South Staffs Water

incorporating

CAMBRIDGE WATER COMPANY

Response to the PR14 Draft Determination

3rd October 2014

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The following supporting evidence is all referenced within this document. We have enclosed these as separate files with our submission.

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1. Overarching Board Response to the Draft Determination

We note and welcome Ofwat's recognition concerning the improvements to our plan represented by the submission we made on 27th June. We have also carefully considered the areas in which you have intervened to protect the interests of customers. We have reflected on this and our response is made with this in mind. We are making further representations only in respect of matters where we are able to present new and significant arguments or in a small number of cases where we believe your treatment of our plan is inconsistent with that of other companies and may result in detriment to our customers.

We have consciously avoided sending in a long DD response that simply repeats messages and values from our business plan and subsequent updates. In some areas of this paper we are responding to the specific requirements and further information requests that Ofwat specified in the DD. We are pleased that there are a number of areas of our plan where there is broad agreement and so regulatory intervention has not been required. In responding to the limited issues requiring further consideration for the Final Determination to protect customer's interests, we are not pursuing the following issues further:

- In terms of the company specific WACC uplift, we are not pursuing the cost side further (specifically our embedded debt cost position) – our response is just focussed on the benefits side.
- In terms of wholesale totex, we are no longer pursuing the adjustment for traffic permits.
- In terms of retail costs, the additional new retail costs that were disallowed are not pursued further.
- For Ofwat's interventions on Outcome Delivery Incentives (ODIs) – all but one are accepted (we have one issue with the supply interruptions ODI)

For retail, our inflationary claim has been substantially revised and scaled down significantly in response to Ofwat's challenges on this.

Our most significant issue to be resolved relates to the retail household price control.

Our projected AMP 6 retail cost base is £90m in household retail, of which, in the draft determination, Ofwat only proposed to fund £70m. This 22% retail revenue gap compares to an industry average position of 8%. We acknowledge that we are behind the industry average cost to serve and we are proposing significant measures to try and bridge that gap over the forthcoming AMP. We cannot, however, identify sufficient efficiencies to fully close the projected gap. We do operate within a deprived environment and we present further and new evidence to support this claim. We believe firmly that we will suffer input price inflation which outstrips our ability to extract efficiencies. We therefore present a new and greatly reduced claim in this area. We believe that our revised claims do protect the interests of customers through stretching efficiencies but also protects the excellent level of customer service we provide coupled with our debt collection performance in a deprived community.

Whilst retail cost control and funding of the remaining gap is the largest area for us in this DD response, we have two other issues where we believe we have sound and new evidence to justify a further review from Ofwat. These issues are:

- The approach to CBA for our company specific WACC uplift – we provide new evidence to demonstrate our leading SIM performance brings comparative benefits that make our CBA positive (an NPV benefit of £16.8m vs a cost of debt NPV of £9m, at 15 basis points). Ofwat's DD's analysis has been restricted to comparative totex efficiency only.

- On wholesale totex, we believe that for our circumstances, i.e. the 3% totex gap, the materiality tests are flawed, so our claim for power costs was never fully considered. The evidence of this claim is very strong based on the very different circumstances we face due to our topography, a factor outside of our control. This topography leads to power costs being the highest percentage of totex in the industry which the wholesale model will not fully reflect. Supporting evidence is provided on our strong efficiency here to clarify it's the topography rather than inefficient costs that make this the highest proportion.

In this response to our DD we focus on these three principal issues and in each case we present new evidence and further efficiencies in order to protect customer interests.

2. *Summary of key representation issues*

The following table, as requested by Ofwat, represents our key issues and a short summary. It is not the complete list of representation items, some of which are technical detail.

Area	Issue	Page No
Retail costs	The 22% revenue deficit is our main concern. Two related issues are noted below (debt claim & IPP).	4 and 7
Retail costs	Bad debt claim – this remains at £4.2m with representations focussing on the full range of evidence to assess deprivation levels, which we consider Ofwat's DD does not fully reflect.	13
Retail costs	IPP claim has been reduced from £6m to £2.4m to reflect the remaining gap once significant retail efficiencies are progressed.	19
Company specific WACC uplift	A report from *Frontier Economics* is provided. New evidence is presented on the benefits arising from our comparative SIM position (1st place and improving).	29 + annex 3
Wholesale totex	Materiality issue – we provide evidence that unless the materiality test is changed, SSC would never have a company specific adjustment to totex considered. Hence the power claim (below) was never fully considered when setting the DD. An alternative materiality approach that we consider to be fair is presented.	32 + annex 6
Wholesale totex	Claims for power costs (pumping head) and supply resilience, with an emphasis on the power claim. This power claim would provide an extra £5.8m (1.4%) of totex, with SSC still above Ofwat's totex threshold but the gap at 1.8% (not 3.2%).	34 + annex 7
ODIs	Representations on the imbalance on penalties for supply interruptions. All other ODI changes are accepted.	46

Our DD response also includes two separate external assurance reports from *Deloitte* that were requested by Ofwat relating to cost allocation and to financeability.

<u>Confidentiality</u>

We do appreciate the importance of transparency in the regulatory process and fully support your objectives in this area. With reluctance therefore, we are requesting that redactions are applied in one area of our submission which we have discussed with Ofwat and will confirm separately.

2.1 Primary Issue: Retail Household Control

The retail household price control represents a 22% projected funding deficit at the DD stage, compared to an industry average of 8%. This £20m gap is on top of the efficiencies that are already built into our AMP6 plans.

We have considered carefully the challenges presented to us in this overall area and our responses set out here represent a significant further step towards the overall gap as we see it.

Firstly, we will present further ambitious efficiency plans in respect to our input price inflation claim. In August we sought support for input price inflation in our retail function of £6m. You challenged us strongly on behalf of customers, rejecting this claim. We have taken further and more significant steps and this has resulted in a reduced claim of £2.4m which we now present. [redacted]

The reduction in the claim from £6m to £2.4m can be summarised in the following table that is evidence of the increasing level of efficiency challenge that we are committed to progress in response to the price review:

Area under review	Per Annum (£k)	Total AMP6 (£m)
Original Inflation Increase, less debt claim		£8.31m
Original Efficiencies		£2.68m
Original Indexation Claim		£5.63m
Proposed Efficiency - [redacted]	[redacted]	[redacted]
Proposed Efficiency – Other Operating Costs	[redacted]	[redacted]
Proposed Reduction – Lower wage inflation	[redacted]	[redacted]
Total of Proposed Reductions	£852k	£3.26m
Revised Indexation Claim		***£2.34m***

This equates to a 77% reduction on our previous claim. We hope Ofwat recognise how challenging we have been when reviewing our operating model and take into account that we have strived to move towards upper quartile ACTS whilst still maintaining our industry leading customer service position. These efficiencies that we are proposing are in addition to those already stated in our original submission of £2.7m.

Unfortunately, these steps together do not resolve the difference between our forecasted costs and your proposed level of funding. You will appreciate that the largest element of costs in our retail base is manpower. Our bought in costs are regularly market tested, or in the case of postage and business rates, are not materially within management's control. Consequently, we fall short of being able to completely bridge the efficiency gap; without it, we argue a real risk to the service we provide to our customers.

We turn now to the second aspect of our claim in the retail household price control. After careful reflection, we have not amended our bad debt claim, which is already at a low value

£4.2m due to our low bill. Rather, we have provided further and new evidence to support our arguments. We expand on why we believe that our deprivation levels are in fact materially worse than accepted by the DD. We believe this additional granularity will enable Ofwat to consider South Staff's position in a more holistic context.

Our DD representations are based on the fact that we consider our deprivation levels to be far worse than the DD has implied (Ofwat describe them as "above average" or "mixed evidence" which we dispute strongly). Levels of deprivation as measured by the established Government metrics are:

	Multiple Deprivation Rank	**Income Deprivation Rank**
South Staffs-Cambridge	**4th worse**	**2nd worse**

2.2 Issue 2: Company Specific WACC Uplift

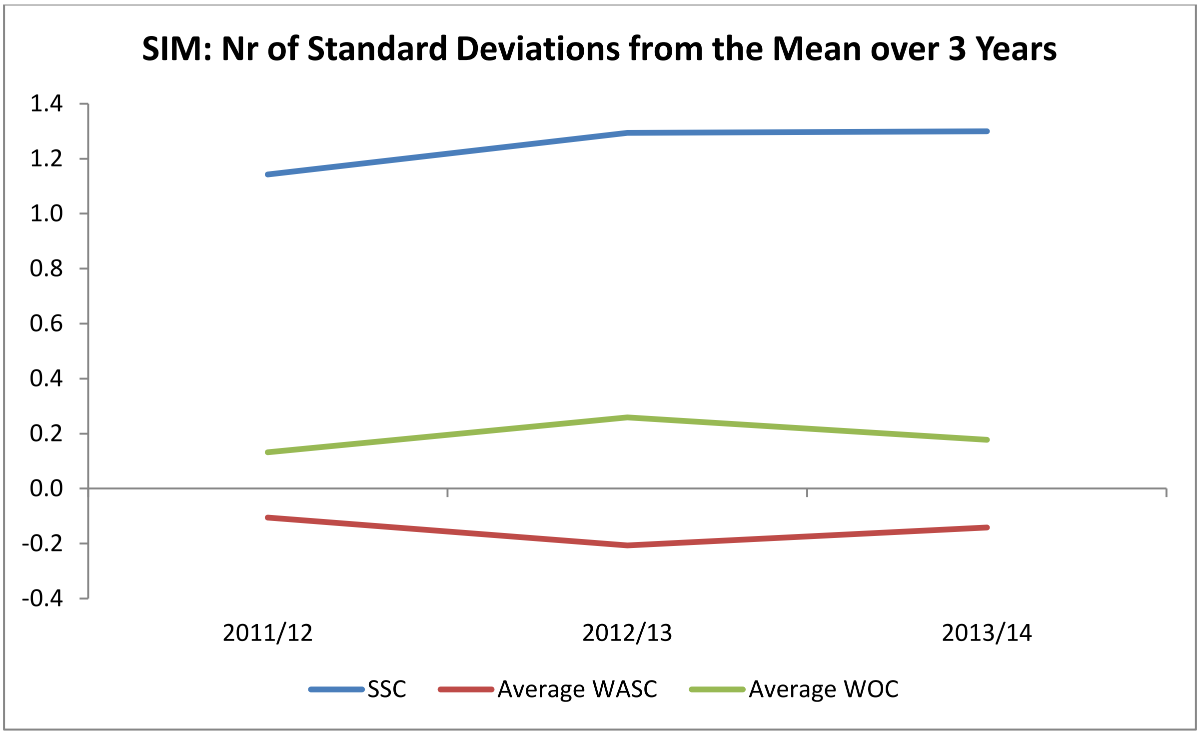
We present new evidence on our comparative SIM benefit, which in NPV terms yields a customer benefit of £10.9m at PR14 (rising to £16.8m over the longer term), a figure that outweighs the £9m 30-year NPV of a company specific WACC uplift at South Staffs of 15 basis points. Our CCG have also recognised the comparative SIM benefit that we bring.

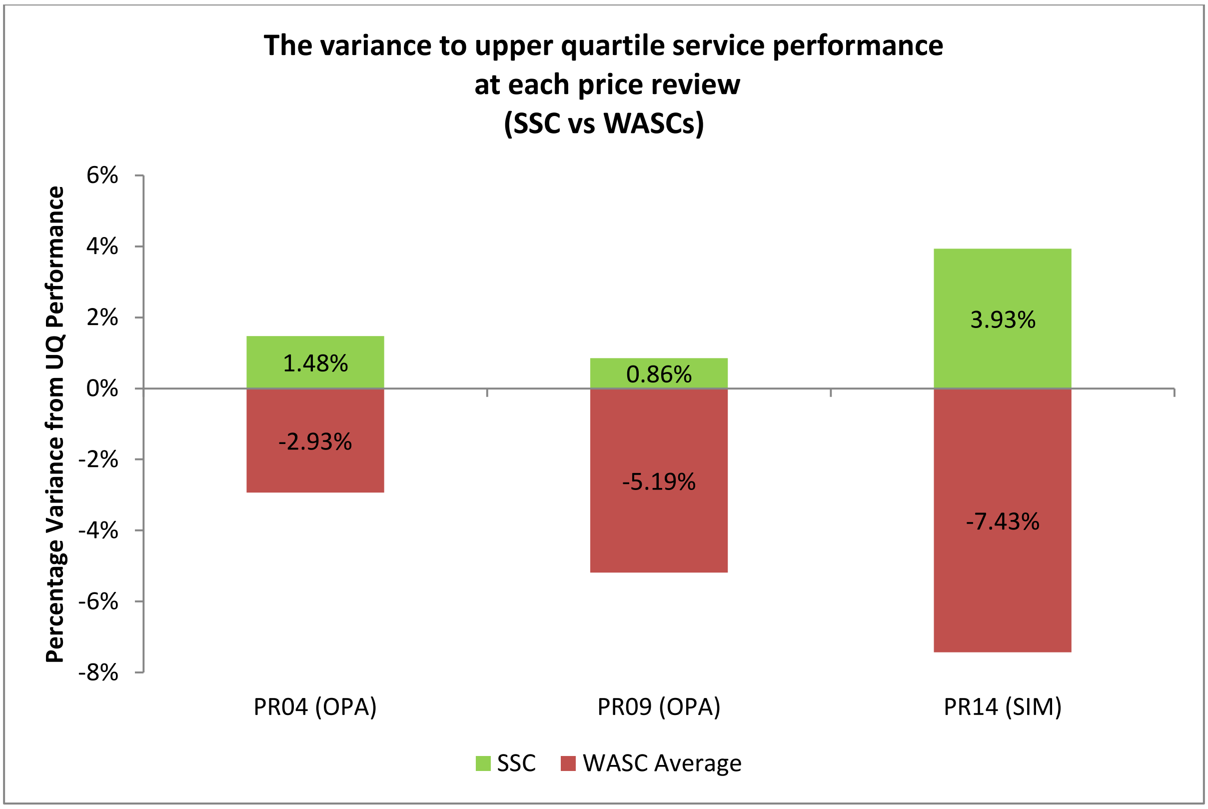
Our representations focus on the benefits case, and in particular our specific evidence of a long term and valuable service differential and benefit to our customers and to the industry (therefore all customers).

In terms of the cost side, whilst our Board constrained the proposed debt premium below actual costs when submitting our claim for the continuation of a 0.40% SCP and continue to believe this is a reasonable position, our representations focus on the broader range of comparative benefits that we bring to the sector. The embedded debt costs will continue to be incurred in AMP6, but our representations now focus on the benefits case.

We have attached a report from *Frontier Economics* to support our stance that long term service benefits are evidenced and that these are very relevant to the benefits case from small companies. Specific to South Staffs, we are leading the sector on SIM and have an improving SIM trend.

The following two charts show our relative and absolute SIM performance is improving and also that the evidence demonstrates improving trends were also evident on the previous OPA assessment, showing our track record of consistent high service over the last 15 years, which the last three price reviews have acknowledged.





We believe that the DD did not fully account for the benefits of our long term service excellence. The approach taken by Ofwat has been based on WoC and WASC average positions in assessing the general benefits of small companies rather than our unique position.

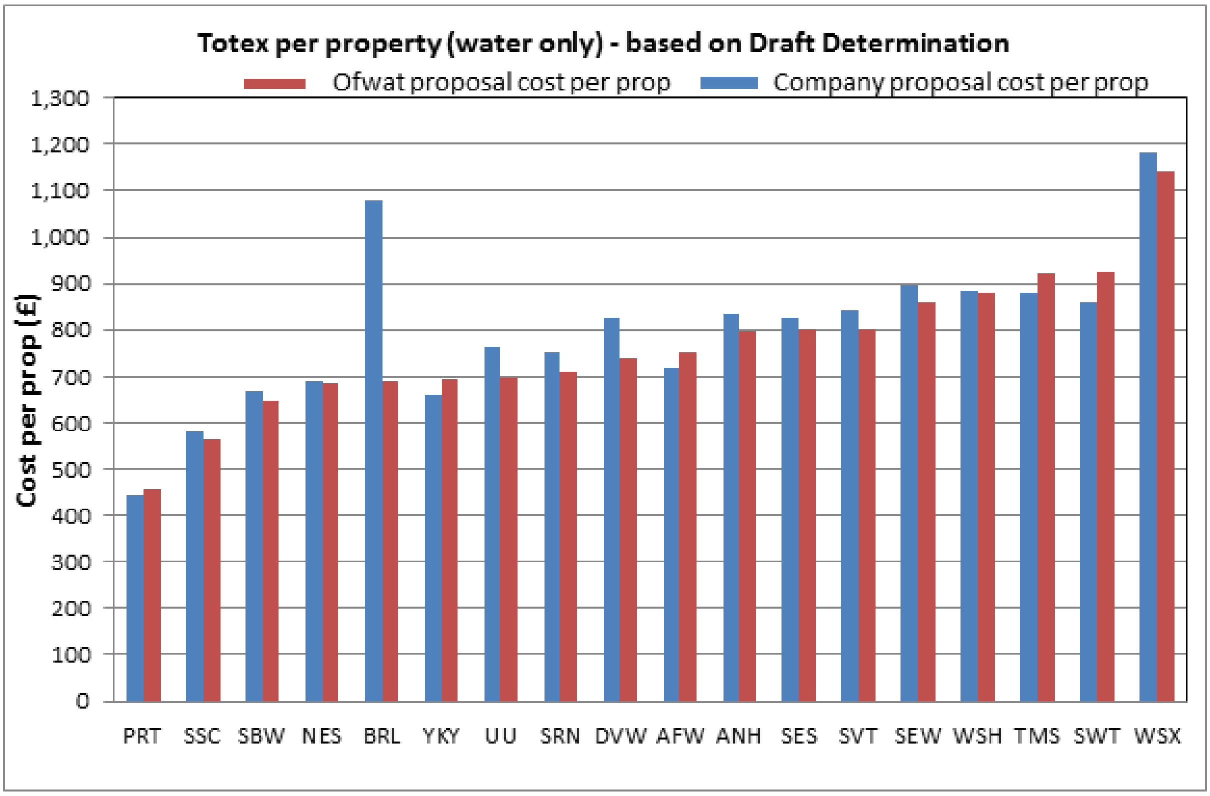
The issues of convergence of service levels may have some evidence when referring to averages, but not in the case of South Staffs who have not only been a high service company for 15 years (evidenced by the last 3 Price Reviews), but have actually moved further ahead of the industry's upper quartile position and average position with the relative PR14 rankings/scores. We provide evidence in this DD response of these long term service benefits and the fact our position is improving further from UQ rather than converging towards the average position. Further, there is evidence the WASCs are deteriorating relatively as the sector improves.

The Frontier report is not limited to our comparative SIM benefits; analysis of the wider benefits assessment relating to our totex efficiency and also precision benefits in the modelling are presented. Each of these strands alone also, like SIM, yield benefits that exceed the cost of a 15 basis point WACC uplift for SSC.

Due to our low RCV, the impact of 15 basis points on our customer bills is only 70 pence.

2.3 Issue 3: Wholesale Totex Presentations (inc Power claim).

Whilst the DD wholesale totex gap of 3% could be seen as reasonable, this needs to be considered in the context that we will have the 2nd lowest totex allowance per property, and for power costs the highest relative level in the industry – yet the DD does not reflect this. Hence, our efficient but high power costs are the focus of our totex representations.



On power costs, our relative industry position is as follows:

	Average pumping head (topography)	Power as % of totex	Power efficiency
SSC rank (out of 18)	**2nd**	**1st**	**1st**

Power costs are materially different due to the topography in our area of supply, which is outside of management control. The wholesale model will not fully account for this, and in showing our power costs are efficient, it is appropriate to adjust for this unusual operating condition. We estimate an adjustment of £5.8m, equivalent to 1.5% of our totex.

To date, Ofwat has not assessed our claim for a company specific adjustment to the totex models due to an initial materiality issue, linked to how implicit allowances in the model are calculated. Our representations clarify why we believe that this is not appropriate and recommend an alternative approach that is fair and consistent.

Other Points to Note in SSC's Response to the DD

In terms of a short summary:

- Ofwat requested that we undertake external assurance on 1. Financeability; and 2. Cost Allocation. Separate reports from Deloitte's are provided to facilitate this.
- Retail cost allocation tables are updated to reflect the latest guidance and the queries received. The Deloitte assurance review reflects these updates.
- We provide analysis to confirm 2014-15 asset serviceability remains stable (hence no short-falling is warranted).
- Information is supplied to address the RCM legacy adjustments made by Ofwat relating to back-billing and AMP5 new connections. The legacy adjustment is lower compared to the June business plan update.
- Our response to Ofwat's ODI adjustments is restricted to the large penalty attached to the supply interruptions ODI, which contributes to the imbalance of rewards (0.7% of RORE) and penalties (2.0% of RORE).
- The bill profile adjustments in the DD are acceptable.
- Our preference is to opt for a two-year non-household price control period.
- We do not propose any adjustments to our PAYG and RCV run-off rates.

We have been committed to addressing the shortcomings in our plan and this response seeks to support this.

Board Assurance

The Board of Directors met on 25 September 2014 to consider the Draft Determination and our response. The Directors have subsequently been actively involved in reviewing and supporting this response. This response reflects the Board's focus and opinion with all steps having been taken to furnish the Regulator with accurate and reliable information to accompany this response. The response includes reports from *Deloitte* on cost allocation and also on financeability; and a report from *Monson Engineering* that verifies our approach to totex allocation. There is also a report from *Frontier Economics* that the Board has authorised relating the company specific cost of capital uplift.

CCG Engagement

The Company met with our Customer Challenge Group (CCG) with representatives from both regions on 22nd September and they are sending Ofwat a short note that summarises their perspective on the Draft Determination and where they feel changes should be considered to support customer protection.

3. Household Retail Costs: Bad Debt Claim

3.1 Deprivation Levels

The Company is convinced that the high levels of deprivation amongst our customer base are a major contributor to our retail CTS being above average. Affordability issues for customers are assisted by our low average bill. Whilst the low bill does partly offset the deprivation problem, we incur higher costs due to operating conditions outside of management control through a need to work harder to collect the debts and also through a debt write-off charge that is higher than it would be without these high levels of deprivation.

The DD does not fully reflect our high levels of deprivation. Ofwat has used a variety of assessments of deprivation levels which we have helpfully discussed following the receipt of the DD. In terms of the two primary Government indicators our position is:

	Multiple Deprivation		Income Deprivation	
	Score	**Rank**	**Score**	**Rank**
South Staffs-Cambridge	24	**4th worse**	0.17	**2nd worse**
Industry average	19		0.13	

n.b Ofwat has suggested our income deprivation rank is 3rd highest rather than 2nd, but no data has been provided to support this and all data in the various claims from companies made to Ofwat refers to South Staffs as 2nd.

Hence, we struggle to determine how we can be assessed as anything but serving a deprived customer base, as recognised at previous price reviews. These are recognised as the main indicators of deprivation.

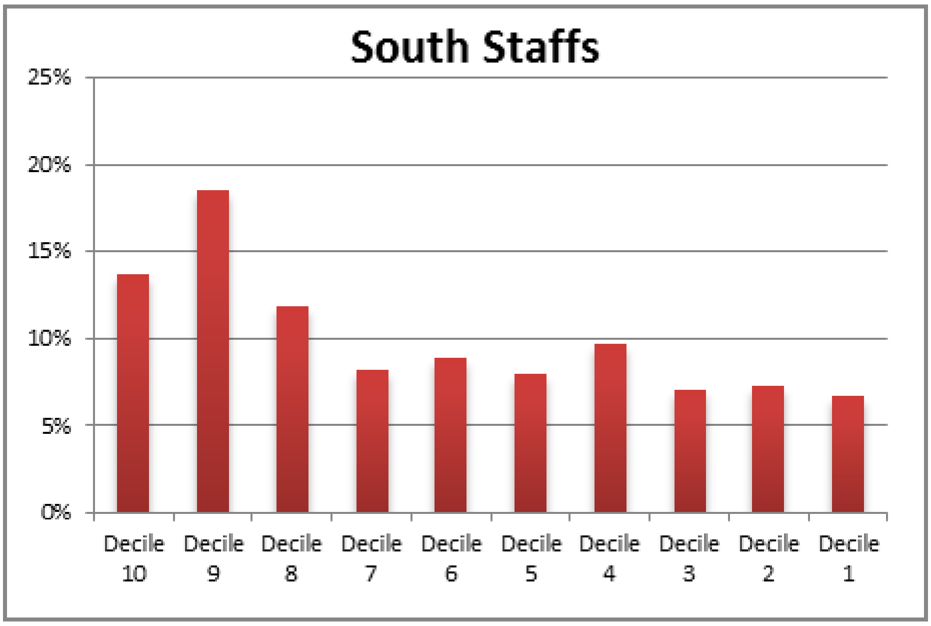
We are aware that Dwr Cymru developed an alternative indicator. This has limited relevance for the following reasons:

- It is not a recognised metric, but one that Dwr Cymru needed to use due to the limited coverage of the above Government metrics in their area of supply. To consider this as valid information in other regions does not seem appropriate.

- The metric is based on claimant's out-of-work – yet deprivation is not restricted to those without work. There is a widespread understanding that people in work can still face severe financial hardship, it is not restricted to those claiming benefit.

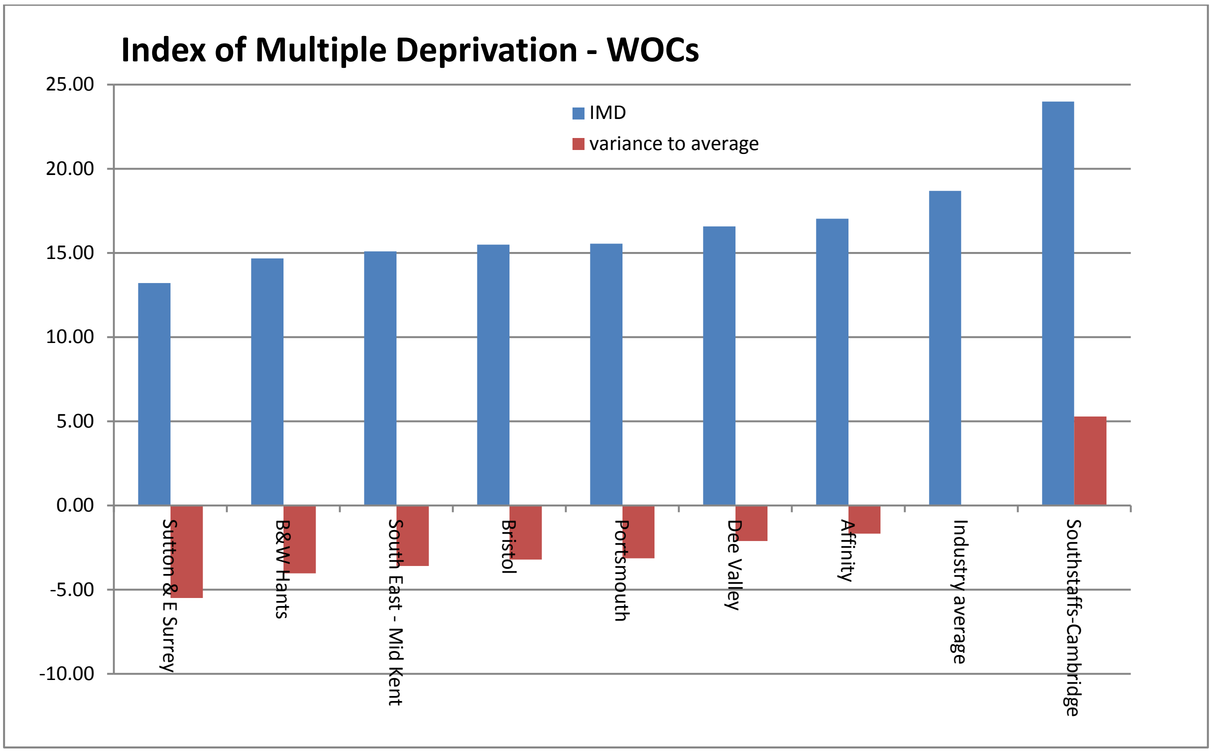
- The dataset for South Staffs has not been verified, which does not assure us on the data accuracy given the position is at odds with other recognised data.

We are also aware that United Utilities and others also examined the *Experian* data relating to extreme levels of deprivation. Ofwat's approach has been to consider only the top 10% decile, whereas the South Staffs region has an unusual pattern insofar as there are high numbers in the 9 decile, as shown below, which Ofwat will not have reflected to date:



We urge Ofwat to consider the full dataset rather than a simple focus on the 10 decile, which in our case is not representative of the full extent of deprivation in our region. For example, if you sum the 9th and 10th decile, South Staffs has the highest levels of extreme deprivation. We believe this could have been a rational approach to take and is relevant data to consider, which was not undertaken at the DD stage.

<u>Comparison of South Staffs-Cambridge to other water only companies</u>



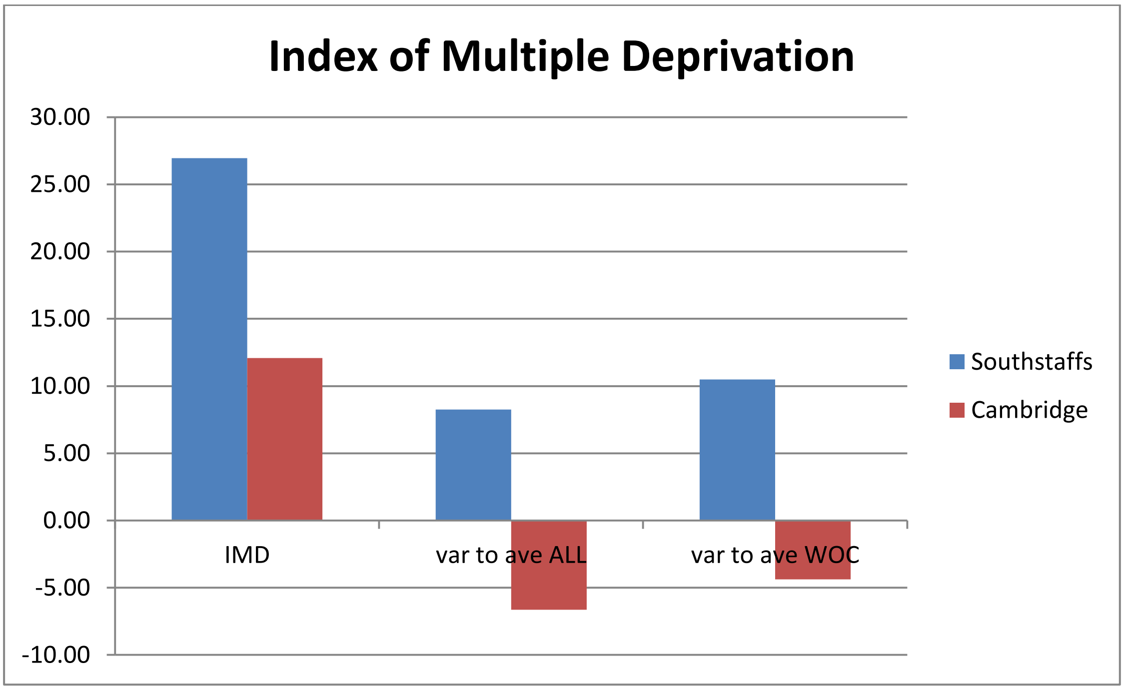
The graph above illustrates the unique conditions under which SSC operate when compared to the other water only companies in the industry. All seven of the other WOCs are subject to below industry average levels of Multiple Deprivation. SSC is clearly subject to above average levels of deprivation (28% higher) which will impact SSC in a materially different way to other companies.

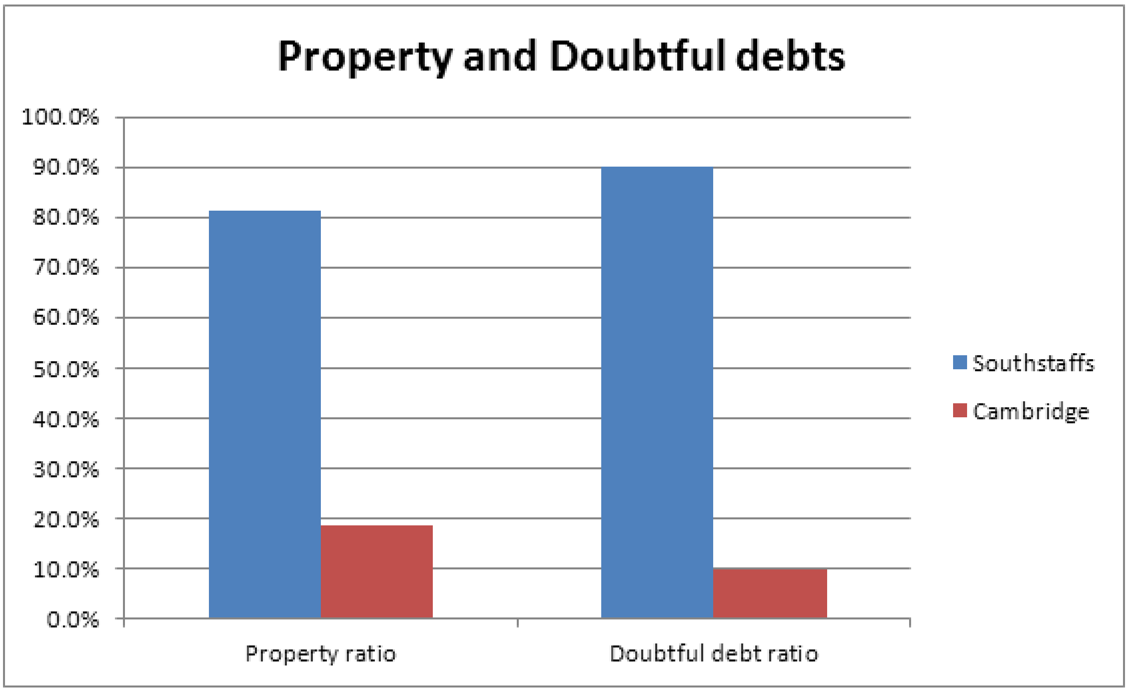
South Staffs vs. Cambridge regions

SSC serves two distinctly different set of customers in two geographical regions (South Staffs and Cambridge). There is a significant variance in the levels of Multiple Deprivation within the two areas.

	IMD	Rank ALL	Rank WOC
Southstaffs	26.9	2	1
Cambridge	12.1	19	9
Combined regions SSC	24	4	1

It has been recognised at previous price reviews that SSW served a deprived customer base. This continues to be the case with SSW ranked 2nd worse overall of all water companies (SSC being ranked 4th worse combined). The challenges faced in previous years with respect to collecting debt from a deprived customer base still very much apply within the SST region which accounts for 90% of the total doubtful debts for SSC (from only 80% of the total customer base).

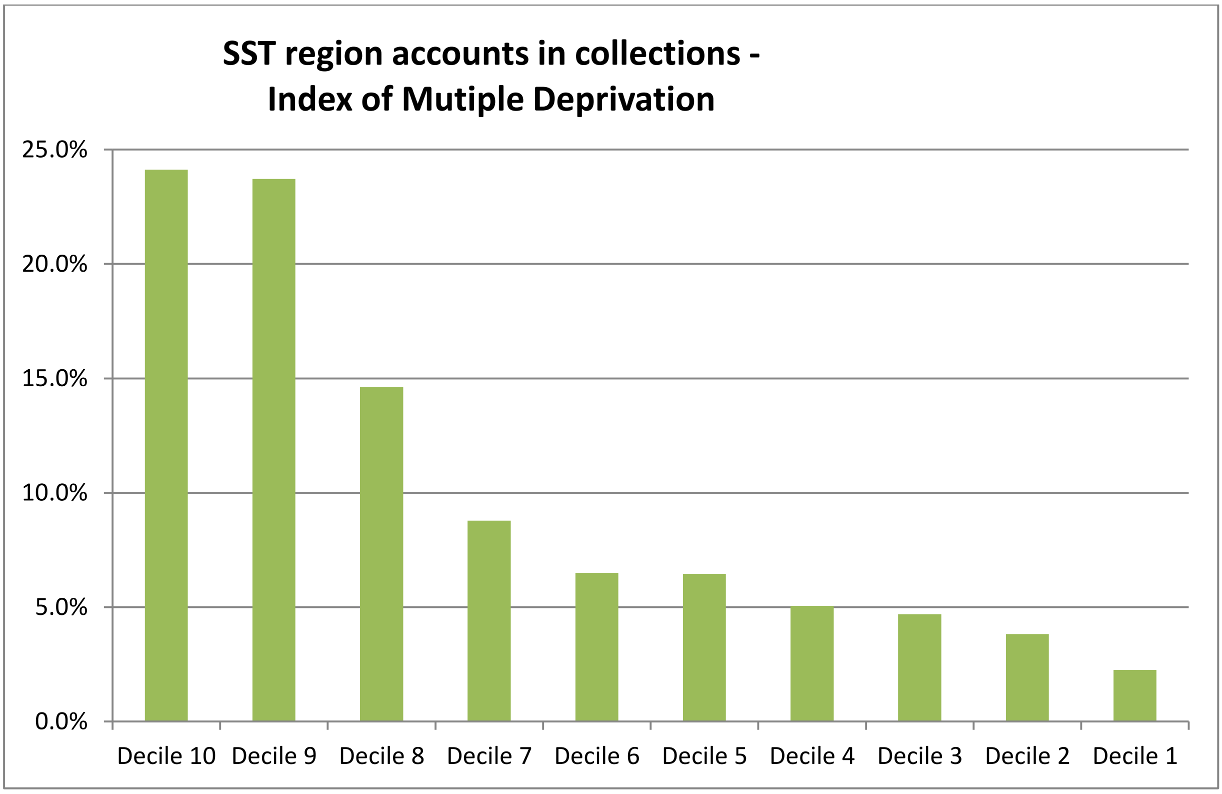




Extreme levels of Deprivation

Further to the South Staffs profile, where the highest proportion of customers is in the 9 decile and South Staffs has the highest levels of extreme deprivation when the 9 and 10 deciles are taken into consideration, analysis of customers subject to collections activity is shown in the graph below.

The impact of high levels of deprivation is clear on the requirement for collections activity to collect the outstanding debt.



47.8% of the accounts subject to collections activity are within the 9 and 10 deciles of Multiple Deprivation levels. This shows that deprivation is a key driver of the customer's ability to pay their water charges (even taking the low average bill size into consideration). This will not only impact the doubtful debts but also lead to higher debt management costs as increased collections activity is required to collect the outstanding water charges and minimise debt write-off levels. Further, the Company will incur additional costs as customers use more expensive payments channels, for example regular small installment payments through *Paypoint*, which we subsidise to encourage payment since annual volumes of payment transactions through this route exceed 700,000, making it our second most significant payment channel after Direct Debit.

Summary of Deprivation Evidence

The deprivation data for South Staffs is not "mixed", it does, however, show consistent and strong evidence of high deprivation that will impact on us in a materially different way to other companies, a factor outside of our control.

3.2 Average Bill Implications

At this price review, for the first time Ofwat has decided to incorporate modelling based on the relative levels of average bills, noting if these are high this contributes to high debt and conversely in our case the low bill leads to favourable operating conditions. We are not suggesting the logic is flawed, but we have very serious reservations regarding the robustness of the modelling and, in particular, whether this works for a water only company (South Staffs is the only WoC with high deprivation so the only WoC making a bad debt claim to Ofwat at PR14).

The modelling of average bills does not work for a water only company since:

- Our average bill of £140 (water only) is modelled/compared with 10 WASC bills of £330-£500 (combined service).

- The concept of the unique customer (with a denominator of 1.3 for the WASCs) is non-logical for bad debt write off. There are no marginal costs here, unlike other retail costs. The correct denominator would be closer to 2.0, or slightly higher given that sewerage bills slightly exceed water bills within WASCs.

- There is circularity in the modelling – our low average bill will already influence the relative levels of bad debt costs (which are low due to low bill and our efficiency/effectiveness, but higher than they would be if we had average operating conditions). The relative size of our bad debt claim (£4.2m) hence already reflects our low bill. We have more customers deprived, so when debt cannot be collected and has to be written off, it is a % taken from a lower bill.

It is very important to recognise that low average water bills will not in themselves be a major benefit to deprived families on low income. They will help, but the reality is that such customers will still struggle to pay us and therefore we need to work harder to collect the arrears compared to normal circumstances. We believe It is incorrect to assume that a lower water bill that is £46 lower than the industry average will mean we face favourable or average operating conditions.

3.3 Further Modelling

In our discussions with both Ofwat and economic consultants familiar with this subject (such as *Oxera* and *Frontier Economics*) following the DD, the option of undertaking new modelling to address the average bill problems, as noted above, was reviewed. The feedback was, amongst other things, that further modelling was of some use but was not the full picture; a WoC only model would have a reduced sample and reduced statistical robustness (*Frontier* did work for Severn Trent that confirmed this); and, in all modelling the difficulties in separating out efficiency from the bill impact in reviewing relative levels of bad debt would remain.

Hence, the Company has not commissioned further modelling. The models submitted in our June business plan update demonstrated a very strong correlation within both the South Staffs and Cambridge regions between debt and deprivation levels. We do recognise the shortcomings identified by Ofwat in extrapolating the experience of two water companies to the industy, but we also note these regions are very different in affluence levels. Furthermore, the dataset provided does remove the problem of removing different debt collection practises and efficiency noise which is a major problem with national comparisions of debt levels. Further, we did show the debt/deprivation relationship holds over a number of years that were tested, linked also to our successful bad debt claims allowed by Ofwat at previous price reviews.

3.4 Debt Management Approaches

In the discussions with Ofwat following the Draft Determination, Ofwat explained their detailed review of the effectiveness of management policies to tackle debt and support affordability. The feedback given to South Staffs was positive and so this section of our bad debt claim is not repeated in these DD representations; the position outlined in our June 2014 business plan update remains applicable.

3.5 Implications of Not Allowing our Bad Debt Claim

Our ACTS position is not favourable and this is leading to a £20m (22%) reduction in retail revenue in the Draft Determination compared to our business plan projection. We had already factored in efficiencies in retail, including an ambitious reduction in debt costs in AMP6 as the economy is forecast to improve. Deprivation is a factor largely outside of our control, i.e. high deprivation amongst our customers, rather than retail inefficiency. Without the bad debt claim, our CTS will be above the industry ACTS and hence major efficiencies in retail will be needed. It would not be in customer's interests for cost reductions in retail to compromise our ability to collect future debt in the challenging environment we face. If this bad debt claim is allowed the retail cost reduction in AMP6 would still be very significant for us, for example the claim of £4.2m would lead to a £16m deficit that is 18%, which is still probably not achievable despite the strong management action we intend to progress in response to the PR14 challenges.

4. *Household retail costs: Indexation (input price pressures)*

4.1 Introduction and Purpose

In our June submission we proposed a retail adjustment of £6m over 2015-20 (£5.6m when taking into account our additional debt and deprivation claim). In our submission we evidenced our leading industry customer service performance, and provided independent analysis which supported that our retail function was efficient, together with our plans to improve upon both these aspects. We appreciated Ofwat's feedback and we acknowledge that our retail function is not yet performing at the industry ACTS upper quartile position. Following the draft determination, we have faced some difficult challenges and are proposing some fundamental changes to our operating model to strive for an upper quartile ACTS. These proposed changes are significant in moving us towards that position, with the revised indexation requirement now standing at just £2.34m, a reduction of £5 per property over 2015-20. The purpose of this paper is to demonstrate how we will deliver those efficiencies, together with identifying that even with these efficiencies there is still a funding gap.

In the draft determination, published by Ofwat in August, feedback was provided on our input price pressure claim (retail indexation) that we submitted in June. In the draft determination Ofwat challenged our claim by stating that the proposed adjustment of £6m over 2015-20 was not evidenced to be outside of efficient management control, or that we had effectively demonstrated that we were materially different to other companies. On these grounds the claim was dismissed. We believe that this paper sets out the further evidence in order to support Ofwat's review of our position.

The retail household price control represents a 22% projected funding deficit at the DD stage, compared to an industry average of 8%. This £20m gap is on top of the efficiencies that are already built into our AMP6 plans.

The summary below defines the actions we have taken to mitigate the effect of price pressures, to be further detailed within this response. These are in addition to those included within our original June submission.

- [redacted] We clearly demonstrated, through benchmarking, that Echo is efficient, and are pleased that Ofwat accepted this. [redacted]

- In our original submission we successfully demonstrated that Echo was an efficient business, not just within the water industry, but when compared across difference sectors. [redacted]

- In our original claim we looked to use an inflation index that is specific to the call centre industry as our inflationary indices. However, following challenge from Ofwat, we have reviewed this and our claim is now based on the same inflation index as used by Yorkshire Water.

4.2 External Scrutiny and Support

For this submission we have not commissioned any additional external scrutiny of our revised claim. The original reviewers were supportive of the claim we made in June and therefore as we have significantly improved on that position, we believe that their original assessments still stand.

Sabio is a specialist provider of integration, consultancy and customer management, contact centre and operational strategies working across multiple sectors. Their client's include Brewin and Dolphin, Business Stream, Eurostar, Greater Manchester Police, Sage, Scottish and Southern Energy and the Yorkshire Building Society. They have reviewed our operating practices and consider that our retail functions provide leading customer services in an efficiently. The full document was included within our original submission.

Oxera were also commissioned to review our original claim, the full document was included within our original submission, however key statements include;

The company requested that *Oxera* carry out a peer review on the retail cost indexation claim presented by this paper. *Oxera* has considered the merits of our claim and their conclusion is provided below.

- '*SSC's argument is that its leading position (combining cost and level of service performance) disadvantages it in attempts to absorb future input cost inflation.*
- *Based on Ofwat's benchmark definition of average cost to serve and its strong performance on SIM, combined with SSC's pay benchmarking evidence outside the water industry, SSC has a robust case.*
- *SSC needs to pay the market rate for the particular occupation, so wage inflationary pressures are primarily outside management control*
- *The evidence indicates that SSC is relatively efficient in retail services. As such, SSC's potential to offset external input price inflationary pressures by improving its efficiency is limited primarily to frontier shift improvements, with potentially some, but limited, potential to catch-up.*
- *By definition, SSC's relatively efficient overall performance implies that other companies are relatively less efficient and thus have more potential to improve their performance and thus offset or absorb any input price inflationary pressure. That is, SSC's potential to improve its efficiency is limited compared to most other companies and, thus, it is materially more affected by input price inflation.*'

4.3 Efficiency and Service – [redacted]

We believe that our retail function delivers high levels of service and efficiently to customers and benchmark favourably against retail operations in other sectors. [redacted]

As detailed in our June submission, an external independent customer service operational specialist, *Sabio*, carried out an operational efficiency review of the retail functions within the company's two regional service centres, Walsall and Cambridge. The review concluded that the Walsall retail operation was already highly efficient and operating within the upper quartile for the UK call centre industry as a whole and not simply against water retail operations.

Therefore we are proposing to;

- [redacted]

- [redacted]

[redacted]

[redacted]

[redacted] These include;

- [redacted]

- [redacted]

- [redacted]

- The opportunity to align payment methods for our customers. Currently, within our Cambridge region, customers have the opportunity to pay at the post office and we cover the charges associated which equates to a direct saving for our customers of, c£1.50 per transaction. Whilst customers can pay at the post office within the SST region, the costs are not covered by the company. However, the SST region does offer additional payment opportunities, such as PayPoint. Providing one common approach, i.e. PayPoint could realise savings of £25k per annum, however, customer consultation would be required to ensure that any changes do not impact upon our customer's payment experience.

[redacted]

4.4 *Efficiency and Service – Review of Existing Retail Activities*

[redacted], we also carried out a further review of all of our retail functions. Whilst we believe already efficient operations makes it more difficult for us to manage cost increases, we felt there may be some limited options to improve on our already excellent position. These include;

- [redacted]

- Reviewing the PayPoint option. We have carefully considered our PayPoint payment mechanism. For us to provide this service to our customers currently costs £200k per annum. The service provides an alternative method of payment to our customers and is well utilised, c£23m per annum, with an average transaction of c£32. Not providing this function, due to the deprived nature of the Walsall region is likely to incur a detriment to debt levels and will impair our customers payment experience, therefore whilst we have considered the removal of this payment facility as an option, we do not believe it is prudent to take this forward.

[redacted]

4.5 Inflationary Factors – Review of Wage Inflation

In our Draft Determination, Ofwat challenged the inflation index that we had used for wage inflation. Ofwat considered that our approach appeared high in comparison with estimates from other companies. For our June submission we utilised research undertaken by ContactBabel, a leading provider of contact centre data and analysis providing research primarily into the UK and US markets. The UK Contact Centre HR and Operational Benchmarking report is based on data from 210 UK contact centres segmented by 11 vertical markets and into three centre size bandings.

Whilst ContactBabel provided data relating to contact centres, we acknowledge Ofwat's challenge that this method of indexation may not be totally appropriate for the water industry. We have therefore revised our assumptions, and followed the approved approach adopted by Yorkshire Water, utilising the OBR's official forecasts and this has reduced our claim by over 2015-20

	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Original Submission %	2.99	3.35	3.12	3.10	2.71	
Revised utilising OBR %	2.59	3.02	3.12	3.09	3.15	
Difference £k						

In addition to the challenge we received from Ofwat on the rate of inflation that our previous method of indexation suggested, external scrutiny from *Oxera* also challenged our method of implantation. The previous data from ContactBabel only forecast the first 3 years of AMP6, we combined this with ONS data to enable us to forecast the full 5 years. *Oxera* challenged this approach. Utilising the same approved method as Yorkshire negates the need to merge two datasets.

4.6 Summary

In our previous submission we demonstrated that in our retail functions we are both efficient and deliver high quality customer service. We outlined our innovative plans for further customer services improvements which would also enable more efficient working practices. However, we have taken on board the challenges made by Ofwat in our draft determination and we have built further efficiencies into our retail operating model.

These efficiencies are significant and pose considerable changes to our operating model. The savings delivered through the implementation of these are c£3.3m over 2015-20, this equates to a 77% reduction on our previous claim. We hope Ofwat recognise how challenging we have been when reviewing our operating model and take into account that we have strived to move towards upper quartile ACTS whilst still maintaining our industry leading customer service position. These efficiencies that we are proposing are in addition to those already stated in our original submission of £2.7m.

Area under review	Per Annum (£k)	Total AMP6 (£m)
Original Inflation Increase, less debt claim		£8.31m
Original Efficiencies		£2.68m
Original Indexation Claim		£5.63m
[redacted]	[redacted]	[redacted]
Proposed Efficiency – Other Operating Costs	[redacted]	[redacted]
Proposed Reduction – lower wage inflation	[redacted]	[redacted]
Total of Proposed Reductions	[redacted]	[redacted]
Revised Indexation Claim		***£2.34m***

We recognise that there is still a funding gap, however this revised claim only equates to an inflationary requirement that averages under £0.5m per annum. We are very concerned that, given our level of current operational and financial efficiency, a lack of recognition of inflationary factors in this area over the AMP6 period will in all likelihood result in South Staffs being unable to maintain our current level of customer service performance. Our customers have clearly told us that this is not acceptable to them. We ask that therefore that Ofwat carefully considers this claim and welcome the opportunity to engage further on this matter and/or respond to clarification requests.

5. Household Retail Costs: Cost Allocation

In response to Ofwat's queries on cost allocation in the Draft Determination, the Company has prepared revised R3 and R4 tables. Any changes from the previous version of the tables are outlined in the following sections below.

The Company has also engaged the services of Deloitte to undertake external assurance of these tables and their report is included as part of our representation.

Specific Ofwat queries in the Draft Determination:

(Please note that all numbers referenced below are in 13-14 prices and are rebased to 12-13 prices in tables R3 and R4.)

Q: *The Company has not allocated most of its doubtful debt charge in line with our guidance. We expect the Company to undertake a cross check of its current allocation of the doubtful debt charge against an allocation based on debt written off.*

A: The Company has undertaken this analysis based on the 2013-14 regulatory accounts and the results are set out below:

Doubtful Debt	**Household**	**Non Household**	**Total**
Old Method Methodology *Outstanding Debt*	3,071	477	3,548
New Method Methodology	3,042	506	3,548
Debt Write Offs	225	50	*275*
Difference	(29)	29	0

The difference between the two methodologies is relatively small. However, the Company has updated R3 and R4 to reflect this.

Q: *The Company has not allocated services to developers, disconnection costs, insurance and power and fleet service between retail and wholesale in accordance with our guidance.*

A: Services to developers – These costs only relate to providing information and administration for new connections. The physical activity is undertaken by a separate department that is directly attributable to wholesale.

Disconnection costs – In the June submission, disconnection costs were allocated wholly to retail. This has been amended in the revised table to split the physical activity of disconnection or reconnection to wholesale. The impact on retail is to reduce NHH costs by £3k.

Insurance and Power – To clarify, only part of the total insurance premium and power costs are allocated to retail and not entirely in retail as stated in the cost allocation tables submitted with the Company's June plan.

The insurance premium is allocated based on the types of insurance (e.g. public or employee liability). However, in reviewing the query, the Company has identified that the Employers/Employees liability has been allocated wholly to wholesale. This has now been corrected and split based on FTE's as per Ofwat's guidance. The total EL charge for South Staffs Region of £71k has now been split £55k wholesale and £16k retail. Of The £16k in retail, £15k is allocated to HH and £1k is allocated to NHH. The total EL charge for Cambridge of £21k has now been split £14k wholesale and £7k retail. Of The £7k in retail, £6k is allocated to HH and £1k is allocated to NHH.

The power costs allocated to retail relates to the share of electricity for the head office site. This has been allocated based on floor space for each building on the site and then by FTE's for the individual departments as the building used for South Staffs Water includes both wholesale and retail employees.

Fleet Service costs – In the June submission, fleet costs have been allocated based on FTE's rather than the number of vehicles. This has now been corrected. The impact is to reduce retail costs by £19k. Of The £19k in retail, £18k has been allocated to HH and £1k has been allocated to NHH.

Q: *The Company has not stated how it has allocated demand-side water efficiency between retail and wholesale.*

A: The Company does not have any operating expenditure in relation to demand side water efficiency for 2013-14 within the South Staffs Region. In the Cambridge Region, £15k has been allocated to retail and this relates to the publication of literature for customers about water efficiency.

Q: *The Company has included a cost of £134k relating to Creative Studio in retail, we do not know what this cost relates to and cannot therefore confirm that is an appointed activity and that it has been correctly allocated to retail.*

A: Creative Studio deals with literature design, marketing and communications for the Company. In the June submission, this was wholly allocated to retail. Their work is in relation to customer engagement and literature and so this has been directly allocated to retail.

Q: *The Company has not stated how it has allocated facilities and grounds maintenance and IT costs between household and non-household.*

A: Facilities and Grounds Maintenance is included in 'Site Central' and allocated on customer numbers. IT costs are included in 'Water Board- Other' and is also allocated on customer numbers.

Q: *The Company has prepared its retail tables on a UKGAAP rather than IFRS basis.*

A: We can confirm that tables R3 and R4 are completed in accordance with IFRS. We note that for this area there are no differences between the two accounting standards.

Other adjustments
Following further review of the cost allocations and cost allocation review undertaken by Deloitte, the following additional changes have been made:

Account Management of NHH customers (B2B)
In the June submission, all these costs were allocated to retail and then split between HH and NHH. As this work is purely account management of NHH customers, this has been corrected so that all of these costs are allocated solely to NHH. The impact is to increase NHH costs by £32k and reduce HH costs by £32k.

General & Support
Following a review of the General and Support cost allocation for the Cambridge region, these have now been allocated between HH and NHH on the number of customers. This has reduced HH costs by £100k and increased NHH costs by £100k.

Customer leakage funded by wholesale
The split of customer leakage costs in table R3 between wholesale and retail was incorrect between lines 11 and 12 in the June submission and this has now been corrected. This reduces HH retail costs by £118k.

HH Metering costs
In the June submission, the Company only included the cost of meter reading on row 27 of table R3.

Following clarification with Ofwat, this has been amended to include all direct costs attributable to a metered customer. This has increased metering costs by £487k as outlined below:

- A HH metered customer in the South Staffs region is billed four times a year compared to once a year for an unmeasured customer. This additional cost of billing of three bills has now been included in metering costs (£344k). A HH metered customer in the Cambridge region is billed two times a year compared to once a year for an unmeasured customer. This additional cost of billing has now been included in metering costs (£105k).

- Given that HH metered customers are billed four times a year, pay on demand customers pay four times a year which incurs additional payment handling costs compared to an unmeasured pay on demand customer who pays twice a year. This additional marginal cost has been included in the metering line (£25k).

- HH metered customers who pay on reminder incur additional costs as they receive four bills. The additional cost of postage and printing of these reminders has now been included in metering costs (£13k).

Summary of changes

The impact of the above changes are to reduce HH retail costs by £0.274m (12-13 prices) and increase NHH retail costs by £0.159m (12-13 prices). Metering expenditure has increased by £0.471m (12-13 prices).

5.1 External Assurance

A report by *Deloitte* who have externally assured our cost allocation approach is provided and has been included within our supporting evidence.

6. Non Household Retail Costs: Cost Allocation

In the Draft Determination, Ofwat set out two areas in non-household retail requiring a response in our representations. These are set out below along with our response.

Cost reductions

'We note that from 2013-14 through to 2019-20 the company is proposing cost reductions of 14%. This is significantly greater than the proposed reduction for the household control. As part of its representations we expect the company to provide us with a clear explanation as to why it expects much higher cost reductions for its non-household retail activities than its household.'

The Company has clarified with Ofwat how the 14% was derived. This is set out below:

Non-Household costs		£m	£m	
		2013-14	**2019-20**	
Total operating costs	R4 L1	1.656	1.680	
Depreciation principally used by retail in RCV	R4 L2	0.042	0.016	
Depreciation principally used by retail not in RCV	R4 L3	0.000	0.027	
Pension deficit repair costs	R4 L4	0.050	0.050	
Services to developers	R4 L6	0.000	-0.157	
Misc. costs	R4 L7	0.000	0.000	
Recharge from wholesale for legacy assets	R4 L20	0.179	0.019	
Recharge from wholesale for AMP 6 assets	R4 L22	0.000	0.027	
		1.927	**1.662**	**-14%**
Deduct services to developers (not a cell for it in 13-14)		-0.157		
		1.770	**1.662**	**-6%**

We believe that the reduction of 14% is not comparable as there is no cell in which to enter a figure for services to developers in 2013-14 whereas there is for the period 2015-20. If this is included as outlined in the above table, the difference is only 6%. The variance is due to the depreciation on legacy assets and the wholesale cross charge on legacy assets reducing over the period as these assets become fully written down. This is partly offset by the depreciation and wholesale cross charges relating to new investment in AMP6.

Opex prior to 13-14

'However, we also note that the company's opex in 2013-14 is significantly higher than the preceding three years. As part of its representations we expect the company to provide us with a clear explanation as to the cost increase, and to explain why the increase should not be treated as an exceptional one-off event.'

The opex information for the years preceding 2013-14 is as per the December Business Plan submission. This was based on the cost allocation methodology at the time. In the December plan, billing costs were apportioned based on the number of customers. In the June plan, 2013-14 billing costs were apportioned based on the number of bills raised but the prior years were not updated to reflect this.

The prior years have now been updated to reflect the June methodology and so are consistent with 2013-14 and beyond. The increase in cost from 2010-11 is 4%.

7. Company Specific Uplift to WACC

We are disappointed that the approach to be taken by Ofwat on this issue has been delayed until the Draft Determination. Specifically, we were not aware that the benefits assessment would rely solely on the wholesale totex relative efficiency position and on the cost side, no company specific embedded debt positions were to be adopted. Our June submission did not focus on the relative SIM position and any corresponding analysis relating to the potential loss of a comparator in this area. Therefore we are now providing this new evidence in our response to the DD.

Our representations focus on the benefits case, and in particular our specific evidence of a long term and valuable service differential and benefit to our customers and to the industry (therefore all customers).

In terms of the cost side, whilst our Board constrained the proposed debt premium below actual costs when submitting our claim for the continuation of a 0.40% SCP and continue to believe this is a reasonable position, our representations focus on the broader range of comparative benefits that we bring to the sector. The embedded debt costs will continue to be incurred in AMP6, but our representations now focus on the benefits case.

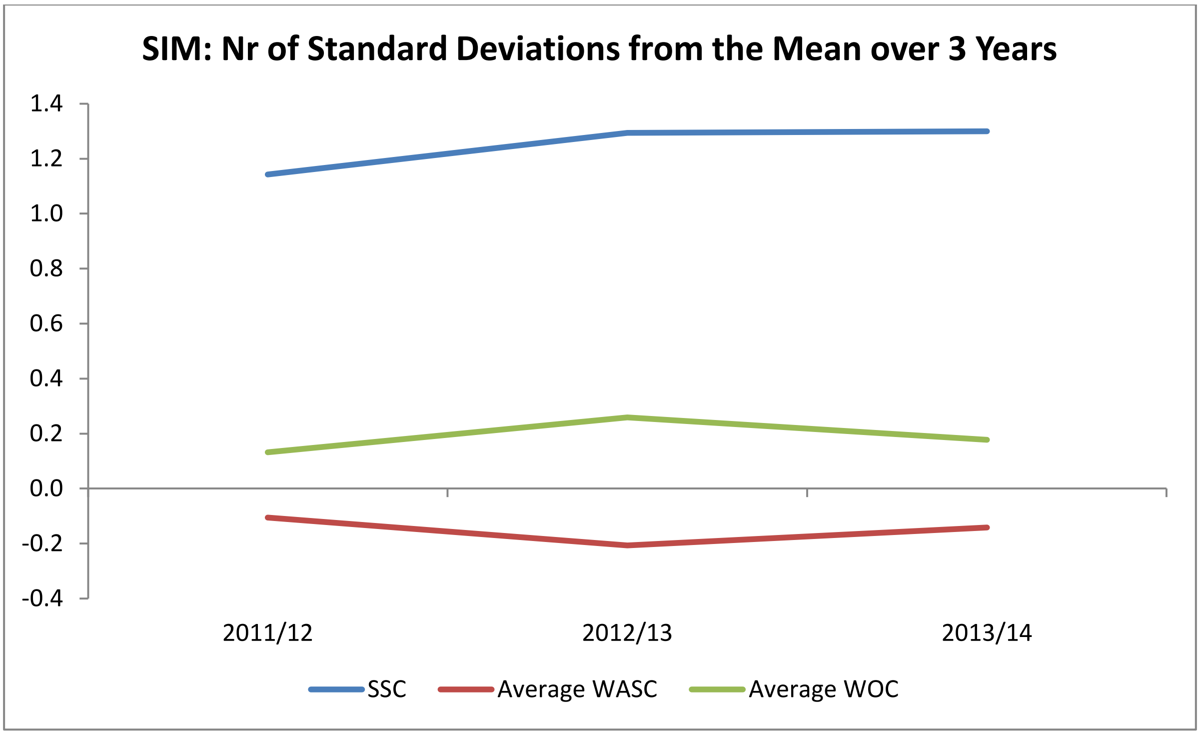
We note that through the query process Ofwat has confirmed at the DD stage our historic wholesale efficiency ranking was 6th, rather than the published 7th, and this leads to an NPV benefit of £1m rather than the published position of neutral (£0m). We hope that our representations on the wholesale totex model adjustments needed for South Staffs, particularly on our efficient power costs, will further improve this position from the totex models.

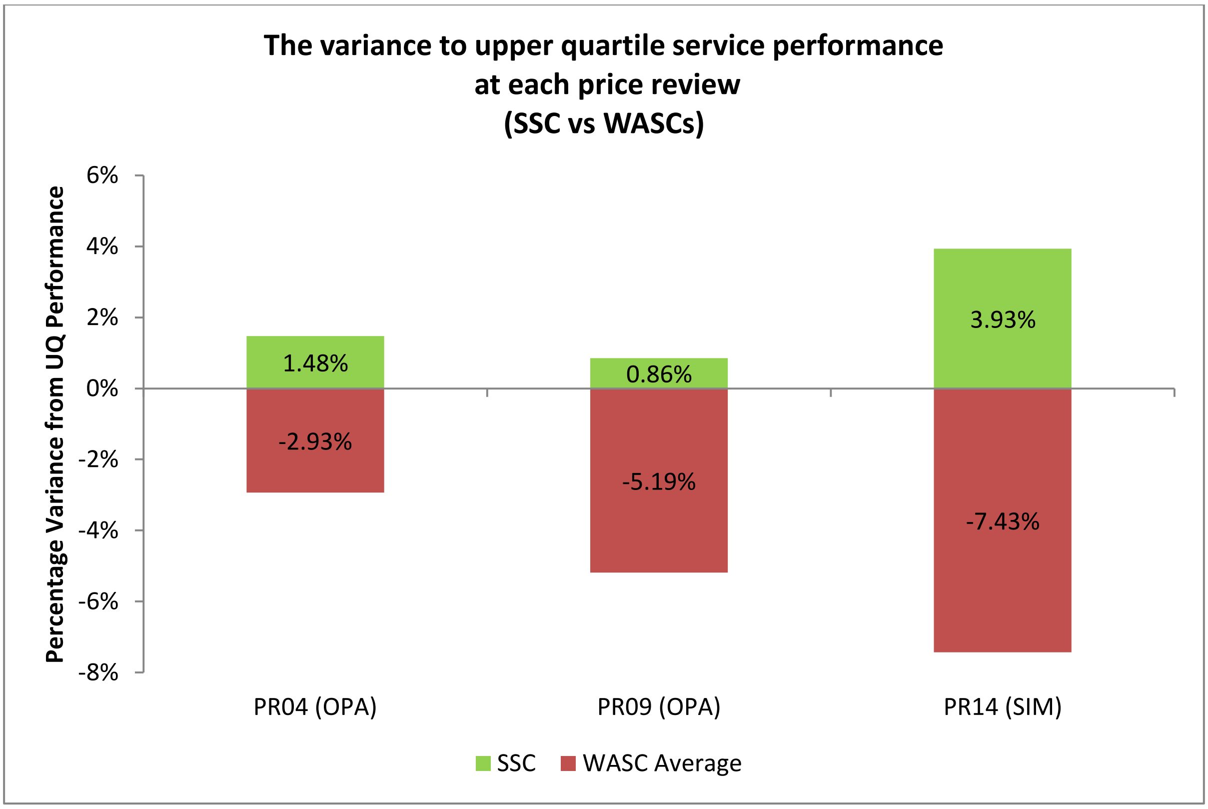
We have attached a report from *Frontier Economics* to support our stance that long term service benefits are evidenced and that these are very relevant to the benefits case from small companies. Specific to South Staffs, we are leading the sector on SIM and have an improving SIM trend. Even with very pessimistic forecasts of our future service, with a low probability of us being above average on SIM in the long term, there are benefits from our comparative SIM position that outweigh the debt costs. The NPV of our current SIM position, secured at PR14, is estimated at £10.9m. This alone exceeds the SCP cost, before allowance is taken of forecast comparative SIM benefits which takes the value to £16.8m.

Our CCG have recognised the comparative SIM benefits to the industry that we bring.

Due to our low RCV, the impact of 15 basis points on our customer bills is only 70 pence.

The following two charts show our relative and absolute SIM performance is improving and also that the evidence demonstrates improving trends were also evident on the previous OPA assessment, showing our track record of consistent high service over the last 15 years, which the last three price reviews have acknowledged.





We believe that the DD dos not take proper account of our long term service excellence. The approach taken by Ofwat has been based on WoC and WASC average positions in assessing the general benefits of small companies rather than our unique position. Furthermore, it appears that in this analysis, Ofwat has not considered the upper quartile benchmark and has referred to average convergence, so this is a different approach to the wider PR14 methodology.

The issues of convergence of service levels may have some evidence when referring to averages, but not in the case of South Staffs who have not only been a high service company for 15 years (evidenced by the last 3 Price Reviews), but have actually moved further ahead of the industry's upper quartile position and average position with the relative PR14 rankings/scores. We provide evidence in this DD response of these long term service benefits and the fact our position is improving further from Upper Quartile (UQ) rather converging towards the average position. Further, there is evidence the WASCs are deteriorating relatively as the sector improves.

8. Wholesale Totex

8.1 Wholesale Totex Introduction

In our draft determination (DD), published at the end of August 2014, Ofwat have allowed a total of £398.6 million for wholesale totex against our revised plan of £411.1 million which we submitted in June 2014.

The difference between our view of our expenditure requirements, as put forward in our plan, and Ofwat's view, as derived from Ofwat's modelling streams and adjustments, is therefore £12.5 million or approximately 3.1% of Ofwat's view.

We are disappointed that Ofwat's views and our own do not coincide more closely given the extensive work that we have put in to developing a strong plan which is delivering against our outcomes. We place highly in Ofwat's efficiency ranking, just missing upper quartile level by less than one per cent, and we have demonstrated that we are industry leading in customer service by placing first in the three year average industry SIM rankings. We have provided detailed evidence of our capex plans and detailed evidence behind some of our more significant operating costs, such as power. We have the second lowest totex per customer and we are the closest company to the CIS neutral position in this price review, demonstrating that we have close control over our expenditure and only spend on what we need to maintain service.

In submitting our plan in December and again in June, we have undertaken extensive internal rationing of the capex requirements and set our own efficiency target three times greater than at PR09. Whilst we still seek to outperform the plan, the totex gap we have, £12.5 million, is a material amount to SSC and is too large to bridge given the company specific needs that we have for the next five years, for example, our topography which we cannot change, and the increased capital spend on maintaining resilience for MNI assets that our customers support.

For this final phase of the price review, we ask Ofwat to consider our specific company conditions. The models have come close, but we need to close our totex gap to ensure that we receive the funding we need to continue giving our customers industry leading services. The detailed justifications we have set out in June and now again in this representation are based on robust evidence and we are disappointed that these claims are not appropriately assessed because they fail to meet a materially threshold, for which the calculation does not work for SSC.

We believe our totex gap is fundamentally caused by the following issues:

1. Ofwat's rejection of our reallocation of capital expenditure between the expenditure drivers in table W3 that we undertook for our June submission. Full detail is provided in appendices 4 (explanation) and 5 (external assurance).

2. Our cost exclusion claims for pumping head, safeguarding supplies and traffic permits. We are able to break this particular theme down further:

    a. The circularity present in Ofwat's implicit allowance calculation which is causing our claims to miss the materiality threshold. Full detail in appendix 6.
    b. Our pumping head cost claim (appendix 7).
    c. Our safeguarding supplies cost claim (appendix 8).
    d. Our traffic permits cost claim.

Our assessment of materiality, after challenging Ofwat's circular calculation, shows that our traffic permits cost claim is not material (appendix 6). Therefore we will make no further representation on this claim.

It is important that we emphasise our power claim as our power costs are the highest percentage of totex of all companies and driven by the topography of our area which is materially different to most companies and is outside of our control. We have extensively demonstrated efficient use and procurement of power in previous price reviews and in this price review, and we have the lowest £/Ml/m in the industry.

Our calculations show that our topography drives an increased power cost of £11.25m over what costs would be at industry average pumping head. We have had difficulty demonstrating materiality of our claim because of Ofwat's calculation which has some circularity, and because we have a small gap to B value. Ofwat assessed the materiality of our claim at 0.4% which, given the significance of power costs to our base costs we consider some relaxation of the 0.5% threshold in this circumstance would be sensible. However we can also demonstrate, using a modified materiality methodology that removes the circularity, that this claim is above the 0.5% threshold (appendix 6).

After an implicit allowance and allowing for triangulation across the modelling streams, we request that Ofwat allow an adjustment for power costs of **£5.83m** to our wholesale totex (full calculations shown in appendix 7).

8.2 Capital Cost Reallocations on Table W3

The W3 tables provide a means to allocate capital maintenance expenditure to various service drivers. Initially, in our December 2013 submission, we did not fully consider that some projects have multiple drivers and benefits and therefore correct allocation was not sufficiently represented. For our June submission we revisited this allocation and made corrections where appropriate. This has resulted in a slightly different allocation between the categories.

Unfortunately due to an oversight in the run up to the June submission we neglected to provide our commentary document which detailed the reallocations that we made. This led to Ofwat rejecting our reallocations in the draft determination. The previous incorrect allocations from the December submission were used.

As part of a query following the Draft Determination we have provided Ofwat with the supporting documentation detailing the individual changes and naming the specific schemes which these changes relate to. For the full table of our changes please refer to appendix 4, which is included within our supporting information.

We have sought third party assurance on our reallocations from Mike Reid of *Monson Engineering*, our previous company reporter and who has provided assurance services on other parts of our plan. His report is included within our supporting information (annex 5).

We believe that the reallocations have been made in the correct sprit of the cost driver lines and we hope that the following information alleviates Ofwat's concerns about the reallocations. However if there are any residual concerns we would like to ask Ofwat to engage in early dialogue with us to allow us to address these, prior to the Final Determination.

8.3 Materiality Assessment Calculation Concerns

In a query we submitted to Ofwat in September we expressed our concerns with the method used to assess materiality for our claims. As set out in our introduction, our gap to B is £12.451 million. This is a material amount of our wholesale totex, at approximately 3.1% of Ofwat's view of our totex, or approximately 3.0% of our own slightly higher view.

We have discovered that Ofwat's standard materiality calculation, used in all three of our cost claims at Draft Determination stage, contains circularity which is affecting the outcome of the materiality tests for our claims.

We set out the detail of this circularity fully in appendix 6, and we have suggested an alternative approach which still accounts for the implicit allowance which exists between Ofwat's BCT and our own base totex, yet which represents a fairer assessment of materiality against our totex plan. Again this is explained fully in appendix 6 to keep this section to a minimum of technical detail. Our revised assessment, along with our revised claim value for our power claim, results in both our power claim and our safeguarding supplies claim being material. Our traffic permits claim is not material using our method and so we have not made any further representation on this claim.

8.4 Cost Exclusion Claim for High Pumping Head

As part of our June submission we submitted a set of model representations and cost exclusion claims for power for a total value of £14.8 million. In our challenge on the materiality scoring method we demonstrated that this cost claim is material based on its value in June (see appendix 6).

We note that in Ofwat's technical appendix A3, Ofwat have responded to the industry representation on the time trend variable and so we will make no further representation on that element, which was worth £7.35m.

Since the Draft Determination we have further examined the totex models and compared our own position to that of Sutton and East Surrey Water (SES) who have had a model representation for outlying pumping head accepted by Ofwat. Although the majority of evidence we presented in our June cost claim is still applicable, we think that it would make for a clearer case if we now re-present our evidence adjusted for more recent developments on this issue.

The key points of our pumping head claim are therefore as follows:

- Given the developments in the draft determination and Ofwat's responses in A3, our adjusted value for this claim is now £11.25 million. This is explained in appendix 7.
- Using our suggested approach to materiality scoring, a claim value of £11.25m would have a pro rata implicit allowance of £2.5m leaving a claim value of £8.75m which is material at 2.1% of our wholesale totex. Following triangulation this is £5.83m.
- We have a very high pumping head compared to the industry, and as a proportion of our totex our power costs are much higher than industry average. The models do not account for this either directly or by proxy since only industry average power costs are used in two of the three modelling streams.

- In accepting the claim of SES, who have materially the same power conditions as we do, Ofwat have acknowledged the limitations of their modelling approach in this area and have made statements in their published documentation which imply that the models systematically underfund power costs for outlying companies.

Appendix 7, which is included within our supporting information, contains the full detail of our revised power costs claim.

8.5 Cost Exclusion Claim for MNI Safeguarding Supplies

As part of our June submission we submitted a cost exclusion claim entitled '*MNI Safeguarding Supplies*' at a total value of £15.2 million.

In our draft determination Ofwat's materiality assessment method resulted in this claim not passing the threshold and therefore it did not go on to be assessed for need or for the detailed evidence we have set out in our claim.

In our challenge on the materiality scoring method we demonstrated that this cost claim is material and we request Ofwat to examine this important evidence, which is a material amount of totex for SSC, representing an essential step change in our activity levels and which will provide significant customer benefits.

The claim itself is unchanged from June (aside from one section set out below), and we ask Ofwat to refer to our re-attached claim document. However, we also felt it valuable to state the key elements of the claim here as part of this document.

The key points of our MNI safeguarding supplies claim are therefore as follows:

- We are proposing an overall increase in capital expenditure of 13% in AMP6. Within this, the increase for MNI expenditure is the most significant at 19.6%.

- A large part of our MNI programme is based on significant projects associated with very long life assets, creating 'lumpy' spend, not seen in recent AMP periods. This maintenance is therefore not well reflected within Ofwat's modelled costs. We are expecting that similar projects will now feature in future business plans in the next few AMP periods, with our proposed investment on reservoirs, source stations and nitrate plants expected to be the beginning of a longer term programme.

- Our Water Resources Management Plan is based upon the reliability of supply sources and storage within our zones being maintained. Appropriate and cost beneficial maintenance activity was therefore included within our business plan to deliver this capability. However our totex gap puts these essential projects at risk.

Note that the change we have made is on page 14 of the claim document relating to the value of the claim. In our June document we had calculated the expected allowance after subtracting the implicit allowance using Ofwat's previous method which no longer applies. We have altered this section to use our own proposed materiality method for estimating the value of the adjustment.

9. Non-Household Price Control Period

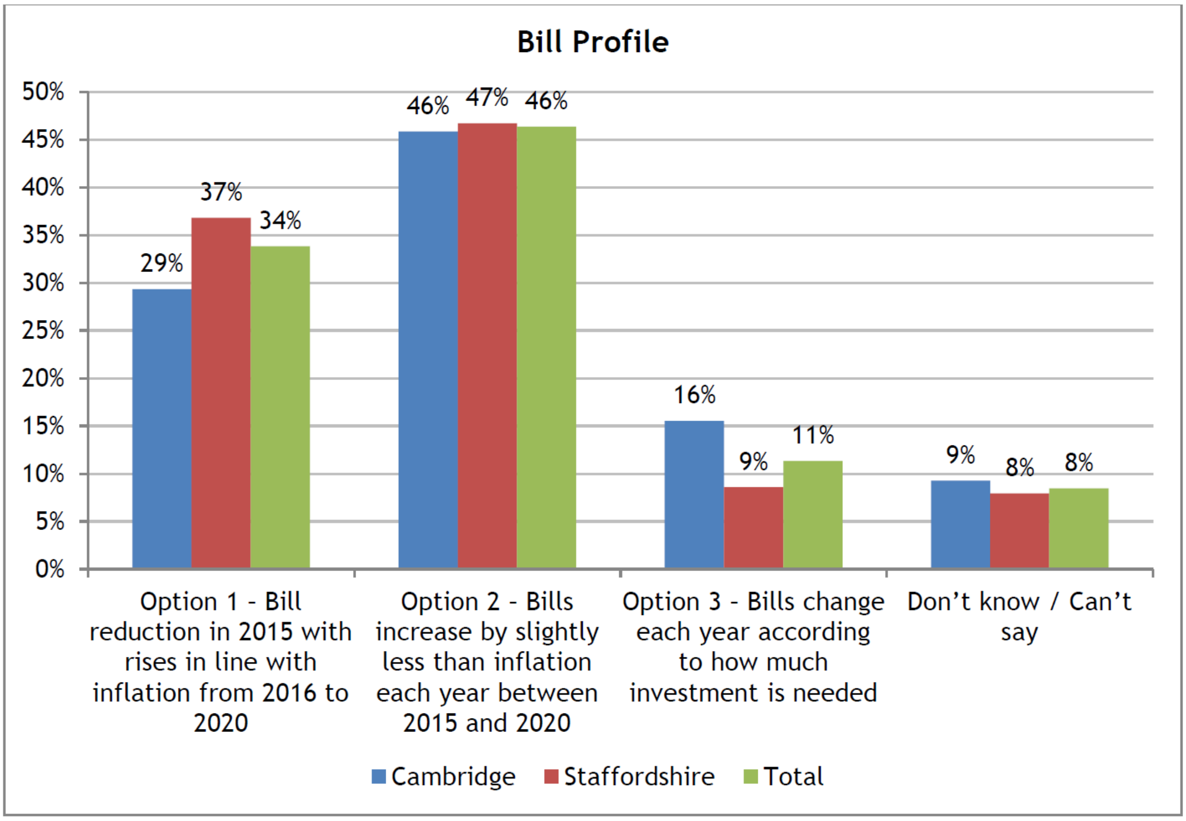
The Company wishes to opt for a two-year price control period for the non-household retail control.

The option of a 2 or 5 year control period was discussed with our Customer Challenge Group (CCG) on 22nd September and at our Board meeting on 26 September. The CCG agreed that this issue was too technical for direct customer engagement. On balance we consider that more time is needed to establish an appropriate approach to the cost and margin allocation to different customer segments.

10. Customer Bill Profile

In the Draft Determination Ofwat have re-profiled our revenue to support a one-off bill reduction in the 1st year followed by broadly stable bills. This was discussed at our Customer Challenge Group (CCG) on 22nd September. The CCG agreed that in the current economic climate and with affordability issues of utmost importance, this is a sensible approach to adopt. It supports customers desire to budget correctly. The Company is comfortable with this modest re-profiling that avoids falling bills in year 1 then rising bills in years 2-5 if the re-profiling was not undertaken.

Given the agreement with the CCG, it was agreed that no further direct customer research on this matter would be needed. The Company has researched the issue of bill profile in 2014 and this research has already been shared with Ofwat, but for completeness these results were as follows, with the low level of support for option 3 as useful evidence to support the re-profiling position in adopted in the:



Source: page 48 of the customer engagement report titled "PR14 Acceptability – Phase 2" submitted to Ofwat in June.

11. Financial Modelling Issues

11.1 Taxation

Bond Re-financing

In the Company's June submission, a £2.8m taxable item was included in line 9 of the tax table A3 for 2015-16 only (not every year of AMP6). This relates to the current tax charge impact in that year of the change in accounting policy following the refinancing of index linked borrowings in 2005-06. Ofwat have disallowed this in the Draft Determination, despite funding for tax in PR14 being on a current tax charge basis.

The Company will incur an additional tax charge for 2015-16 of £0.5m that is also a cash cost to the business. The Company will have already suffered from the change that Ofwat have made regarding the funding of taxation by moving from tax paid to tax charge which will result in a further funding shortfall of c£1m that will never be recovered.

In re-financing the bond in 2005-6, the Company pursued an initiative that gained efficient longer term financing and our customers benefited from:

- An extended maturity period (the previous bond matured after 25 years, and the new Bond was secured with a 40 year period) that increased the maturity profile and reduced refinancing risk thereby enhancing stability.

- The Bond generated headroom within our financial covenants thus providing the Company with an enhanced facility to fund its investment plan. The subsequent increase in gearing that was only possible following the change in covenants will continue to benefit customers through the lower tax payment (that arises as a result of increased interest payments). The increase in gearing has reduced our taxation payments by £0.4m per year net of the disallowed £0.5m tax element. This benefits customers through lower prices.

- The terms of the new Bond were at a lower yield thus improving cash flow and enhancing the Company's headroom when funding its operations.

Therefore, customers have benefited from the Company being more financially stable with less financing risk in the business and lower coupon payments.

Tax on Interest Received

In the tax calculation included as part of the June submission, interest received of £2.545m on loans to parent companies was included as taxable income in line 560 on the 'input nominal' tab. This reflected that the Company has paid tax on this income over many years and to reflect the treatment adopted at PR09 and prior.

In the Draft Determination this income has been removed from the tax computation. A query was raised in respect of this on 24 September and was verbally responded to with the explanation that the DD was based on the notional capital structure and so the income was disallowed. We note that following queries from Ofwat in respect of financeability that these loans and income have been removed from the notional structure for the purposes of assessing financeability of the Company.

We request that Ofwat review this decision to not allow this income in calculating the tax charge allowed as part of the wholesale price control.

Our understanding is that for tax purposes Ofwat use the notional capital structure for calculating the allowable interest cost for tax purposes for companies where gearing is at or less than 62.5%. However for companies such as SSC where gearing is above 62.5% the actual capital structure is used to calculate interest cost for tax purposes. As noted above the actual capital structure of SSC includes annual interest received of £2.5m which was shown separately from the gross interest paid in the tax computation in the June submission. At present the DD only uses the gross actual interest cost in calculating the amount of tax payable for inclusion in the wholesale allowed revenue. We therefore believe that this interest received of £2.5m on which the Company will continue to pay tax of £0.5m per annum should be included in the Final Determination otherwise taxable income and the allowed tax charge will be understated thereby creating a revenue shortfall that is not in customers interests.

11.2 Financeability

A report by *Deloitte* who have externally assured our financeability is provided with this DD response.

12. PR09 Legacy Issues

12.1 Revenue Correction Mechanism

In the Company's feedback in the Draft Determination, Ofwat identified a number of interventions on the proposed 2015-20 RCM adjustments.

The Company confirms that it accepts the interventions in:

- FD09 assumptions
- Outturn financial year average RPI
- Corporation tax rate

The Company wishes to make representation in the following two areas:

- Back-billing amounts
- Forecast 2014-15 tariff basket revenue

12.1.1 Back-billing amounts

The Company has reviewed the feedback regarding back-billing, which was excluded entirely from the Draft Determination.

The claim has now been updated to reflect the amounts of monies received for both Income Max and voids rather than the amounts billed. This is set out below:

Income Max Billed						
£m's	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Total**
Back Billed	0.163	0.149	0.174	0.140	0.094	
Current	0.126	0.161	0.105	0.107	0.015	
Total Billed	0.290	0.310	0.279	0.247	0.109	
%Collected	*93.5%*	*94.3%*	*93.3%*	*86.9%*	40.39%	
£m's	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	
Back Billed collected	0.152	0.140	0.162	0.122	0.038	
Current collected	0.118	0.152	0.098	0.093	0.006	
Total Collected	0.271	0.292	0.260	0.215	0.044	
Future Revenue collected to March 2015	1.065	1.061	0.490	0.279	0.006	
Lesser of Back Billed collected and future extra revenue collected to March 2015	**0.152**	**0.140**	**0.162**	**0.122**	**0.006**	**£0.583m**

Voids Billed						
£m's	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Total**
Back Billed	0.106	0.120	0.271	0.283	0.066	
Current	0.106	0.120	0.271	0.283	0.190	
Total Billed	0.211	0.239	0.541	0.566	0.256	
%Collected	60.8%	60.8%	53.4%	37.7%	19.2%	
£m's	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	
Back Billed collected	0.064	0.073	0.144	0.107	0.013	
Current collected	0.064	0.073	0.144	0.107	0.037	
Total Collected	0.128	0.145	0.289	0.213	0.049	
Future Revenue collected to March 2015	0.577	0.508	0.722	0.320	0.037	
Lesser of Back Billed collected and future extra revenue collected to March 2015	**0.064**	**0.073**	**0.144**	**0.107**	**0.013**	**£0.400m**

Collections data for voids in 2010-11 was not recorded so it has been assumed that the collections performance is the same as in 2011-12.

The Company is only claiming the actual billing collected for 2014-15 as at September 2014.

Therefore, the total claim for backbilling has been reduced from £1.630m to £0.983m (outturn prices).

The Company has only claimed for back-billed amounts where the inaccuracy of charging is the customer's fault. This is predominantly as a result of the customer failing to inform the Company that they have occupied the property they are in and that they are liable for those charges.

The maximum period the Company would back bill in six years as set out in statute. This would be based on occupation history, for example land registry searches. No charges are raised for any period prior to occupation. If the reason the property is not in charge is the Company's fault (for example, it was informed but failed to bill the customer) then the customer would only be billed from the date the error was identified.

The Company believes that the claim is a reasonable, fair and appropriate approach and has followed the guidance as set out in RAG4.04 and IN 11/04.

12.1.2 Forecast 2014-15 Tariff Basket Revenue

In the Draft Determination, the revenue shortfall in 2014-15 was restricted to the level recorded in 2013-14 compared to the Company's incremental claim of £0.692m.

The main reason that there was a widening of this gap was due to the shortfall in new connections expected in 2014-15 compared to the 2009 Final Determination. This was set out on P15 of the Company's legacy adjustment claim document. For ease of reference, this is replicated below:

…the expected increase in new connections in 2012-13 did not materialise due to the depressed housing market. This shortfall has accelerated into 2013-14 as the number of new connections is flat compared to the average of the period 2010-13 whereas the Determination assumed a significant ramp up of new homes being built as part of the Regional Spatial Strategy which the government abolished in 2010. 2014-15 is based on the level of activity from developer enquiries and the number of new properties expected to be built and connected over the year.

A summary of the number of new connections compared to the Final Determination is set out below, along with an estimate of the impact on income:

		2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
New Connections per FD09	Nr	2,750	3,000	4,000	4,750	6,000
Actual / Forecast Connections	Nr	2,720	2,388	1,893	2,303	1,950
Shortfall	Nr	30	612	2,107	2,447	4,050
Average HH Bill	£	127	131	139	142	144
Revenue Impact (half year impact)	£m	0.002	0.040	0.147	0.174	0.291
Revenue Impact (full year impact)	£m	0.004	0.080	0.294	0.348	0.583
Cumulative Impact	**£m**	**0.002**	**0.044**	**0.231**	**0.552**	**1.017**
Deflate to 2007-08 prices	£m	0.002	0.039	0.197	0.457	0.817

Note: The cumulative impact assumes a half year impact on the current year's shortfall assuming houses are built on average half way through the year.

Therefore, the incremental claim for 2014-15 was £0.465m (outturn prices).

At the June Submission, the Company had forecast 1,950 new connections for the year. As at the end of August, there were 902 new connections and the latest full year forecast for 2014-15 is 2,252. Updating the above table for this latest forecast gives the following revised table:

		2010-11	2011-12	2012-13	2013-14	2014-15
New Connections per FD09	Nr	2,750	3,000	4,000	4,750	6,000
Actual / Forecast Connections	Nr	2,720	2,388	1,893	2,303	2,252
Shortfall	Nr	30	612	2,107	2,447	3,748
Average HH Bill	£	127	131	139	142	144
Revenue Impact (half year impact)	£m	0.002	0.040	0.147	0.174	0.270
Revenue Impact (full year impact)	£m	0.004	0.080	0.294	0.348	0.539
Cumulative Impact	**£m**	**0.002**	**0.044**	**0.231**	**0.552**	**0.995**
Deflate to 2007-08 prices	£m	0.002	0.039	0.197	0.457	0.800

This gives a revised incremental claim for 2014-15 of £0.443m (cum to 14-15 of £0.995m less cum to 13-14 of £0.552m) in outturn prices.

The Company has decided not to pursue other parts of the claim made in the June submission regarding consumption and RPI changes.

Therefore, the overall claim the Company is making for 2014-15 tariff basket revenue has reduced from £0.692m to **£0.443m**.

The Company is resubmitting the DD version of RCM model for SST with the above claims included. Changes are shaded in green. Please see appendix 11 (separate spreadsheet file).

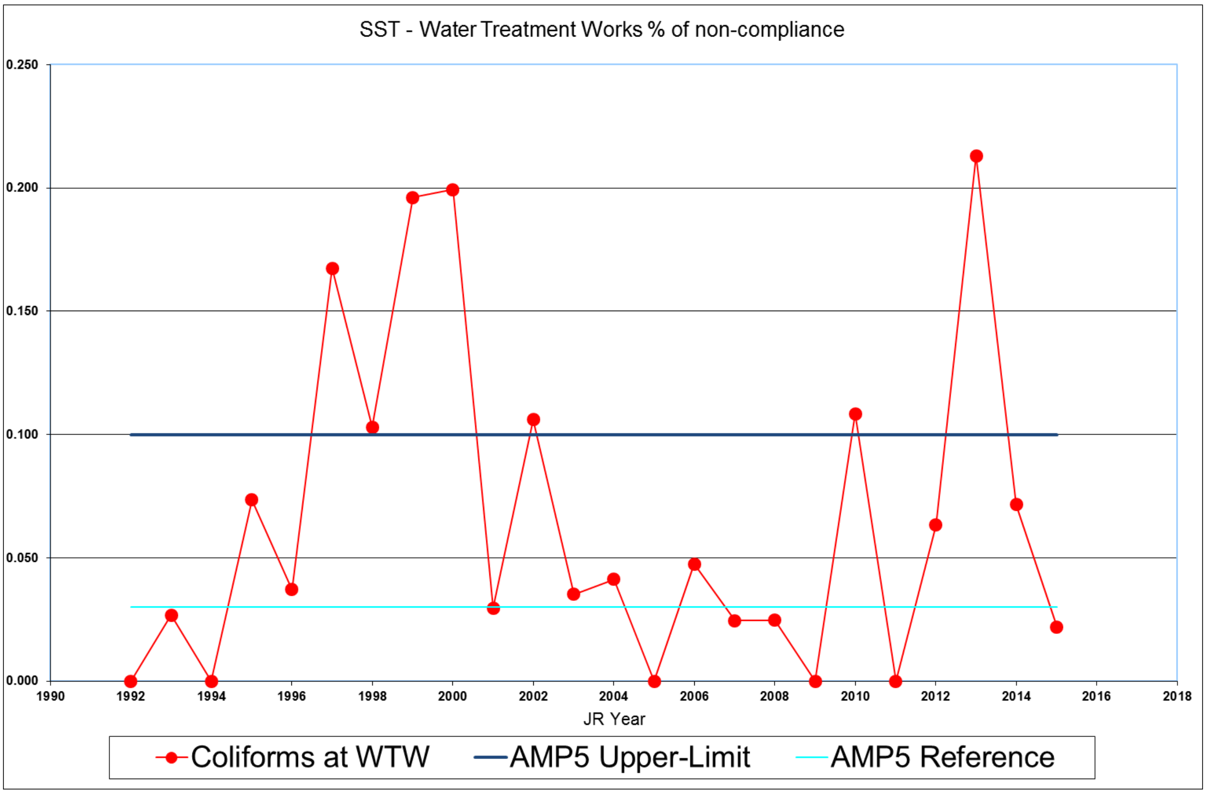
12.2 Serviceability in 2014-15

Within the company specific draft determination response two subservices of the overall serviceability assessment were identified by Ofwat as areas of concern. Ofwat sought assurances that we would be able demonstrate stable serviceability for the following areas for 2014/15;

- Water Treatment Works coliform non-compliance – for SST region
- Unplanned interruptions to supply exceeding 12 hours – both regions SST & CAM

WTW Coliform non-compliance (SST)

For the water quality calendar year, our position in September, i.e. 3 months of the reporting year remaining, is that we have had one failure at a WTW. This takes our current position to 0.022 non-compliance, which is below our reference level of 0.03.

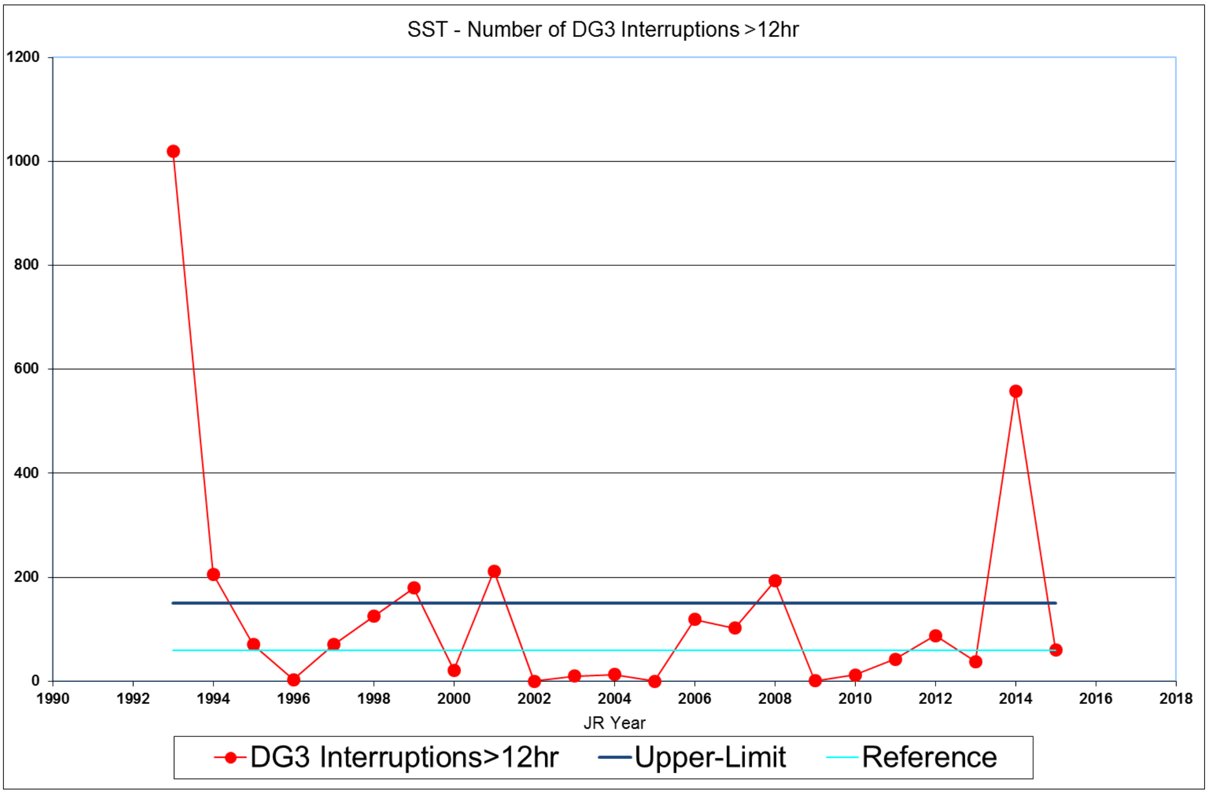


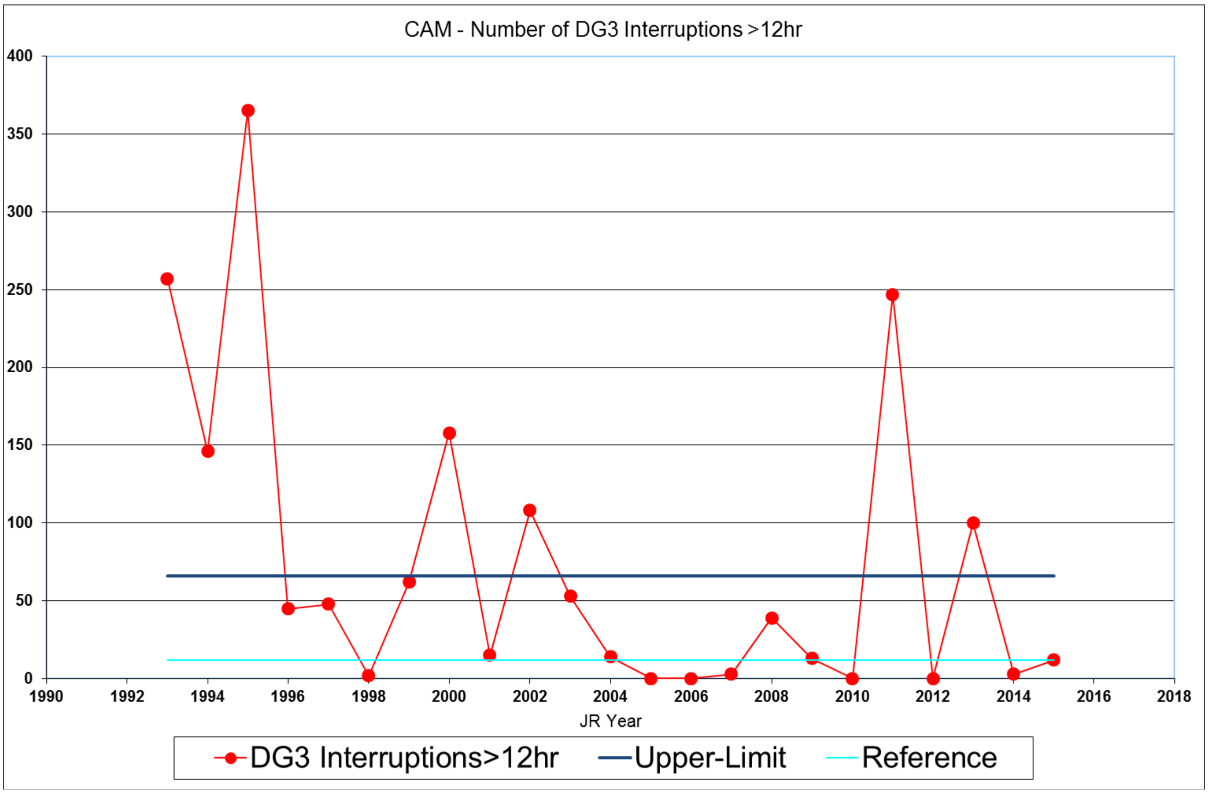
A further failure would result in 0.045 non-compliance, this would still be within the upper control limit, however at this stage we are not anticipating any further failures.

Our forecast position of 0.022, together with on target forecasts for 2014/15 for all other indicators reflects stable asset serviceability for non-infrastructure.

Unplanned Interruptions greater than 12 hours

For the 2014/15 reporting year to date our current position for this indicator in both regions is 0. However due to the unpredictability of this indicator, i.e. a one off event on a trunk main, rather than asset deterioration, can have undue influence on the performance, we are still predicating the reference level in both regions as our forecast year-end position.





This, together with the on target 2014/15 forecast for all other indicators, reflects stable serviceability across both regions for infrastructure assets.

12.3 *PR09 Service Standard Outputs*

Within the PR09 determinations for both regions there were key outputs identified within the following areas;

- Serviceability commitments
- Supply demand outputs
- Quality enhancement – drinking water service
- Service level outputs and enhancements – although this was replaced with the Service Incentive Mechanism (SIM) during the AMP, and therefore not included within this commentary

All outputs for the above have been delivered and as this is a retrospective measure, both regions have maintained stable service standards across both asset groups.

A direct copy of the Change Protocol documentation which we included within our June submission is in appendix 9 for the SST region and appendix 10 for the CAM region. This provides the detail on each output, together with 2014/15 forecasts where required. This has been included within this submission as a response to the expectation raised by Ofwat that our representations include evidence that all of our AMP5 service standards have been met.

Our full commentary of the delivery of named outputs within the SST region is contained within appendix 9.

Our full commentary of the delivery of named outputs within the CAM region is contained within appendix 10.

13. Outcomes and ODIs

13.1 Overall Position on Outcome Delivery Incentives

We are pleased that the majority of our outcomes have been accepted by Ofwat with only small changes to reflect the horizontal checks across the industry. We believe that we set challenging targets and fair deadbands in our June submission and undertook a robust valuation of penalties and rewards. Ofwat's minor adjustments, which are mostly driven by the horizontal checks, give us confidence in our approach.

We note that some of Ofwat's adjustments will make our ODI's more challenging, and we think that on supply interruptions the changes that Ofwat have made are too severe and do not allow for the natural variability in the measure since a deadband is not allowed. The following section sets out our position on this ODI in more detail.

We accept Ofwat's adjustments on mean zonal compliance, leakage and acceptability of water to customers.

We have also addressed Ofwat's outstanding query on the weightings used for our proposed serviceability assessment methodology.

13.2 Supply Interruptions Concerns

We acknowledge Ofwat's approach to this ODI has been informed by a horizontal comparison of the industry, and that all companies are proposed to have the same upper quartile performance commitment in order to drive standards forward. We are already upper quartile performers in this measure, however we have some serious concerns about the changes Ofwat has made to our ODI parameters. Specifically these are:

1. Ofwat has not allowed any penalty deadband to allow for natural variation due to everyday network events, third party incidents and the weather.

2. Ofwat has rejected our calculation of the penalty rate and installed a significantly greater penalty rate which:
    a. excludes customer WTP from the calculation;
    b. has a maximum payment (penalty collar) which is triggered for only a very small performance change. There is also inconsistent treatment of the penalty collar across companies.

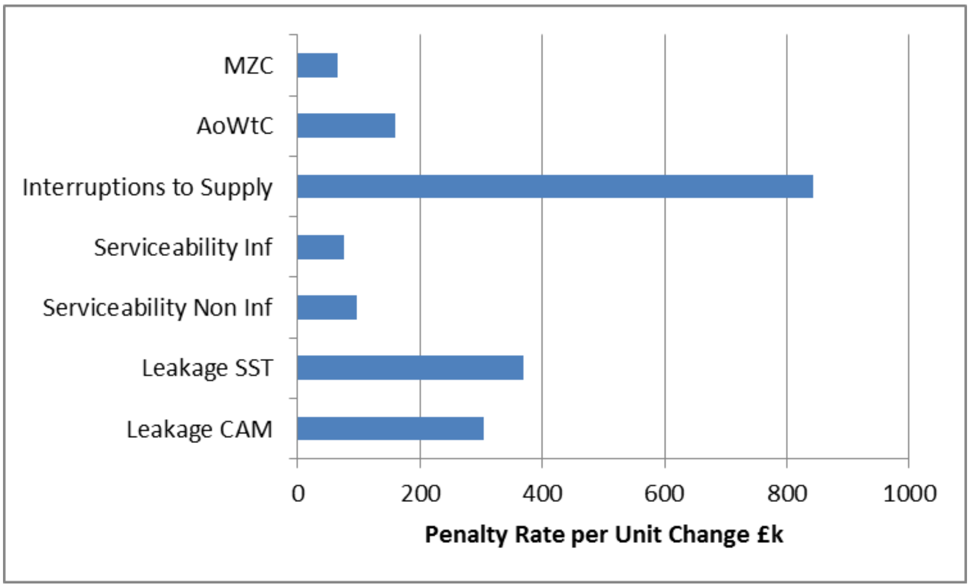
We understand why Ofwat has increased the penalty rate although the other changes to our deadband and to our penalty collar, in combination with the increase in penalty rate, has resulted in excessive imbalance. We believe a prudent approach at this stage of the process is to make some manual rebalancing adjustments to this ODI.

Firstly we believe a deadband is appropriate for this ODI. This measure has close links with bursts and leakage, which both display year on year variation due to impacts of the weather. In our leakage ODI, Ofwat have accepted an appropriate deadband based on the SELL calculation.

In our June submission we proposed a deadband at 13 minutes with our performance commitment at 10 minutes. This was designed to take account of year by year variation due to the weather, and also to allow for one large network event. We also applied the same logic to the reward deadband, although due to the law of diminishing returns it is harder to outperform the measure than it is to deteriorate. This is why the reward deadband was smaller than the penalty deadband.

In consideration of Ofwat's horizontal checks, and the size of our reward deadband which Ofwat have not changed, we believe a sensible adjustment would be for Ofwat to allow a small penalty deadband on this measure. A small deadband would allow for some weather impacts to be absorbed but we would still pay a penalty for a large network event, which is in the customer's interest. We would propose that the penalty deadband be symmetrical with the reward deadband at 11 minutes.

Our second challenge relates to the significantly increased penalty rate. We acknowledge Ofwat's reasoning for increasing the rate given that when the willingness to pay value was taken into account the resultant penalty value did not cover the incremental cost. We are however more concerned with how steeply the new rate is imposed. Under Ofwat's draft determination, the maximum penalty is triggered for a very small change in service level which is disproportionate with our other incentives. We can demonstrate this imbalance below:



We would also like to point out that a one minute deterioration in service is quite small and on the whole customers would not notice this level of change. As the ODI stands in the draft determination, there would be no incentive to prevent further systematic deterioration once the 11 minutes penalty collar is reached as the maximum penalty would already be incurred. We do not believe this is in the customer's interest.

We suggest that widening the scope of this incentive would work better for customers and represent a fairer value of more significant, systematic deterioration in service over time. To achieve this whilst maintaining balance with the rest of our incentives package we suggest raising the penalty collar whilst reducing the penalty rate, so that the maximum penalty remains the same. In support of this suggestion we note that some companies have a penalty collar substantially higher than ours, and that there is quite a wide range of penalty rates across companies.

Our proposal is to mirror the penalty and rewards exactly. This would give a 1 minute deadband on both sides of the performance commitment, followed by a penalty and reward region 2 minutes wide on each side. To protect customers we would set the penalty rate to be equal to the reward rate to maintain the balance with our package as a whole. This would mean that the maximum penalty is incurred at 13 minutes and the maximum reward at 7 minutes, both equidistant from our performance commitment. Note that this change gives customers a higher maximum penalty than Ofwat have set in our draft determination, so there is no customer detriment to this change if our service level deteriorates significantly. These changes result in the following structure:

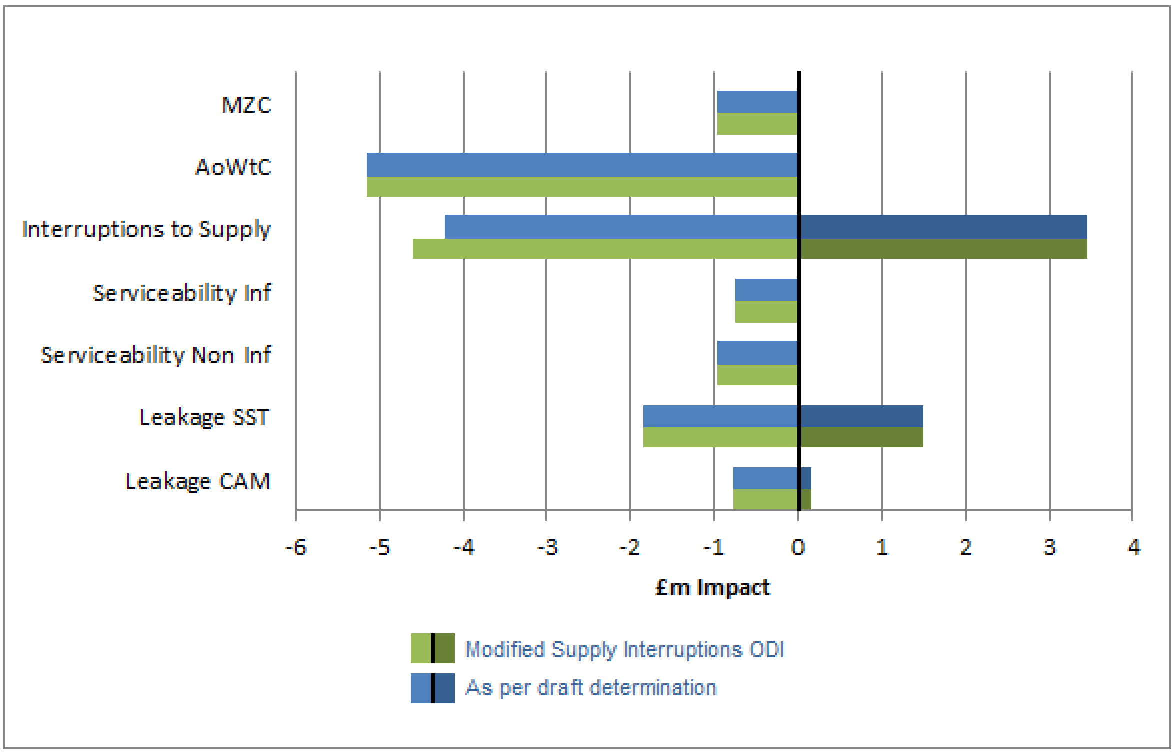
Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	minutes	10.0	10.0	10.0	10.0	10.0	10.0
Penalty collar	minutes		13.0	13.0	13.0	13.0	13.0
Penalty deadband	minutes		11.0	11.0	11.0	11.0	11.0
Reward deadband	minutes		9.0	9.0	9.0	9.0	9.0
Reward cap	minutes		7.0	7.0	7.0	7.0	7.0

Incentive rates

Incentive type	Performance levels (minutes)		Incentive rate (£m/minute/year)
	Lower	Upper	
Penalty	11.0	13.0	0.459
Reward	7.0	9.0	0.459

To test the scale of this suggested change we have compared our P10 penalties and P90 rewards using the adjusted ODI, to those given in our draft determination. Ofwat's view of our P10 and P90 values is shown in blue on the chart below (taken from our draft determination) and our adjusted values using this revised ODI are shown in green.



Note that the change does not affect the reward side, and actually results in a higher P10 on the penalty side for supply interruptions which gives customers greater protection. The benefit to us is that this penalty is now incurred over a greater range of service deterioration than Ofwat's original position, representing a more appropriate balance of deterioration levels as per our other ODI's.

13.3 AMP6 Serviceability Outcome Weighting

In our Draft Determination Ofwat have queried the weightings we will apply to each serviceability indicator for our serviceability scoring system.

From our serviceability document submitted in June, the following table shows the weightings we will apply to each indicator. This maintains the previous 'lead indicator' approach and the lead indicators remain the same.

Indicators in each sub set and their relative weightings

Infra Indicator	Weighting	Non-Infra Indicator	Weighting
Mains bursts	50%	WTW coliforms	30%
Interruptions >12 Hours	12.5%	SR coliforms	30%
DG2 pressure	12.5%	WTW turbidity	20%
Discolouration contacts	12.5%	DWI enforcement actions	15%
TIM index	12.5%	Unplanned maintenance	5%

On infrastructure we have retained the lead indicator as mains bursts and allocated a weighting of 50% to it. We have then evenly spread the remaining 50% across the other indicators. This is our best estimate of the weightings that were previously implied as part of Ofwat's serviceability methodology, although they were never stated. We believe this is still an appropriate weighting as it gives mains bursts the priority and some of the other metrics, whilst relevant, are covered by our other ODI's which also have separate penalties attached (we have other ODIs for water quality compliance, water quality customer contact and supply interruptions).

On non-infrastructure, WTW coliforms have always been the lead indicator in Ofwat's previous process and therefore we considered applying a 50% weighting to this indicator and 12.5% to the others in the basket. However we considered that our other ODI penalties did not cover non-infrastructure as directly as infrastructure. Therefore we considered that all coliforms, whether at water treatment works (WTW) or at service reservoirs (SR) should have an equal weight. WTW turbidity is also a customer facing factor, so a higher weighting is appropriate here also. We considered that unplanned maintenance is primarily an internal measure and although it can indicate reliability, it is also heavily influenced by resource levels within the business, so we deemed 5% an appropriate weighting. Historically our data shows that the unplanned maintenance measure is relatively stable so it is unlikely to materially impact the assessment going forwards. We considered DWI enforcement an important indicator, but it is not as customer facing as coliforms or turbidity and so 15% seemed an appropriate level.

14. Scenarios (Tables A20 & A20a) and Risk Assessment Tool Update

The Company received an email request from Clair Daniel on Monday 15th September 2014 requesting us to “resubmit tables A20 and A20a (and where applicable an updated Risk Assessment Tool), based on the draft determinations”.

Following a phone conversation between Tim Stephens and Phil from Ofwat on Wednesday 4th September the Company requested and gained further clarification on the requirements. We discussed the similarities between the final version of the RAT the company had submitted (following queries) and the version that Ofwat had sent to us with the DD. Phil said that if we accepted the RAT sent to us (which was in effect our version of the RAT with Ofwat’s ODI changes in) then there was no further submission required of us.

We are content that the RAT sent to us with the DD reflects our view of the range of RORE arising from the DD and therefore have taken the opportunity of not needing to submit another version. We are happy to discuss further if necessary.

15. Potential Wholesale and Retail Tariffs based on the Draft Determination

As requested (most recently in Information Notice IN14/15) we have produced a set of Wholesale and Retail tariffs based on the Draft Determination (taking into account the figures from Ofwat's document 'Reissue of wholesale revenue figures for charging'). These can be found in the Ofwat-supplied Excel template titled 'Appendix 12 PR14 SSC DD tariffs' accompanying this submission. The purpose of this document is to demonstrate a potential set of tariffs that could be used in 2015/16. Differences between this set and the set of tariffs to be submitted on 16th January 2015 will include changes arising from (but not limited to):

- Actual RPI for November 2014
- Changes from the Final Determination for
    - Wholesale allowed revenue
    - NHH allowed retail cost per customer
    - NHH net retail margin
    - HH allowed retail revenue per customer
- Forecast for 2015/16 Infrastructure Charges and new connection capital contributions
- Property count forecast
- Consumption forecasts
- Average RV and BRV of unmeasured properties

In producing this set of tariffs we have ensured that:

- none of the example customers shown have a bill increase from 2014/15 to 2015/16 greater than 5%
- the Tariff Differential (as calculated in previous years) maintained for each region separately
- the financial differential between HH bills in the two regions (SST and CAM) is broadly maintained

16. Errors in the Draft Determination

The query process has been a welcome initiative to identify incorrect statements or data references in the material published on the 29 August 2014. The following list is presented to assist with the correction of these in the Final Determination, which is beneficial for all interested parties.

1. Company Specific WACC uplift: The Company identified differences between the historic wholesale cost efficiency rankings between the city briefing and the benefits analysis. The benefits analysis used a slightly earlier version of the historic wholesale cost analysis than that which was subsequently finalised. The numbers in the City Briefing reflect the finalised wholesale cost analysis and need to be updated in the benefits analysis for the Final Determination. This difference changes the SSC efficiency score from 0.944 to 0.941 moving it slightly above Thames to 6th. The impact on the net present value of benefits is around £1m (based on a probability that one to two WOCs would merge) (this compares to the published £0m in Table 2 of the benefits analysis appendix).

2. Wholesale Totex levels in business plan: we are disappointed that the words at the bottom of page 10 in our Company specific report imply we asked for a lot more wholesale totex in our June update. The original December plan had wholesale totex of £409m (not £401m).

3. Ofwat re-profiling of customer bills: The final row of Table A5.5 has the incorrect average bill levels arising from Ofwat's Draft Determination. They should be consistent with the headline of a reduction to £128.

4. Table numbering: a very minor issue, but Table A3.2 is used twice (on page 20 and 22) whereas page 22 should refer to Table A3.3 and this affects the rest of the document.

5. Wholesale deep dives: The footnote to Table AA1.4 on page 40 of our Company report refers to the "significant enhancement programme". This is not the case and in discussions with the team at Ofwat it appears this was incorrectly copied from other documents at other companies.

6. Page 30 of the technical appendix A6 (company-specific WACC uplift) states SSC are ahead of the WACS average measures in the CCW tracking survey for 2 metrics. The actual number is three (as shown by the dark green shading in Table 9 on page 30). Please note if error 7 below is agreed, the actual number where we are ahead is four.

7. Table 9 on page 30 of the technical appendix A6 (company-specific WACC uplift) also shows SSC's performance in the 2013 survey for "satisfied with water pressure" at 92%. The data for both our regions was 93%, which takes us above the WASC average and hence leads to a dark green shading.

End.