



South Staffs Water

SSC Response to OFWAT's Pre-Qualification Decisions



Aims of Presentation

- Overview of feedback from Ofwat's Risk Based Review (RBR)
- Key focus areas and action plan to update our business plan
- Seek CCG support for:
 1. Overcoming the totex funding deficit
 2. Overcoming the retail (ACTS) funding deficit
 3. Outcome revisions
 4. SCP case given the customer benefits of this.



Headlines from 10 March Announcement – Initial Risk Based Review (RBR) Assessments

- Only two companies pre-qualified as enhanced – South West and Affinity. Both have since accepted the Risk & Reward guidance.
- Ofwat has graded business plans A-D for each of the RBR tests.
- New option of June Draft Determination (rather than Aug) for other companies, if re-submit plan on 2nd May.
- No re-submission category, no plans are awful.
- 4th April Ofwat released more company specific feedback and various models (e.g. totex).



	Outcomes Water (Customer Engagement/ Performance Commitment)		Outcomes Wastewater (Customer Engagement/ Performance Commitment)		Outcomes Retail (Customer Engagement/ Performance Commitment)		Wholesale Cost Assessment (Water/ Wastewater)		Retail Cost Allocation	ACTS Adjustment	Affordability	Board Assurance	AMP5 Legacy Adjustment (Water/ Wastewater)	
Anglian Water	B	B	A	B	A	B	D	C	C	B	A	B	C	C
Dwr Cymru/Welsh Water	C	C	C	C	C	C	C	B	D	D	B	B	C	C
Northumbrian Water	C	C	C	C	C	C	B	B	B	D	B	B	C	C
Severn Trent Water	B	C	B	C	B	C	D	B	D	D	B	B	B	C
South West Water	A	C	A	C	A	B	B	B	B	C	B	B	A	A
Southern Water	C	C	C	C	C	C	C	D	A	C	B	B	D	D
Thames Water	C	C	C	C	C	C	B	D	B	D	C	B	A	C
United Utilities Water	B	C	B	C	B	C	C	D	A	C	B	B	D	D
Wessex Water	C	C	C	C	C	C	C	C	B	D	A	B	C	C
Yorkshire Water	C	B	C	B	C	B	B	D	C	C	B	B	C	C
Affinity Water	B	C			B	C	B		D	B	B	B	C	
Bristol Water	B	C			B	C	D		C	C	C	B	C	
Dee Valley Water	C	C			C	C	D		C	C	C	B	D	
Portsmouth Water	C	C			C	C	B		C	C	B	B	C	
Sembcorp Bournemouth Water	C	C			C	C	C		D	C	B	B	B	
South East Water	B	C			B	B	C		A	C	C	B	C	
South Staffs Water	B	C			B	C	C		A	C	C	B	D	
Sutton & East Surrey Water	B	C			B	C	D		D	C	C	B	A	

Some specific points

- Ofwat's decision to quote our 59% customer acceptability has been challenged. Survey results were 59% nominal vs 82% real. Inconsistent with others.
- AMP5 legacy is largely expected to be due to a lack of explanation rather than disagreement.
- Outcomes feedback:
 - linked to long term commitments being weak
 - sometimes appearing lower service than present
 - reputational incentives needing more clarity
- Totex view appears to have significant weighting...



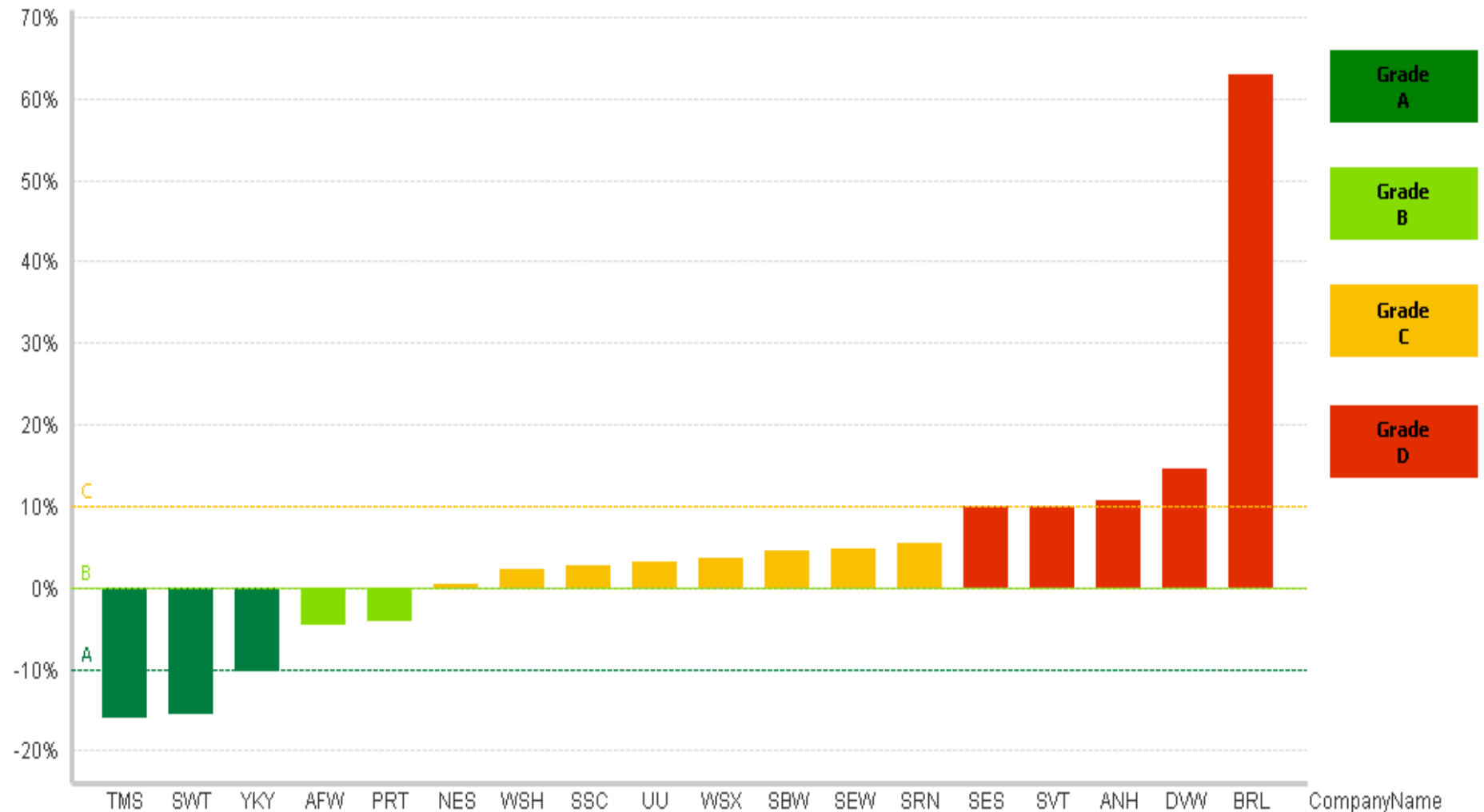
Breakdown of Wholesale Cost Assessment

Water company	Score			Company business plan £m	Risk-based review initial thresholds £m	Gap to B score £m (%)	Company business plan vs AMP5
	Overall	Evidence	Costs				
ANH	D	B	D	1,840	1,664	175 (11%)	+10%
WSH	C	B	C	1,257	1,229	28 (2%)	-6%
NES	B	B	C	1,363	1,359	3 (0%)	-2%
SVT	D	D	D	2,806	2,549	257 (10%)	+12%
SWT	B	B	A	697	826	-129 (-16%)	+9%
SRN	C	B	C	840	796	44 (6%)	-4%
TMS	B	B	A	3,160	3,766	-606 (-16%)	+7%
UU	C	B	C	2,379	2,309	69 (3%)	-4%
WSX	C	B	C	718	693	25 (4%)	+13%
YKY	B	B	A	1,428	1,593	-165 (-10%)	0%
AFW	B	B	B	1,049	1,099	-50 (-5%)	+3%
BRL	D	C	D	572	351	221 (63%)	+14%
DVW	D	B	D	102	89	13 (14%)	+24%
PRT	B	B	B	137	143	-6 (-4%)	+7%
SBW	C	B	C	136	130	6 (5%)	+2%
SEW	C	C	C	808	771	37 (5%)	+6%
SSC	C	B	C	409	398	11 (3%)	+7%
SES	D	B	D	241	219	23 (10%)	+10%
Industry				19,940	19,984	-43	+4%

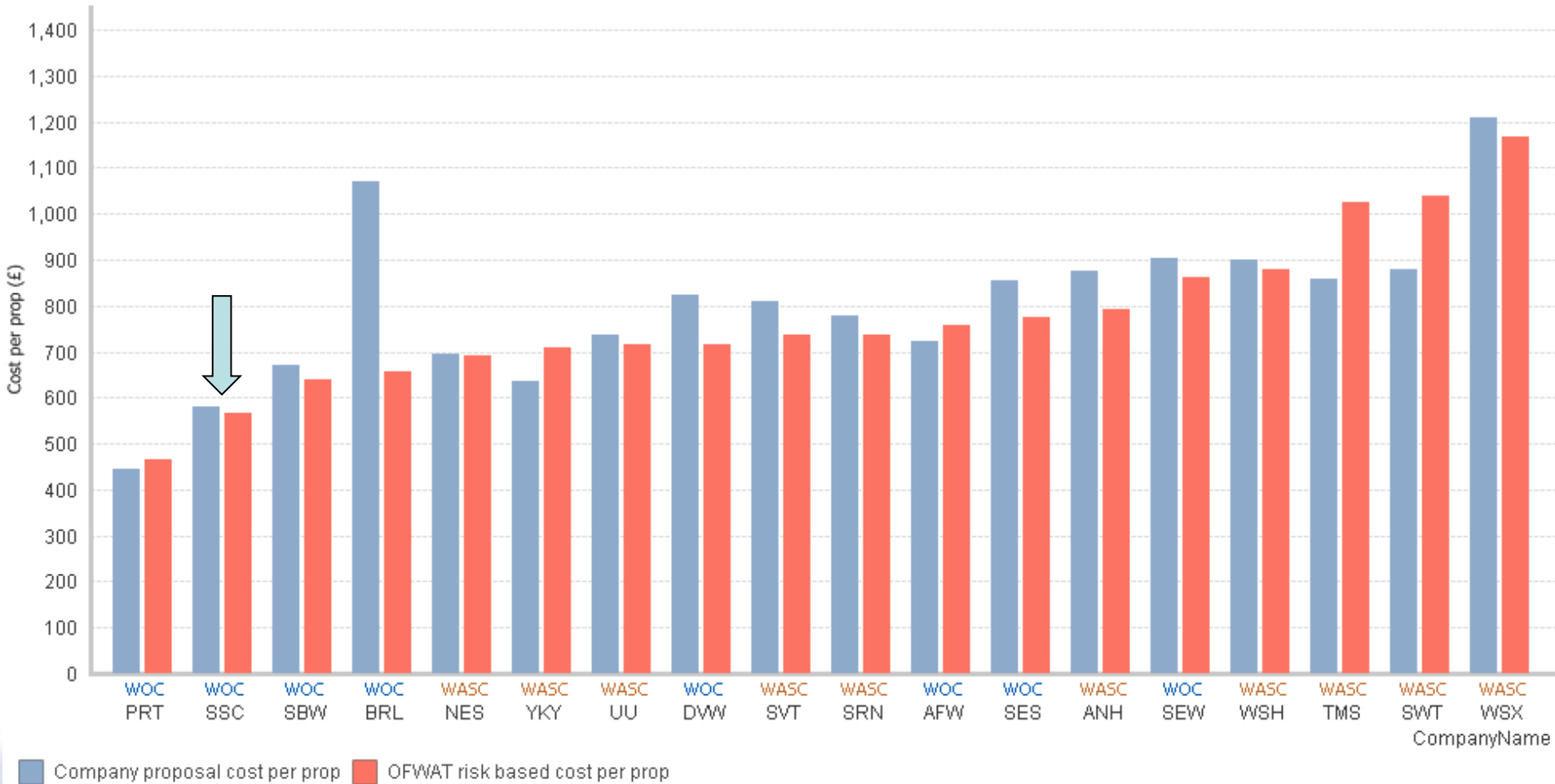
Grade Reflects Difference Between Initial Ofwat / Company View of Totex Needs

Gap to B score as % of 'risk based' value

XL



Water Totex per property served



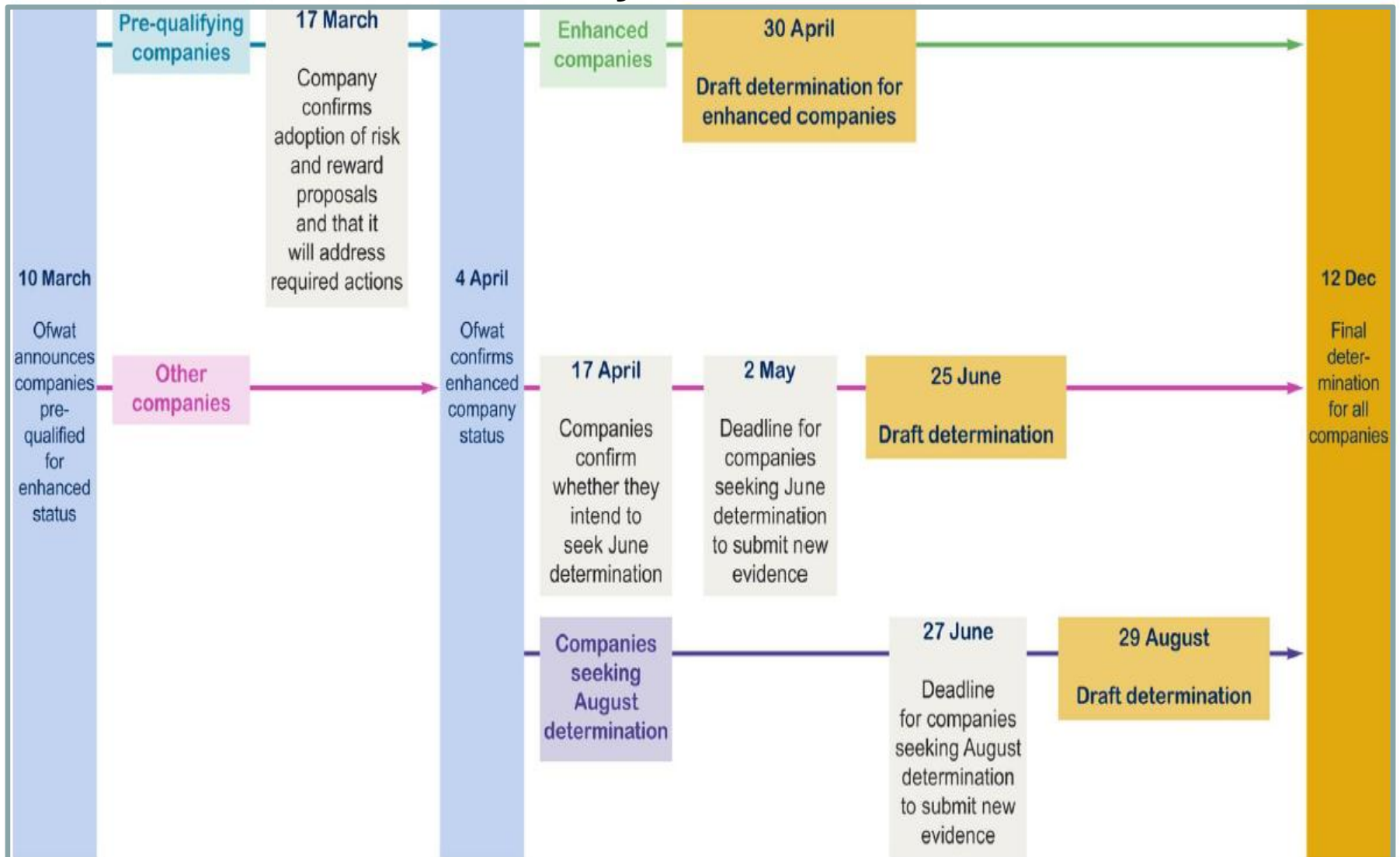
Breakdown of SSC performance by test category

Financeability and Affordability: 13. Affordability

Company	Bill change		2015-2020 affordability		Future affordability	Overall score
	Average household bill 2014-15 (£)	Change to average household bill by 2019-20 (£)	Acceptability reported in business plans	Criteria score	Criteria score	
ANH	412	-35	90%	A	B	A
WSH	419	-20	94%	B	B	B
NES	368	0	75%	B	B	B
SVT	316	-12	88%	B	B	B
SWT	512	-15	84%	B	B	B
SRN	413	-7	90%	A	C	B
TMS	349	+36	78%*	C	C	C
UU	395	-6	>75%*	B	B	B
WSX	459	-18	81%	A	B	A
YKY	351	0	75%	B	B	B
AFW	165	-6	87%	B	B	B
BRL	195	-2	92%	B	C	C
DVW	143	+13	71%	C	C	C
PRT	91	0	99%	B	B	B
SBW	149	-13	79%	B	B	B
SEW	195	0	86%	C	B	C
SSC	136	0	59%	C	B	C
SES	176	-8	84%	C	B	C



Key Dates 2014



SSC
CCG
Meetings

28th
April

End
May

Summary of main activities

- Every opportunity for Ofwat engagement being sought. Also reviewing best practice highlighted and in dialogue with other companies.
- Information on AMP5 legacy adjustments (SIM, RCM, CIS, logging down, opex efficiency)
- Evidence case for small company premium
- Revisions to outcomes
 - Reviewing performance commitments (criticised for being weak given current standards)
 - Responding to opportunity to raise rewards (as per Ofwat risk and reward guidance)



Summary of main activities

(cont'd)

- Totex models were released to us on 24th March. Ofwat workshop held on 8 April.
- Reviewing ACTS (retail) for bad debt claim and input price inflation.
- Arranging for Mike Reid of Monson to undertake external audit of progress with AMP5 outputs. Ofwat meeting on 6th May.
- Ofwat asking for revised plan, gap analysis and for their financial model to be populated.



Board Involvement and Assurance

- Continued INED interface at CCG.
- Comments on SCP evidence and revisions to our outcomes.
- Sign-off of revised plan and the SIM data for 2013-14 is needed at the next Board meeting.
- Future Board statements to expand on evidence of assurance. Our updated Governance Code is relevant.
- N.b. RBR scores now all “B” in this area for SSC.



Conclusion to current position

- Whilst we have not had the Draft Determination, we are very concerned at emerging risks to financial security of the business. We worked very hard to submit a Business Plan with zero price change. Subsequent Ofwat moves:
 1. Risk and reward guidance (lower WACC): £12m
 2. Totex: £11m
 3. Retail (ACTS): £10m
 4. SCP: £8m
 5. Legacy and financial model: unknown
- Funding shortfall of circa +£8m/year would lead to wide ranging implications (staff, investors, risks to service, discretionary spend)
- Imperative our representations to Ofwat overturn this damaging position. Scope to cut is limited relative to others.

