments at a general (not performance commitment specific) level.</b></p> <p>The company provides some evidence of how it will continuously monitor performance against PR14 and PR19 performance commitments through its new governance structure and three goals to improve performance monitoring and reporting. However, we have some reservations on this as there is a lack of detail on how / how frequently performance will be monitored at the different levels of the governance structure and most of the processes still need to be implemented so are not yet tried and tested.</p> <p>It does not demonstrate an understanding of how this relates to section 3 of the Annual Performance Report, but has provided sufficient and convincing evidence that it is seeking best practice from beyond itself and the sector (from the oil, gas nuclear and water sectors).</p> <p><b>Southern Water provides sufficient and convincing evidence of how it will identify performance drivers and lessons learnt at a general (not performance commitment specific) level.</b></p> <p>The company has set out its two goals for root cause analysis and lessons learnt and how it plans to deliver these using the CAST methodology based on industry best practice. It has also trained most of its staff on the new processes. However the processes are still being defined so they are not yet final and have not been tried and tested.</p> <p><b>Southern Water provides sufficient and convincing evidence of how it will identify new measures to improve performance at a general (not performance commitment specific) level.</b></p>



	<p>The company provides sufficient and convincing evidence of how the company will identify measures to improve performance through the preferred option identification process in the Asset Lifecycle Process (ALP) and integrate these into its business using Integrated Business Planning (IBP). However these processes are still being defined so they are not yet final and have not been tried and tested.</p> <p><b>Southern Water provides sufficient and convincing evidence that this is a continuous not a one off process.</b></p> <p>The company provides sufficient and convincing evidence that it has a continuous process in place for learning lessons from performance on outcomes and implementing appropriate measures as a result through the monitoring arrangements in its new governance structure and the integration of the Asset Lifecycle Process into the Integrated Business Planning process. However it is unclear how much of the process / governance structure still needs to be defined.</p>
SRN.PD.A8	<p><b>Incidents handling</b></p> <p><b>Southern Water provides sufficient and convincing evidence of the drivers of its incidents performance and lessons learnt.</b></p> <p>The company identifies the three common root causes of poor past performance during and after major incidents as:</p> <ul style="list-style-type: none"> <li>• an inconsistent approach to planning and decision making;</li> <li>• inconsistent processes and process control: and</li> <li>• a fragmented view of risks to aid decision making process.</li> </ul> <p>It provides detailed case studies for six major water incidents and nine serious pollution incidents, providing details of the incident, setting out the drivers of performance and lessons learnt, and customer communications and support. The company has also identified which of these incidents were investigations or prosecutions by Environment Agency / Natural Resources Wales, Drinking Water Inspectorate or Ofwat.</p> <p><b>Southern Water provides sufficient and convincing evidence of the measures it has implemented, or will be implementing, to improve its performance in this area.</b></p> <p>In response to its poor performance on major incidents the company has set up an Emergency Planning team charged with implementing an Incident Management Framework, setting up a response team and defining roles and responsibilities.</p> <p>The company has provided detailed case studies for six major water incidents and nine serious pollution incidents, providing details of the incident, setting out the drivers of performance and lessons learnt, and the measures that it has put in place / will put in place to improve and ensure deliverability in 2020-25.</p> <p>However, the company has not stated what its targets are for 2020 or 2020-25 with respect to the number of major incidents and pollution incidents.</p>
HDD.PD.A9	<p><b>Southern Water provides sufficient and convincing evidence for how it will monitor incidents performance.</b></p> <p>The company identifies 13 goals for monitoring and continuous improvement in incidents performance and has set out actions that it has identified to achieve each of these goals. However, these are not in the form of an action plan and as such do not in all cases have owners assigned, target dates by which they should be achieved or key performance indicators or targets against which success can be measured.</p>

The company will use the new Incident Management Framework processes and procedures to ensure that there is continuous monitoring of key performance indicators, with an overarching strategic team to monitor incident response. The Emergency Planning Team who manage the incident management framework will be responsible for tracking actions to ensure they are integrated into the business. The company will report against the goals in its action plan to Board, the Customer Challenge Group and Ofwat on a quarterly basis.

The company demonstrates a thorough understanding of targets set by the Environment Agency (EA) / Natural Resources Wales in the Environmental Performance Assessment (EPA), by Drinking Water Inspectorate (DWI) and by Ofwat's regulations and has set out how it will monitor the delivery of targets set by the EA and DWI. However, it has not stated what the targets it is working towards are.

It provides sufficient and convincing evidence that it is seeking best practice from beyond itself and the sector. For example, The Incident Management Framework which the company is developing is based on the Incident Command System approach developed in the USA and is used by all USA public bodies, including all utilities, as well as in the UK by the oil industry and in Canada by Fire and Rescue services.

**Southern Water provides sufficient and convincing evidence on the processes it has / will put in place to identify drivers of incidents handling performance and lessons learnt.**

The company provides some information on how it will integrate these measures into its business.

The primary tool the company will use to identify drivers of performance and lessons learnt is the updated incident debrief procedure. Going forward, the company will include incident root cause analysis as part of the incident debrief and integrate key performance indicators as an input to the debrief process. The company provides some information on how it will integrate these measures into its business.

**Southern Water provides sufficient and convincing evidence on measures to improve performance.**

The company's incident debrief procedure includes identified improvement actions. These are then owned by the Emergency Planning Team, placed on their action tracker and assigned to business owners. The company also uses mock test incidents to identify improvement actions as it does not want only to learn.

**Southern Water provides sufficient and convincing evidence that this is a continuous not a one off process.**

The company has defined 13 goals for monitoring and continuous improvements in incidents performance, each of which has an action / action plan. It has also recently set up a set of key performance indicators for incidents performance which will be further refined as part of the newly developed Incident Management Framework.

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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