

December 2019

PR19 final determinations

**SES Water – Accounting for past
delivery final decisions**

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In our [draft determinations](#), we published the ‘Accounting for past delivery actions and interventions’ document for each company. This set out the required and advised actions in our initial assessment of plans, a summary of the company’s response to the action, our assessment of the company’s response, and any further interventions we made as part of the draft determination. It also set out any further interventions that were not resulting from an action, which we made as part of the draft determination.

This document sets out the decisions on accounting for past delivery we are making for the final determination. Our decisions and interventions set out here are relative to the company’s 15 July 2019 past delivery submission (the ‘15 July 2019 submission’). They also take into account the representations made on all our draft determinations, responses from companies to our queries and additional information provided following further engagement with companies and other stakeholders as part of the final determination process.

Table 1 below sets out all the initial assessment of plans actions, the model the action relates to, a summary of the company’s response to the initial assessment of plans action, our assessment of the company’s response, any further interventions we made as part of the draft determination, a summary of the company’s updated submission and / or representation on the draft determination, our assessment of the company’s updated submission and / or representation and our final interventions for the final determination. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the final determination.

Our final determination and the final decisions set out in this document take account of SES Water’s actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 or in updated information submitted as part of its 30 August 2019 representation.

Each action and 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 ‘Glossary’ for a key to these acronyms). Actions whose numbers are preceded with an ‘A’ denote required actions from the initial assessment of plans. Actions whose numbers are preceded with a ‘B’ denote advised actions from the initial assessment of plans. Draft determination interventions not resulting from an initial assessment of plans action are preceded with a ‘C’ and new interventions for the final determination not related to a previous action are preceded with a ‘D.’ Both draft and final interventions are 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. Where a company submits updated information as part of its 30 August 2019 representation and we reflect this in our final determination, we identify this intervention in our final determination models with the reference SES.PD.REP. The past delivery model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
Residential retail SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011
South West Water aggregation model	012
Thames Water / Southern Water revenue profiling model	013
Business retail SIM	014
Southern Water enforcement revenue adjustments	015

For all other documents related to the SES Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for SES Water

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
All models	SES.PD.A5	PR14 reconciliations: 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.	No company action required for the draft determination.	We will review SES 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.	In its 15 July 2019 submission, SES Water updates all of its PR14 reconciliations with actual performance for 2018-19 and provides evidence for its forecast performance in 2019-20.	Our final interventions take account of SES Water's actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 and in its 30 August 2019 representation.	N/A
All models	SES.PD.REP	In its 30 August 2019 representation, SES Water does not submit any updated past delivery business plan tables or reconciliation models.					
Land disposals	SES.PD.A1	PR14 Land sales: SES Water is required to correct the data error in table App9 and provide more evidence to support the forecast trajectory.	SES Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Outcomes	SES.PD.A2	<p>PR14 outcome delivery incentives: SES 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.</p> <p>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:</p>	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review SES Water's updated data before making any interventions for the final determination.</p>	<p>In its 15 July 2019 submission, SES Water provides evidence for its updated forecast performance for 2019-20 in light of its actual performance in 2018-19 for all of its performance commitments.</p> <p>In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to the specific actions SES.PD.A2a to SES.PD.A2b.</p>	<p>Intervention required.</p> <p>We have assessed the data the company provides and its forecasts for the 2019-20 reporting year. We are intervening where we found data errors or inconsistencies, or the company provided insufficient evidence for its performance.</p> <p>Please see SES.PD.D002.01 below.</p> <p>In addition, we note the following:</p> <p>E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d)</p> <p>In SES Water's response to query SES-APR-OC-001 dated 7 August 2019, the company provides the information on its metering programme which relates to 'E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d)'. According to the PR14 final determination company-specific appendix, whether the company receives an underperformance payment or not in each year is linked to how it performs on its associated metering programme. The company states that it has met its metering levels and this was externally assured as part of its annual performance reporting process. We have determined from the company's December 2018 business plan that its plan was to meter an additional 32,000 previously unmeasured properties between 2015 and 2020. Additionally, in the 'Draft price control determination notice: company-specific appendix – Sutton & East Surrey Water', page 108, we note that the company's ambition is to increase household meter penetration from 48% at April 2015 to 61% by April 2020. However, the data presented does not identify what the metering targets are each year, which we require in order to confirm that the targets have been met.</p>	<p>Please see SES.PD.D002.01 below.</p> <p>For E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d), we are not intervening for the final determination but require SES Water to provide further information to show what the annual metering targets are each year and evidence to explain how these targets have been derived. This information should be externally assured and evidence of this assurance should be provided.</p>

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Outcomes	SES.PD.A2a	A7: Water softening programme	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2
Outcomes	SES.PD.A2b	A6: Taste, odour and discolouration (number of contacts received)	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2	As SES.PD.A2
Outcomes	SES.PD.D002.01	N/A	N/A	N/A	In its 15 July 2019 submission, SES Water reports an incorrect figure relating to the 2015-16 outperformance payment for performance commitment A3 (supply interruptions >3 hours). The company's table App27 submission contains £0.191 million (2012-13 prices).	Intervention required. The correct value is £0.200 million as confirmed in the SES Water's response to query SES-APR-OC-002.	We are intervening to correct an error relating to the 2015-16 outperformance payment for performance commitment A3 (supply interruptions >3 hours). We are including an adjustment in 2015-16 of £0.200 – £0.191 = £0.009 million (2012-13 prices). Our minor intervention increases the water revenue adjustment at the end of the 2015-20 period from £0.974 million to £0.984 million (2017-18 FYA CPIH deflated price base).

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Residential retail	SES.PD.C008.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to round SES Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.</p>	<p>In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	<p>Intervention retained.</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"> • unmetered water-only customer; • unmetered wastewater-only customer; • unmetered water and wastewater customer; • metered water-only customer; • metered wastewater-only customer; and • metered water and wastewater customer. <p>Our intervention does not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at £0.120 million (2017-18 FYA CPIH deflated price base).</p>

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Residential retail	SES.PD.C008.02	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>	In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	<p>For SES Water we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 2% contained in SES Water's 15 July 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>
Residential retail service incentive mechanism (SIM)	SES.PD.A3	PR14 Service incentive mechanism: SES Water is required to provide more evidence to support the forecast trajectory in table R10.	SES Water provides an explanation for its forecast trajectory in its business plan data table commentary for R10.	<p>No intervention required.</p> <p>Commentary supplied to support the data is sufficient.</p>	In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail service incentive mechanism (SIM)	SES.PD.C009.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust SES Water's residential retail revenue as a result of its residential retail service incentive mechanism performance from 2015-16 to 2018-19.</p>	In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	<p>Intervention retained.</p> <p>We are updating our analysis to take account of companies' finalised scores for 2018-19.</p>	We are intervening to set the residential retail service incentive mechanism adjustment to -7.30% of residential retail revenue, which is - £2.262 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'.

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Totex	SES.PD.A4	PR14 Totex: SES Water is required to provide more detailed information on the re-phasing of the capital programme and expected efficiencies referred to in the evidence for table WS15.	SES Water provides further information in its submission and subsequent engagement to explain that the re-phasing of its capital programme is to ensure it is using the latest available information to achieve its performance commitments. And that it has updated its forecast based on updated information on 2018-19 costs and the agreed budget for the final year of AMP6. The company confirms that there is no risk to its delivery of PR14 outputs due to its reduction in expenditure for 2019-20.	No intervention required. SES Water provides a satisfactory response to this action.	In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	SES.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, SES Water inputs its 'Water: Final menu choice' figure rounded to 1 decimal place.	Intervention required. Where companies did not change their position on the menu from that used in the PR14 final determination, we are ensuring the water and sewerage final menu choices reflect the full accuracy of these figures as calculated in the PR14 populated final determination models . (see 'Calculations' tab cell D68).	We are intervening to change to the 'Water: Final menu choice' figure from 102.500 to 102.486. Our minor intervention does not change either the water RCV or water revenue adjustments at the end of the period which remain at - £0.380 million and - £0.578 million respectively (2017-18 FYA CPIH deflated price base).

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Revenue adjustments	SES.PD.C011.01	N/A	N/A	<p>Intervention required.</p> <p>We are standardising the discount factor used to profile revenue adjustments.</p> <p>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.</p> <p>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.</p> <p>We are not intervening in SES Water's choices for profiling revenue adjustments in 2020-25.</p>	<p>In its representation, SES Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	<p>Intervention required.</p> <p>We are intervening to reflect our updated view of the wholesale WACC.</p> <p>We are not intervening in SES Water's choices for profiling revenue adjustments in 2020-25.</p> <p>Where profiling selections have been made for controls with no revenue (Dummy control and/or Business retail) we have set these selections to '0'. This has no impact on the modelling outputs.</p>	<p>We are using our view of the wholesale WACC (2.92%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.</p>

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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

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