

December 2019

PR19 final determinations

**South East Water – Accounting for past
delivery final decisions**

PR19 final determinations: South East Water - Accounting for past delivery final decisions

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 South East 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 ‘SEW’ denotes the company South East 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 SEW.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 South East Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for South East 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	SEW.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.	No intervention required. We will review South East 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, South East 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 South East 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	SEW.PD.REP	<p>In its 30 August 2019 representation, South East Water submits the following updated past delivery business plan tables and reconciliation models to align with its 15 July 2019 submission, reflect our draft determination and support its representations:</p> <ul style="list-style-type: none"> App5 (PR14 reconciliation performance commitments), App9 (Adjustments to RCV from disposals of interest in land), App23 (Inflation measures), App25 (PR14 reconciliation adjustments summary), App27 (PR14 reconciliation - outcome delivery incentives summary), WS13 (PR14 WRFIM), WS15 (PR14 Totex), R9 (PR14 reconciliation of household revenue) and R10 (PR14 SIM); and WRFIM, Totex, Residential Retail and RCV / Revenue adjustments feeder models. <p>Unless otherwise stated, our final determination and any interventions we have made for the final determination as set out in the table below, take account of South East Water's latest updated information including the company's latest view of inflation.</p>						
Land disposals	SEW.PD.A1	PR14 Land sales: South East Water is required to provide sufficient evidence to support the forecast trajectory in table App9.	South East Water provides additional evidence in App9 to support a revised adjustment but not the forecast trajectory. The company's commentary supports the change in formula but not the forecasts – 'The commentary that we included in Appendix 22 of our business plan still applies to our updated App9 table.'	No intervention required but action needed by South East Water. The company provides insufficient evidence to support its forecast trajectory. We expect the company to provide revised commentary in its representations on the draft determinations to support the data for 2018-19 and the forecast for 2019-20.	In its representation, South East Water confirms that its actual land sales for 2018-19 is zero as reported in its 2019 Annual Performance Report and its forecast for 2019-20 is also zero. The company states that it is unclear of what evidence we require for a zero forecast of sales.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A	

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Outcomes	SEW.PD.A2a	<p>PR14 outcome delivery incentives: South East 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 South East Water's updated data before making any interventions for the final determination.</p>	<p>In its 15 July 2019 submission, South East 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, South East Water does not raise substantive reasons to change our draft determination in relation to the specific actions SEW.PD.A2a to SEW.PD.A2k.</p>	<p>No intervention required.</p> <p>The company addresses the issue appropriately in its 15 July 2019 submission.</p>	N/A
Outcomes	SEW.PD.A2b	H2: Meeting the water resource deficit	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2c	I1: Mean zonal compliance (MZC)	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2d	N4: Water mains bursts	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2e	G2: Average time lost per property (measured in minutes, per property served)	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2f	A1: Customer satisfaction - appearance of water	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a

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Outcomes	SEW.PD.A2g	B1: Customer satisfaction - taste and odour of water	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2h	C1: Customer satisfaction - level of leakage	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2i	D1: Customer satisfaction - direct interaction experience	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2j	F1: Customer satisfaction - water supply is of sufficient pressure	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.A2k	G1: Customer satisfaction - frequency and duration of supply interruptions	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a	As SEW.PD.A2a
Outcomes	SEW.PD.C002.01	N/A	N/A	F2 (number of properties at risk of low pressure, as recorded on the DG2 register) The corrigenda to South East Water's PR14 final determination (originally published 13 February 2015, subsequently republished on 2 November 2016) states that the 'Form of reward/penalty' is 'Adjustment to RCV'.	South East Water agrees with this intervention and reflects this in its 15 July 2019 submission and 30 August 2019 representation.	No intervention required. The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.	N/A

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Residential retail	SEW.PD.A3a	PR14 Residential retail: South East Water is required to amend the discount rate in table R9 to the correct value.	South East Water provides an amended discount rate of 3.6%. This addresses our action to replace the value of 100% provided but is still not the WACC the company should use.	Intervention required.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	Please see SEW.PD.C008.01 below.
Residential retail	SEW.PD.A3b	PR14 Residential retail: South East Water is required to re-submit the Ofwat published version of the PR14 retail reconciliation model.	South East Water does not resubmit its PR14 retail reconciliation model as it has not made any changes since its last submission in September 2018.	No intervention required. The company provides a satisfactory response to this action.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	SEW.PD.A3c	PR14 Residential retail: South East Water is required to clarify the justification for its 2019-2020 forecast which departs from the previously observed trends.	South East Water provides evidence to support its forecasts by referring to the effect of its compulsory metering programme.	No intervention required. The company provides a satisfactory response to this action.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	SEW.PD.A3d	PR14 Residential retail: South East Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019.	South East Water does not directly address this action but it sets out its approach for 2019-20 which will be to have the same values for reforecast and actual customer numbers.	No intervention required. The company provides a satisfactory response to this action.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A

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Residential retail	SEW.PD.C008.01	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>In its 15 July 2019 submission, South East Water includes a figure of 3.6% for the 'Materiality threshold for financing adjustment - Discount Rate.'</p> <p>In its representation, South East Water accepts our view of the "Materiality threshold for financing adjustment – Discount Rate" at 3.74% in the draft determination.</p>	<p>Intervention retained.</p> <p>We are making this intervention relative to the company's 15 July 2019 submission. The intervention is consistent with the company's view in its representation.</p>	<p>For South East 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 South East 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	SEW.PD.D008.01	N/A	N/A	N/A	<p>South East Water corrected its 2018-19 actual customer numbers data following a query we issued which identified an inconsistency in those numbers between its 15 July 2019 past delivery submission and its 2019 annual performance report.</p> <p>The company confirms that the correct figures for 2018-19 for 'Actual customer numbers - Unmetered water-only customer' and 'Actual customer numbers - Metered water-only customer' are those it published in its 2019 annual performance report.</p>	<p>Intervention required.</p> <p>We are reflecting actual customer numbers as reported in South East Water's 2019 annual performance report.</p> <p>We are making this intervention relative to the company's 15 July 2019 submission. The intervention is consistent with the company's view in its representation.</p>	<p>We are intervening to change 'Actual customer numbers - Unmetered water-only customer' in 2018-19 from 106,515 to 106,678 and 'Actual customer numbers - Metered water-only customer' from 754,252 to 754,844.</p> <p>Our intervention increases the total residential retail revenue payment at the end of the 2015-20 period from £0.636 million to £0.651 million (2017-18 FYA CPIH deflated price base).</p>

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Residential retail service incentive mechanism (SIM)	SEW.PD.C009.01	N/A	N/A	Intervention required. We are intervening to adjust South East Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	In its representation, South East Water considers that we should include a no payment zone in the calculation of the SIM payments for 2015-16 to 2018-19. Doing so would mean it would not incur a payment as its score is just above the average. The company considers that this approach is consistent with our C-MeX methodology.	Intervention retained. We do not consider the use of deadbands for the SIM is appropriate, as it would reduce the extent to which the SIM results in customers paying, or being compensated, for the service that they received. We further note that our C-MeX methodology in the final determination does not include deadbands and therefore not using them for SIM is consistent with C-MeX. For further details see 'Accounting for past delivery technical appendix.' We are updating our analysis to take account of companies' finalised scores for 2018-19.	We are intervening to set the residential retail service incentive mechanism adjustment to - 0.45% of residential retail revenue, which is - £0.510 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'.
Totex	SEW.PD.A4a	PR14 Totex: South East Water is required to re-submit the published model without amending it, or alternatively provide a reasonable explanation of why it is necessary to make changes to it.	South East Water responds to this action and published a model without any unauthorised changes.	No intervention required. The company provides a satisfactory response to this action.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	SEW.PD.A4b	PR14 Totex: South East Water is required to provide a detailed and numerically supported explanation to support its forecasted performance for years 2018-19 and 2019-20 in table WS15.	South East Water responds to this action in 'Chapter 8 Accounting for Past Delivery' (P.9). Its forecast performance is driven by its power procurement savings and efficiencies achieved through its contracting approach.	No intervention required. The company provides sufficient explanation in support of its forecasts.	In its representation, South East Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A

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Totex	SEW.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, South East Water input its 'Water: Implied menu choice' figure rounded to 1 decimal place.	Intervention required. We are ensuring the water and sewerage implied 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: Implied menu choice' figure from 103.1 to 103.078.
Revenue adjustments	SEW.PD.C011.01	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 South East Water's choices for profiling revenue adjustments in 2020-25.	In its representation, South East Water does not agree that the wholesale WACC of 3.09% is correct. The company provides evidence from its PR19 draft determination documentation that indicates that the wholesale WACC is 3.08% on a CPIH basis. South East Water includes an adjustment for the wholesale WACC of 3.08% in the updated revenue adjustments feeder model it submits in its representation.	Intervention required. We are intervening to reflect our updated view of the wholesale WACC. We note the minor difference in WACC contained in the draft determination and have ensured we include a consistent WACC in our PR19 final determination models. We are not intervening in South East Water's choices for profiling revenue adjustments in 2020-25. 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.	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.

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

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