
south east water

South East Water Draft Determination Response – Board Assurance Statement 30th August 2019

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH



Pure know_how

Board Assurance Statement

As Directors of South East Water we recognise our collective responsibility and duty to provide the strategic leadership for a business that provides an essential service; and to promote good corporate governance and professional conduct within a framework of effective controls that identify and manage any risks to the provision of that service.

We have continued to drive the overall strategy and direction of our business plan, our IAP response and our response to Ofwat's Draft Determination, providing rigorous scrutiny to all its key components.

We have also ensured appropriate controls are in place to assure the quality of our Draft Determination response which has been reinforced by thorough internal and external validation.

In particular, we confirm that the assurance framework we have in place covers the specific actions set out in Ofwat's test areas of "Securing confidence and assurance", "Aligning risk and return" and "Long term resilience" namely:

- Action CA.A1 – Dividend policy
- Action CA.A2 – Executive pay
- Action LR.A5 – Gearing and credit rating
- Action RR.A2 – Gearing and credit rating

The revised WACC proposed in the Draft Determination is even lower (21 basis points) than the early view presented by Ofwat in its methodology for this price review. Furthermore Ofwat has signalled its expectation that WACC may reduce further when it makes its Final Determination.

As outlined in our detailed submissions at *Chapter 5: Aligning risk and return* we continue to have fundamental concerns about how Ofwat has assessed this level of WACC and its flawed analysis of our financeability which incorrectly excludes pension costs in the calculation of ratios and fails to assess ratios in line with rating agencies' approaches, notably Moody's Adjusted Interest Coverage Ratio.

In the light of the failed financeability test, Ofwat should revisit its cost of capital such that it leads to outturn notional ratios and a credit rating consistent with the rating inherent in the WACC allowance. However, for this price review, Ofwat has instead directed companies to propose adjustments to the PAYG rate or RCV run-off to ensure that companies are financeable on a notional basis. As we are committed to produce a financeable Draft Determination response we have used Ofwat's directed adjustments.

We have provided assurance in our Draft Determination response applying Ofwat's revised WACC (i.e. 21 basis points reduction) on the understanding that an additional PAYG adjustment of 1.4 per cent is made and the critical elements of our response are materially accepted as a package.

However for one specific action – LR.C1 Further reduction in WACC – Ofwat has required further board assurance on whether our business plan is financeable, including following possible further downward pressure on the cost of capital of 37 basis points. We do not

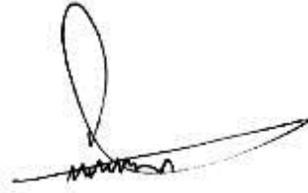
believe it is either appropriate or possible to provide specific assurance on whether our plan would remain financeable on a notional and actual basis when Ofwat may still make further material interventions within its Final Determination.

That being said, we remain confident that our business plan and Draft Determination response will, over the next control period and in the long term, enable the company to:

- fulfil its statutory and licence obligations
- remain resilient – operationally, financially and corporately
- meet the expectation of the UK government’s strategic policy statements

Board signatures

Nick Salmon (Independent Chair)



John Barnes (Independent Non-Executive Director)



Celia Pronto (Independent Non-Executive Director)



Chris Girling (Independent Non-Executive Director)



Stephen Jordan (Shareholder-Nominated Non-Executive Director)



Marissa Szczepaniak (Shareholder-Nominated Non-Executive Director)



Paul Butler (Managing Director)



Andrew Farmer (Finance Director)



David Hinton (Asset and Regulation Director)



Contact Us

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

Follow us

