

July 2019

Trust in water

PR19 draft determinations

**Wessex Water – Securing long-term resilience
actions and interventions**

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PR19 Draft Determinations: Wessex Water – Securing long-term resilience 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 'WSX' denotes the company Wessex 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 'WSX' denotes the company Wessex 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 Wessex Water draft determination, please see the [draft determinations webpage](#).

Table 1 – Wessex 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 long-term resilience	WSX.LR.A1	Required	The company should ensure that its common and bespoke performance commitments associated with operational resilience are clearly defined, sufficiently demanding for the 2020 to 2025 period and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	1 April 2019	Wessex Water has not implemented all relevant outcome actions associated with operational resilience, in particular those related to asset health performance commitments.	Intervention required. The company should address any outstanding actions associated with operational resilience from the 'Wessex Water - Delivering outcomes for customers actions and interventions' tables, in particular those related to mains repairs, unplanned outage and sewer collapses.	Refer to interventions described in the 'Wessex Water - Delivering outcomes for customers actions and interventions' tables regarding mains repairs, unplanned outage and sewer collapses.

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	WSX.LR.A2	Required	The company should provide a commitment that it will, by 22 August 2019, prepare and provide to us an action plan to develop and implement a systems based approach to resilience in the round and ensure that the company can demonstrate in the future an integrated resilience framework that underpins the company's operations and future plans showing a line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework.	1 April 2019	Wessex Water has confirmed its commitment to complete the action by 22 August 2019.	No intervention required. The company has complied with the required action.	N/A
	WSX.LR.A3	Required	The company should also provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019	Wessex Water has confirmed this commitment.	No intervention required. The company has complied with the required action.	N/A
	WSX.LR.A4	Required	Please explain the steps the company is taking to demonstrate it will maintain long term financial resilience in the event that its requested adjustment to the cost of capital is not allowed (either at PR19 or at a future price control), set out how this has been taken into account in the assessment of financial resilience and set out the risk management/mitigation approaches that have been identified.	1 April 2019	<p>Wessex Water says that it has updated its financial resilience assessment using a WACC assumption of 2.4%, based on the central estimate from Ofwat's range published in December 2017. It concludes that none of its modelled stress tests would trigger a repayment of debt in advance of its maturity date by breaching a financial covenant. Whilst some more extreme scenarios would threaten interest cover requirements for an investment grade credit rating, the company considers it to be highly probable that this would be caused by a substantial effect outside of management control that could trigger a redetermination of prices under its licence.</p> <p>The company's board confirms that its assurance statement in September 2018 on financial resilience is unchanged against its amended plan.</p>	No intervention required. The company has responded satisfactorily to the action. We note that while the company refers to the substantial effects provisions of its licence, these could only trigger a reopening of the price determination where the defined materiality threshold is met and for an unforeseen circumstance that is beyond prudent management control.	N/A
	Advised actions	Advised	No advised actions.	N/A	N/A	N/A	N/A

Table 2 – Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
WSX.LR.C1	<p>The Board assurance on actual and notional financeability and financial resilience in the revised business plan was provided on the basis of the assumptions made in the business plan, prior to any interventions we have made in the draft determination and our updated view of the cost of capital. There is evidence of further downward pressure on the cost of capital in very recent market data which will be considered for our final determination.</p>	<p>We expect companies to provide further Board assurance, in their responses to the draft determination, that they will remain financeable on a notional and actual basis, and that they can maintain the financial resilience of their actual structure, taking account of the reasonably foreseeable range of plausible outcomes of their final determination, including evidence of further downward pressure on the cost of capital in very recent market data as we discuss in the 'Cost of capital technical 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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