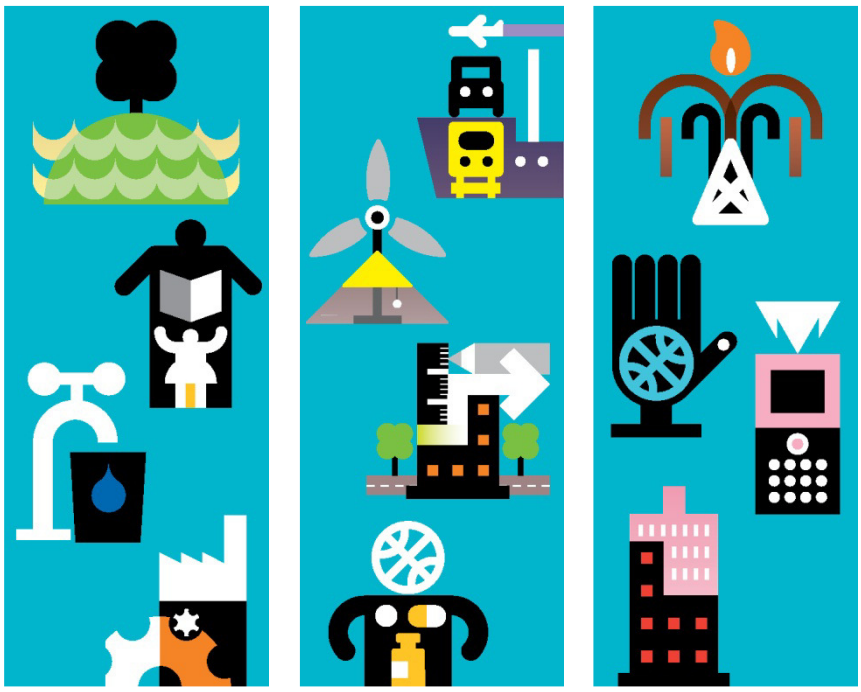


PR14 Planning Support - Summary Report

SSW PR14 Business Plan Support

November 2013

South Staffs Water

Mott MacDonald

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1 Summary of Support

1.1 Introduction

South Staffs Water appointed Mott MacDonald at the beginning of 2013 to provide support in developing the business plan for the 2014 Price Review. The PR14 planning support project was initiated following recommendations from a 2012 asset management assessment (AMA) project and further recommendations from a project to review the deterioration modelling tools used by SSW

The PR14 support project was conducted in two phases, those were:

- Deterioration model development
- Business planning challenge sessions

The two phases of the project and the results of are summarised in the following sections. A final conclusions sections summarises the response from SSW to our challenges.

1.2 Deterioration model development

1.2.1 Data review

An initial data systems and data collection processes review with respect to its suitability for use in various investment planning models and deterioration modelling was carried out.

The review found that in general the systems currently used are adequate to allow for data to be collected in a format that can be used to create robust models. However, the actual data captured is variable and there are some gaps in the data that may prevent the development of robust models for non-infra assets. There are also some data capture issues. Several recommendations were provided in report for SST to improve its data quality and data capture processes to improve the robustness of non-infra deterioration models.

1.2.2 Long-life asset deterioration modelling

The use of data to derive asset replacement models is problematic for some civil assets that have long lives and do not fail with sufficient frequency to enable robust statistical relationships to be developed.

Service reservoirs are one such asset and SSW has a number of issues with its reservoirs that require investment in AMP6 and beyond.

Our report outlined the approach developed to assist SSW in building a robust business case for service reservoir investment for the PR14 submission and next steps required to improve data collection in order to apply the UKWIR methodology 'deterioration rates of long-life low probability of failure assets' in the future.

We also provided advice and example deterioration models for other non-infrastructure assets to enable SST to create a non-infra modelling tool which was then subsequently used to input investment options into the corporate optimiser.

1.2.3 Mains deterioration model review

In the FD09 feedback Ofwat questioned whether a) SSW's top-down process computes justifiable mains renewal targets and b) its bottom-up process is sufficiently targeted to be efficient (ie could SSW deliver the same performance for less activity and cost?).

SSW accepted this feedback and developed new mains deterioration models for PR14 in order to take into account more variables that could cause failures and to integrate top-down and bottom up-analysis.

MM statistical specialists were employed to review the model and provide feedback. The review concluded that it was a good first step for in-house data derived deterioration models, some recommendations for improvement were provided, which have been acted upon for PR14 planning.

1.3 Business planning challenge sessions

MM has supported SSW in the development of its PR14 submission through a series of business planning challenge sessions. These have sought to keep SSW up to date on the latest regulatory guidance and implications for planning and to review and challenge SSW's approach and content of its plan to ensure that it is well justified and the narrative is coherent supported with proportionate evidence.

The business planning challenge process started with MM attendance at the SSW/CAM PR14 AMP6 Capex needs workshop (November 2012) where senior staff presented a very early version of AMP6 Capex requirements to the Board. We were asked to provide critical challenge to the proposals and present these to the Board. We provided strong challenge to the level of Capex proposed and the quality and justification for the investment case. Following this initial challenge session, SSW requested that MM attend further regular challenge

sessions with the senior staff and Directors over the next 12 months, up until the submission of the business plan.

In total, we attended a further four business planning challenge sessions from February to November 2013. During the sessions, senior SSW staff presented their current progress in developing the business plan. After the presentations and discussion, we provided our feedback and recommendations to senior staff and Directors. The table below shows the key areas of discussion for the challenge sessions:

BP Challenge Session	Key topics discussed
November 2012	Early sight and challenge of AMP6 capex needs at a business planning workshop
February 2013	PR14 Methodology consultation discussion and what it means for SSW. Use of Investment optimiser tool, including development of a reactive-only scenario
April 2013	Business planning requirements consultation discussion Discussion of progress in other areas of planning, inc Infrastructure and IO tool
October 2013	Review of draft business plan and development of final BP structure
November 2013	Review of final business plan and identification of key areas for improvement

1.4 Documents produced during project

The table below lists the documents produced during both the AMA review project in 2012 and the business planning sessions in 2013

Date	Document
July 2012	AMA Blueprint and Gaps spreadsheet report
July 2012	Asset management diagnostic review report
July 2012	Infra and non-infra modelling tools review report
August 2012	PR14 blueprint & action plan
October 2012	Exec team feedback presentation (inc expectations for PR14)
Jan 2013	Comments on SSW risk framework strategy
Feb 2013	Review of SSW data for non-infra models
Feb 2013	Ofwat PR14 methodology consultation summary presentation
April 2013	Long-life asset deterioration models report
April 2013	PR14 challenge session feedback presentation

Date	Document
July 2013	Infrastructure deterioration model review
September 2013	PR14 challenge session feedback presentation
October 2013	PR14 challenge session feedback presentation and MM PR14 Assurance framework

2 Conclusions

SSW has responded positively to all challenges posed, it has understood where improvements were required and has made changes as necessary. Some examples of this include:

- Understanding the need to reduce capex requirements after Nov 2012 AMP6 requirements workshop;
- Understanding key messages from the Ofwat methodology and how this could impact SSW, including the desire of Ofwat and the Government for bills not to increase;
- Continued use of and further development of the Investment Optimiser tool (IO) to enable an optimised business plan to be produced;
- Further development of deterioration models to enable more robust investment options to be produced;
- The design of a business plan structure to be customer-centric, reflect delivery of outcomes and incorporate common framework principles and company specific needs; and
- Refinement of the business plan contents to consider the detailed requirements of the Ofwat risk based review tests.

The process, in conjunction with the earlier support reported above, has proved very effective in developing a robust PR14 business plan.

South Staffs show a continuing desire to improve their capability in all areas of the business including asset management and business planning. Their continued openness about strengths and weaknesses is a sign of a healthy, truthful company that understands its position and standing in the industry. From our experience it is clear that these qualities stem from the senior management and the Board.