

2014 price review risk-based review – internal methodology

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1. Background and objectives

In July 2013, we published our methodology for the 2014 price review (PR14) – ‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans’ (our ‘final methodology statement’)¹. This confirmed our new approach to setting price controls, based on the principles we set out in ‘Future price limits – statement of principles’². The final methodology statement was the result of extensive engagement and consultation over the three years leading up to its publication.

An important aspect of our final methodology statement was that we should focus our scrutiny and challenge where it is most needed – and where we can deliver the greatest benefits for consumers. We have done this by assessing the quality of companies’ business plans using a risk-based review (RBR).

In our final methodology statement, we said that the RBR would test companies’ business plans against a number of key assessment criteria. We also set out the specific tests and supporting key assessment criteria.

This document builds on our final methodology statement and sets out our approach to implementing the RBR tests. The objective of this document is to summarise our RBR methodology. It:

- sets out the principles applied when scoring the RBR tests and criteria; and
- describes our detailed assessment methodology for each of our RBR tests.

Please note that this document does not present any detailed information on the models and assessment tools that were used during the RBR phase, nor does it outline our policy or process for producing draft or final determinations.

¹ http://www.ofwat.gov.uk/pricereview/pr14/pap_pos201307finalapproach.pdf

² http://www.ofwat.gov.uk/future/monopolies/fpl/pap_pos201205fplprincip.pdf

2. Principles for the risk-based review

The key principles for RBR are as follows.

1. The RBR contains **tests** for high-quality business plans in four business plan **areas**.
 - i. Outcomes.
 - ii. Costs.
 - iii. Risk and reward.
 - iv. Affordability and financeability.
2. In addition to the tests there are two **other considerations**.
 - i. Board assurance.
 - ii. Performance in 2010-15.
3. Each test and other consideration is supported by one or more assessment **criteria** as detailed in appendix 1. All of the tests and supporting criteria were published in our final methodology statement.
4. The **scoring** of each test and other consideration is carried out using a four-point scale (A, B, C and D). The scores are determined and supported by a detailed assessment process, with each of the criteria that underpin the tests individually scored on the same four-point scale.
5. For clarity, the business plans of the water and sewerage and water only companies have four elements, corresponding to the different activities subject to separate price limits from 2015 following PR14. These four elements are:
 - i. household retail;
 - ii. non-household retail;
 - iii. wholesale water; and
 - iv. wholesale wastewater.
6. The water only companies' business plans have only three elements as these companies do not supply wholesale wastewater services.

7. In most cases, each test is scored separately for each element of the business plan. However, there are some tests that apply only at a whole company level and some tests that apply at both element and whole company levels (see figure 2).
8. The tests were scheduled to be completed in two stages, reflecting a change in the RBR process we announced in December 2013³ and confirmed in ‘Setting price controls for 2015-20 – risk and reward guidance’⁴ (our ‘risk and reward guidance’).
 - i. **Pre-qualification stage** – only some tests are assessed during the pre-qualification stage (the ‘pre-qualification tests’). The scores for the pre-qualification tests will determine whether each company ‘pre-qualifies’ for the enhanced category. Pre-qualified companies will be invited to submit limited revised information in relation to specific areas of their business plans which will be assessed during the second stage.
 - ii. **Enhancement stage** – other RBR tests are completed for companies that pre-qualify for enhanced status – and that elect to submit revised information on certain aspects of their business plans (the enhancement tests). These tests are not completed as part of the RBR process for companies that are not pre-qualified. In this stage, the pre-qualified companies’ business plans must continue to meet our quality standards for the tests upon which they became pre-qualified.

At the pre-qualification stage, the Board made decisions on a case-by-case basis using the comparative level of failure and materiality for consumers in different test areas. At the enhancement stage, the Board took an aggregate view considering the individual test scores obtained.

Below, we set out a summary of the RBR tests, showing the tests used in the two stages of RBR.

³ On 19 December 2013, we issued an information bulletin ([IB 28/13, ‘Change to Ofwat’s price review process’](#)), which announced a change in the RBR process and indicating we would be issuing further information on our expectations for risk and reward.

⁴ In January 2014, we published [‘Setting price controls for 2015-20 – risk and reward guidance’](#) – our risk and reward guidance – where we confirmed our views on an acceptable risk and reward package for company business plans and outlined important changes in the RBR process, including the new pre-qualification stage.

Table 1 RBR tests, including pre-qualification tests and enhancement tests

Area	RBR test	Pre-qualification tests	Enhancement tests ¹
Outcomes	1. Customer engagement and willingness to pay evidence	✓	✓
	2. Performance commitments	✓	✓
	3. Outcome delivery incentives	x	✓
Costs	4. Wholesale cost assessment	✓	x
	5. Retail cost allocation	✓	x
	6. ACTS adjustments	✓	x
	7. Default tariffs ²	x	x
Risk and reward	8. Risk analysis	x	✓ ³
	9. Level and allocation of risk	x	
	10. Rewards and returns	x	✓
	11. Retail net margins	x	✓
Financeability and affordability	12. Financeability	x	✓
	13. Affordability	✓	✓
Other Considerations	14. Adjustments to 2015-20 price controls	✓	x
	15. Board assurance of a high quality business plan	✓	✓

Notes:

1. Where a test appears as both a pre-qualification test, and an enhancement test, this is because company business plans must remain capable of meeting the RBR tests upon which they were pre-qualified.
2. The default tariffs test was set out in our final methodology statement as one of the RBR tests, but was removed from the RBR process following our announced change to that process in December 2013.

3. In our final methodology statement, we set out two tests for risk analysis and level and allocation of risk. Since we clarified our expectations in the risk and reward guidance, these two tests (ie, tests 8 and 9) are performed as a single risk test and are relevant only to pre-qualified companies which accept our risk and reward guidance.

As noted above, the tests are either applied:

- for each element of a business plan; or
- for the whole company.

Table 2 below summarises which tests are applied for which elements.

Table 2 Summary of all RBR tests for each element and for the whole company

Area	RBR test	H/hold retail	Non-h/hold retail	W/sale waste-water	W/sale water	Whole company
Outcomes	1. Customer engagement and willingness to pay evidence	✓	✓ ¹	✓	✓	
	2. Performance commitments	✓	✓ ¹	✓	✓	
	3. Outcome delivery incentives	✓	✓ ¹	✓	✓	
Costs	4. Wholesale cost assessment			✓	✓	
	5. Retail cost allocation	✓	✓			
	6. ACTS adjustment	✓	✓			
	7. Default tariffs ²					
Risk and reward	8. Risk analysis	✓	✓	✓	✓	✓
	9. Level and allocation of risk					
	10. Rewards and returns			✓	✓	✓

Area	RBR test	H/hold retail	Non-h/hold retail	W/sale waste-water	W/sale water	Whole company
	11. Retail net margins	✓	✓			
Financeability and affordability	12. Financeability					✓
	13. Affordability					✓
Other Considerations	14. Adjustments to 2015-20 price controls			✓	✓	
	15. Board assurance of a high-quality business plan					✓

Notes:

1. For the non-household retail element, some tests apply only to companies operating wholly or mainly in Wales. Non-household customers in England will have choice of retailer from 1 July 2017 and hence we considered that additional RBR testing was not required for these aspects of the relevant companies' business plans.
2. The default tariffs test was set out in our final methodology statement as one of the RBR tests, but was removed from the RBR process following our announced change to that process in December 2013.

2.1 Our assessment methodology

The criteria and tests (including 'Other considerations') assessed during the RBR are set out in appendix 1. In most cases, we carry out separate tests for each element of companies' business plans, but there are some cases where we also apply tests at a whole company level. These are:

- where criteria/tests apply separately to elements, we assign scores separately for the business plan as it relates to each price control element (as relevant; and
- where criteria/tests apply to the whole company, we assign a single score for the business plan as it relates to the whole company.

We use **scoring guides** to guide the scoring process. The scoring guides describe our detailed standards, or scoring 'rules', for each grade on the four-point scale. Our scoring guides are set out in appendices 2 and 3.

Given that companies have a greater degree of ownership over the structure of their business plans and the nature of their proposals, the scoring guides place significant weight on the quality of evidence provided by companies to support their own business plan proposals. In general, we expect that the evidence presented by companies in high-quality business plans will have sufficient coverage, depth and credibility to allow us to accept the companies' proposals as the relevant basis for setting price controls without significant intervention by us.

By way of example, as a general rule we expect the following quality of evidence for each of the following grades.

- **A** – a company has demonstrated that it is exceeding stakeholders' expectations and overall we consider that the evidence put forward is exceptional.
- **B** – a company has demonstrated that it has robustly addressed stakeholders' expectations, and we have received sufficient and convincing evidence to support companies' proposals.
- **C** – at this stage, we do not have sufficient and convincing evidence. More information is required for us to understand companies' proposals or to give us confidence that companies will deliver proposals that protect customers' interests.
- **D** – at this stage, substantially more information is required for us to understand companies' proposals and to give us confidence that companies will deliver proposals which protect customers' interests.

For some criteria, our assessment relies more heavily on assessment 'rules', which are relatively mechanistic – for example, high-quality business plans will convincingly demonstrate efficient costs, which (generally) means they will be lower than our independent efficiency benchmarks.

In all cases, even where a more mechanistic approach is specified in the scoring guides, we apply appropriate and considered judgements on the performance of business plans against our criteria and tests. **In all cases, we exercise our judgement in a manner which is consistent with our published methodology, which was aimed at protecting the interests of consumers and otherwise furthering our duties under section 2 of the Water Industry Act 1991** (see box 1 below).

In particular, we use our expert regulatory judgement to:

- assess the quality of the evidence which supports companies' business plans;
- assess whether companies' past performance supports the credibility of the evidence contained within business plans (see box 2 below);
- evaluate how effectively the company has engaged with its customers and stakeholders in developing its business plan;
- assess the relative importance of multiple factors which contribute to a single criterion score;
- determine how multiple criteria should aggregate to form an overall test score – for example, in 'marginal cases (see box 3 below);
- determine how we should score the criteria and tests in 'exceptional' cases (see box 3 below); and
- determine the relevant benchmarks, thresholds, calculations and models which support our evaluation framework.

Box 1 – Guiding principles for exercising regulatory judgement during the RBR

In exercising our expert regulatory judgement, we will ensure that judgements are applied as consistently as possible with published statements of our approach and methodology (including our final methodology statement). In all cases, our judgements will be consistent with our duties under section 2 of the Water Industry Act 1991 to:

- protect the interests of consumers;
- secure that water and sewerage companies carry out their functions properly, including licence and statutory functions; and
- secure that water and sewerage companies are able to finance the proper carrying out of their functions.

Box 2 – Assessing past performance

Past performance is one factor that we consider when assessing the coverage, depth and credibility of the evidence provided by companies. A past performance 'dashboard' is available as a tool to assist assessors to assess individual companies' past performance on a consistent basis. There may be other measures of past performance relevant to certain criteria; where relevant, we also consider these wider measures. Where past performance has a central role in the assessment methodology for specific criteria (that is, beyond our general assessment of evidence), this is noted within the scoring guides.

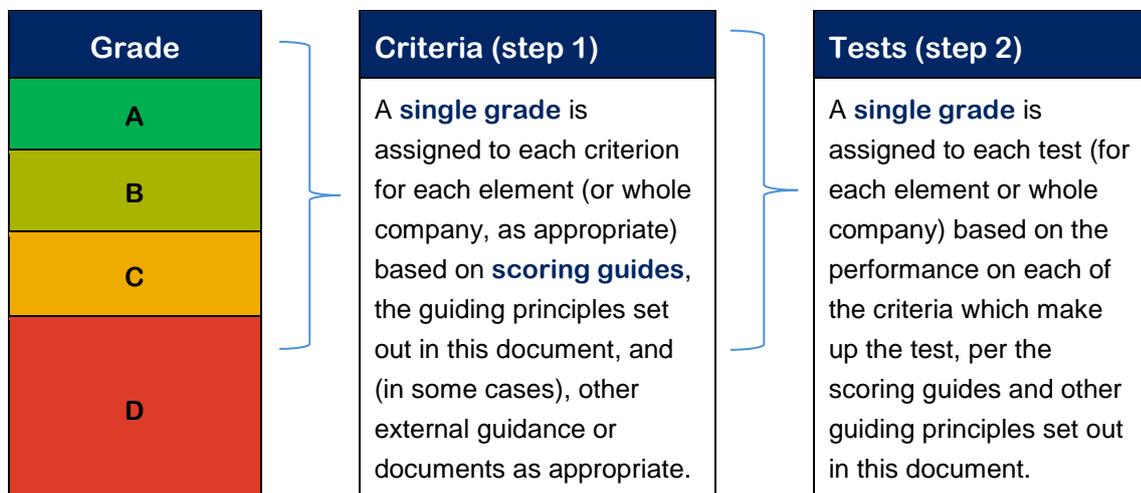
Box 3 – Defining marginal and exceptional cases

- **Marginal cases** – where our assessment falls on the borderline between grades.
- **Exceptional cases** – where companies’ business plans present high- quality and well-evidenced proposals that do not neatly fit within our assessment framework. In exceptional cases, we may consider departing from agreed scoring guides.

Marginal and exceptional cases are documented as part of assessment results.

Below, we set out a summary of the scoring framework for criteria and tests. Note that that we use the same framework for the two other considerations.

Figure 1 Scoring framework – criteria and tests



Appendix 1: Inventory of RBR tests and criteria

The table below sets out the suite of tests and criteria applied during the RBR process – for all companies at the pre-qualification stage, or for pre-qualified companies only at the enhancement stage. These reflect the tests and criteria described in our final methodology statement. There are two tests that were set out in our final methodology statement, but which are not applied in the RBR and are greyed out in the table below.

- Our assessment of companies' business plan proposals for default tariffs (test 7) was removed from the RBR and is the subject of a separate process in PR14.
- Our assessment of the level and allocation of risk in business plans (test 9) is carried out as part of our risk analysis test (test 8) in line with our January risk and reward guidance.

In some cases, where tests are re-confirmed at the enhancement stage (for example, affordability and Board assurance), the specific criteria are slightly different compared with the pre-qualification tests and are focused more narrowly on the impacts of incremental changes in the business plan (see appendix 3).

Tests	Criteria
1. Customer engagement and willingness to pay (WTP) evidence	1.1 To what extent has the company demonstrated an effective customer engagement process?
	1.2 To what extent has the company demonstrated effective engagement with wider consumer interest, including environmental interests, generally and through their customer challenge group?
	1.3 How far has the company demonstrated a robust approach to gathering willingness to pay information and in mapping this to its outcomes, performance commitments, and outcome delivery incentives?

Tests	Criteria
2. Performance commitments	2.1 How clearly and appropriately has the company allocated its outcome commitments between its separate controls (household retail, wholesale water and, where relevant, wholesale wastewater)?
	2.2 How consistent are the company's proposed commitments with requirements specified in our methodology, including in relation to SIM, AIM, and leakage?
	2.3 To what degree has the company given adequate assurance that its performance commitments are consistent with Defra's and (or) Welsh Government's Statement of Obligations, relevant statutory requirements and licence obligations?
	2.4 How reasonable are the company's assumptions in relation to areas of anticipated statutory requirements and (or) environmental programme that remain uncertain?
	2.5 How well do the company's proposed commitments reflect value for money, and how reasonable are the costs?
	2.6 How strong is the evidence that the company has provided in relation to its previous track record of delivery in relation to performance commitments and to what degree does this support its commitments for the future? To what extent has the company properly justified any changes in proposed performance levels?
	2.7 How well has the company demonstrated that its proposed outcome commitments are consistent with the interests of consumers in the longer-term (in particular that its activities and outcomes will be economic and efficient in the longer term)?
	2.8 How clearly has the company demonstrated that the proposed commitments can be measured and recorded consistently and that they will have the appropriate governance and quality assurance processes in place to ensure that the proposed performance commitments will be based on robust data?
3. Outcome delivery incentives	3.1 To what extent do the proposed incentives conform to the framework specified in our methodology?
	3.2 How well do the proposed incentives represent an appropriate balance of risk between companies and customers?
	3.3 How consistent are the company's proposed ODIs with consumers' interests and with customers being appropriately compensated for any under-delivery of performance commitments?
	3.4 To what extent do the company's ODIs take properly into account its assumptions on other regulatory incentives, including totex efficiency sharing and any incentives or penalties it proposes associated with the wider statutory frameworks within which it operates?
4. Wholesale cost assessment	4.1 To what extent has the company provided sufficiently persuasive evidence in relation to its costs such that we decide that it is appropriate to either modify our approach to the modelling of costs, or, that it is appropriate to make specific changes to the cost corridors/thresholds for the company concerned?
	4.2 How consistent are the company's proposed costs with our view of an efficient company?

Tests	Criteria
5. Retail cost allocation	5.1 How clearly and appropriately has the company allocated current and historic costs, including between wholesale and retail, and between household and non-household retail?
6. ACTS adjustments	6.1 To what extent has the company provided sufficient evidence to show that any proposed adjustment to the company's cost to serve relates to a factor that: <ul style="list-style-type: none"> • has a material impact on their costs; • is beyond efficient management control (having taken all possible steps to control it); and • impacts the company in a materially different way to other companies? <p>Where forecast new costs would result in a material modification to the ACTS, or relate to retail investments for which funding was requested in the AMP5 price control, has the company provided sufficient and convincing evidence to support these new costs?</p>
7. Default tariffs This test is not applicable in the RBR	7.1 How well do the company's proposed default tariffs ensure it recovers no more than an appropriate proportion of its allowed costs and net margin? 7.2 How adequate is the company's assurance that its proposed default tariffs do not unduly discriminate between customers in a given customer class or between customer classes?
8. Risk analysis	8.1 How far has the company provided sufficient information – including on company-specific risks – for us to analyse the impact of risks on consumers and companies? 8.2 To what degree are the company's proposed risk impacts plausible and acceptable?
9. Level and allocation of risk This test is considered as part of test 8	9.1 To what extent to the different commitments and incentives within the price control elements of the business plan involve an efficient level and allocation of risk? 9.2 In deriving these proposed allocations, has the company made appropriate assumptions in relation to the efficient mitigation of risk?
10. Rewards and returns	10.1 How well do the returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is bearing for each element of its plan?
11. Retail net margins	11.1 Has the company proposed a reasonable household and non-household retail net margin?
12. Financeability	12.1 Taking account of assumptions on costs, revenues, risks and capital structures, how clear is it that the company, if efficient, will be able to finance its functions? 12.2 How clearly do the company's proposals for each control allow sufficient returns to be self-financing, if it is efficient, over the longer term?

Tests	Criteria
	12.3 To what degree do the company's proposals represent a fair balance between the company and customers?
13. Affordability	13.1 How well has the company demonstrated that its proposals are affordable over 2015-20 and that it has used appropriate means to secure the affordability of bills for customers?
	13.2 How clear is it that the company's proposals are affordable in the longer term? How far has the company demonstrated that it has explored all possible options to ensure that this is the case, for example, by the way it has set out its cost recovery proposals?
14. Adjustments to 2015-20 price controls	14.1 How clear is it that the company has calculated any adjustments to 2015-20 price controls in line with our guidance and tools?
	14.2 How fairly do the company's proposed adjustments to 2015-20 price controls reflect its performance in 2010-15?
15. Board assurance of a high-quality business plan	15.1 (a) To what extent has the company's Board provided assurance that the business plan is of high quality? (b) Is the assurance that the Board has given supported by data and evidence from elsewhere in the plan?
	15.2 To what extent has the company's Board given adequate assurance that its outcomes are consistent with Defra's and/or Welsh Government's Statement of Obligations and relevant statutory requirements?

Appendix 2: Scoring guides – pre-qualification tests

This appendix sets out the detailed scoring methodology for each of the RBR tests and criteria, as relevant for pre-qualification.

Pre-qualification tests

Test	Elements					Page reference
	H/hold retail	Non/h/hold retail	W/sale water	W/sale wastewater	Whole company	
Test 1: customer engagement and willingness to pay (WTP) evidence	✓	✓ ¹	✓	✓		16
Test 2: performance commitments	✓	✓ ¹	✓	✓		32
Test 4: wholesale cost assessment			✓	✓		50
Test 5: retail cost allocation	✓	✓				55
Test 6: ACTS adjustments	✓					58
Test 13: affordability					✓	61
Test 14: other considerations – adjustments to 2015-20 price controls			✓	✓		72
Test 15: other considerations – Board assurance of a high-quality business plan					✓	78

Note:

1. Applies only to companies operating wholly or mainly in Wales.

Test 1: customer engagement and willingness to pay (WTP) evidence

Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
<p>Criterion 1.1</p> <p>To what extent has the company demonstrated an effective customer engagement process?</p>	<p>Assess at plan level (with cross check for any differences at element level).</p> <p>For the purposes of this criterion, ‘customers’ is interpreted as ‘bill payers’.</p> <p>Based on the information provided in the company’s business plan and the CCG’s independent report to what extent is there evidence that:</p> <ul style="list-style-type: none"> • The CCG is supportive of the overall approach to the customer engagement process (or there is a clear justification of any exception). • The process used to collate customer views has evolved appropriately to ensure that any engagement undertaken feeds into further engagement. • A range of techniques have 	A	<p>The company has provided comprehensive and exceptional evidence of an effective customer (ie, bill payers) engagement process.</p> <ul style="list-style-type: none"> • The CCG is supportive of the company’s overall engagement process and the review of the evidence provided has confirmed that the company has engaged effectively with the CCG, including that the CCG has effectively challenged the company and these challenges have been appropriately responded to, OR • The company has provided comprehensive and exceptional evidence to explain why the company has been unable to engage effectively with the CCG and/or obtain CCG support for its engagement approach and investment proposals. The company is able to clearly demonstrate circumstances outside of its control and that it has undertaken comprehensive and exceptional steps to rectify the issue and ensure customer views are still fully accounted for. <p>AND</p> <p>There is clear evidence in the company’s business plan or, if an appropriate CCG engagement process has been followed, the CCG’s independent report that:</p> <ul style="list-style-type: none"> • Historic and qualitative research has been used to shape and inform subsequent research throughout the plan with respect to priorities AND methodologies. for example, ongoing customer engagement has shaped topics for focus groups, focus groups have been undertaken to inform the design of WTP surveys, AND • The company has used an extensive range of techniques to understand the views of its customers, including focus groups, ongoing engagement with customers, research into customers’ willingness to pay for changes in service at attribute and overall plan level and it has consulted on draft outcome and/or performance commitment proposals. The company has also undertaken more innovative engagement techniques such as second-stage WTP surveys or revealed preference studies, AND • The company has clearly explained how its research has been used to inform the development of its plan and it is clear that the plan has been shaped by the feedback received. The results have been actively

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
	<p>been used and incorporated into the company's business plan.</p> <ul style="list-style-type: none"> The company has consulted a representative sample of its customers to ensure that the needs of all customers are fairly represented. This involves tailoring the approach to engagement to best suit specific customers and the accessibility of the consultation and feedback documents (eg, length, tone, language, lack of jargon, online and paper copies, etc). <p>In the event that the separate review of the CCG process identifies concerns about the quality of CCG process or report, the assessment will focus on the other sources of evidence identified in the guidelines.</p>		<p>communicated with customers using a range of techniques at each stage and feedback has been taken into account and clearly incorporated into the approach, AND</p> <ul style="list-style-type: none"> The company has consulted a comprehensive sample of customers such that its research demonstrates views of a representative sample of its customer base AND this enables the company to identify and account for the specific needs of different customer groups. The company has actively sought to engage its customers throughout the engagement process – eg, through face-to-face research rather than relying on customers visiting its website, AND Methodologies adhere to best practice guidance or comprehensive and exceptional evidence has been provided to support alternative methodologies. The CCG and/or independent peer review are supportive of the methodologies used.
		B	<p>The company has provided sufficient and convincing evidence of an effective customer (ie, bill payers) engagement process.</p> <ul style="list-style-type: none"> The CCG is supportive of the company's overall engagement process and the review of the evidence provided has confirmed that the company has engaged effectively with the CCG, including that the CCG has effectively challenged the company and these challenges have been appropriately responded to, OR The company has provided sufficient and convincing evidence to explain why the company has been unable to engage effectively with the CCG and/or obtain CCG support for its engagement approach and investment proposals. The company is able to clearly demonstrate circumstances outside of its control and that it has undertaken sufficient and convincing steps to rectify the issue and ensure customer views are still fully accounted for. <p>AND</p> <p>There is clear evidence in the company's business plan or, if an appropriate CCG engagement process has been followed, the CCG's independent report that:</p> <ul style="list-style-type: none"> Historic and qualitative research has been used to shape and inform subsequent research throughout the plan with respect to priorities OR methodologies – eg, ongoing customer engagement has shaped topics for focus groups, AND

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> The company has used a range of techniques to understand the views of its customers, including focus groups, ongoing engagement with customers, research into customers' willingness to pay for changes in service at attribute and overall plan level and it has consulted on draft outcome and/or performance commitment proposals, AND The company has clearly explained how its research has been used to inform the development of its plan and it is clear that the plan has been shaped by the feedback received, AND The company has consulted a comprehensive sample of customers such that its research demonstrates views of a representative sample of its customer base but this may not enable the company to identify and account for the specific needs of different customer groups. The company has actively sought to engage its customers in its main forms of research, for example through face-to-face research rather than relying on customers visiting its website, AND Methodologies adhere to best practice guidance or sufficient and convincing evidence has been provided to support alternative methodologies. The CCG and/or independent peer review are supportive of the methodologies used. <p>OR</p> <p>There is insufficient and/or unconvincing evidence in a minority of these areas but taking a balanced view of all factors these are compensated by comprehensive and exceptional evidence in other areas.</p>
		C	<p>The company has provided insufficient and/or unconvincing evidence of an effective customer (ie, bill payers) engagement process.</p> <ul style="list-style-type: none"> There is insufficient and/or unconvincing evidence that the CCG is supportive of the company's overall engagement process or the review of the evidence provided has confirmed that the company has not engaged effectively with the CCG, the CCG has not effectively challenged the company or that challenges have not been appropriately responded to, AND The company has provided insufficient and/or unconvincing evidence to explain why the company has been unable to engage effectively with the CCG and/or obtain CCG support for its engagement approach and investment proposals. The company has not been able to clearly demonstrate circumstances outside of its control or it has not demonstrated sufficient and convincing steps to rectify

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<p>the issue and ensure customer views are still fully accounted for.</p> <p>OR</p> <p>Based on the information in the company's business plan and the CCG's independent report:</p> <ul style="list-style-type: none"> • There is insufficient and/or unconvincing evidence that historic or qualitative research has been used to shape and inform subsequent research throughout the plan with respect to priorities OR methodologies – eg, ongoing customer engagement has shaped topics for focus groups, OR • There is only evidence that the company has used a limited range of techniques to understand the views of its customers. It has not provided evidence of focus groups, ongoing engagement with customers, and research into customers' willingness to pay for changes in service at attribute and overall plan level or that it has consulted on draft outcome and/or performance commitment proposals, OR • It is unclear how the different research methods have been used in developing its plan or it is unclear how the plan has been shaped by the feedback received, OR • The company has failed to consult a representative sample of its customer base or the company has not actively sought to engage its customers in its main forms of research, for example through face-to-face research rather than relying on customers visiting its website, OR • There is insufficient and/or unconvincing evidence that best practice guidance has been adhered to and, where it hasn't, insufficient and/or unconvincing evidence has been provided to support alternative methodologies, OR the peer review or CCG has expressed concerns about company approaches and that the company has not responded to these.
		D	<p>The company has provided little or no evidence of an effective customer (ie, bill payers) engagement process.</p> <ul style="list-style-type: none"> • The CCG has confirmed it is not supportive of the company's overall engagement process or the review of the evidence provided has confirmed that the company has not engaged effectively with the CCG, the CCG has not effectively challenged the company or that challenges have not been appropriately responded to AND • The company has provided little or no evidence to explain why the company has been unable to

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<p>engage effectively with the CCG and/or obtain CCG support for its engagement approach and investment proposals. The company has not been able to clearly demonstrate circumstances outside of its control or it has not demonstrated sufficient and convincing steps to rectify the issue and ensure customer views are still fully accounted for.</p> <p>OR</p> <p>Based on the information in the company's business plan and the CCG's independent report:</p> <ul style="list-style-type: none"> • There is little or no evidence that historic or qualitative research has been used to shape and inform subsequent research throughout the plan with respect to priorities OR methodologies – eg, ongoing customer engagement has shaped topics for focus groups, OR • There is little or no evidence that the company has used a range of techniques to understand the views of its customers. It has not provided evidence of a number of the main engagement processes (focus groups, ongoing engagement with customers, research into customers' willingness to pay for changes in service at attribute and overall plan level, consulting on draft outcome and/or performance commitment proposals), OR • It is unclear how the different research methods have been used in developing its plan and it is unclear how the plan has been shaped by the feedback received, OR • There is little or no evidence that the company has consulted a representative sample of its customer base or that the company has actively sought to engage its customers in its research, for example through face-to-face research rather than relying on customers visiting its website, OR • There is little or no evidence that best practice guidance has been adhered to and, where it hasn't, little or no evidence has been provided to support alternative methodologies, OR the peer review or CCG has expressed significant concerns about company approaches and that the company has not responded to these.
Criterion 1.2 To what extent has the company	Assess at plan level (with cross check for any differences at element level).	A	<p>The company has provided comprehensive and exceptional evidence of an effective engagement process with wider consumer interest groups.</p> <ul style="list-style-type: none"> • The CCG report confirms that it is satisfied that all relevant stakeholders have been engaged throughout

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
demonstrated effective engagement with wider consumer interest, including environmental interests, generally and through their customer challenge group?	<p>Based on the information provided in the company's business plan, the baseline data-set or additional information from other stakeholders, to what extent is there evidence that the company has engaged effectively with wider stakeholders in addition to customers (in particular environment and quality regulators, as outlined in section 4.2.1 of our final methodology statement) and actively identified short- and long-term issues and priorities.</p> <p>To what extent is there evidence that:</p> <ul style="list-style-type: none"> • A wide range of relevant stakeholders have been engaged with. • The company has taken customers' current and future needs/ expectations into account in the overall approach. • The CCG (including 		<p>the development process by the company, OR</p> <ul style="list-style-type: none"> • The company provides comprehensive and exceptional evidence that it has engaged with all relevant stakeholders throughout the development process. <p>AND</p> <p>The company, or other stakeholders (eg, CCG, EA, DWI) where appropriate, have provided clear evidence that the company has:</p> <ul style="list-style-type: none"> • Consulted with other regulators effectively in order to fully understand statutory requirements, including working with other regulators to ensure the appropriate requirements are introduced where the company has reasonable doubts over the necessity of a requirement, AND • As part of engagement with other regulators and relevant stakeholders, actively considered priorities beyond the five-year period, AND • Engaged with relevant stakeholders (eg, customers, environmental regulators) to understand potential future issues/priorities, including environmental sustainability issues, AND • Undertaken ongoing dialogue with stakeholders relating to areas where its plan does not address the stakeholders' views/priorities, AND • Explicitly demonstrated how it has addressed stakeholder views in the development of its plan, including how it has resolved conflicts across different groups.
		B	<p>The company has provided sufficient and convincing evidence of an effective engagement process with wider consumer interest groups.</p> <ul style="list-style-type: none"> • The CCG report confirms that it is satisfied that all relevant stakeholders have been engaged throughout the development process by the company, OR • The company provides sufficient and convincing evidence that it has engaged with all relevant stakeholders throughout the development process. <p>AND</p> <p>The company, or other stakeholders (eg, CCG, EA, DWI) where appropriate, have provided clear evidence</p>

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Criterion	Interpretation of criterion	Guidelines	
	<p>environmental/quality regulators) supports the approach taken.</p> <ul style="list-style-type: none"> Any issues raised by the CCG (or environmental/quality regulators) have been addressed and where a successful resolution has not been reached, reasoning is provided (ideally supported by consumers' views). 		<p>that the company has:</p> <ul style="list-style-type: none"> Consulted with other regulators effectively in order to fully understand statutory requirements, but it may not have provided evidence of working with the regulator to address areas where the company has reasonable doubts over the necessity of a requirement or understanding the regulator's wider views/priorities, AND Engaged on outcomes which clearly extend beyond the five-year period, AND Engaged with relevant stakeholders to understand potential future issues/priorities, including environmental sustainability issues, AND Explicitly demonstrated how it has addressed stakeholder views in the development of its plan.
		C	<p>The company has provided insufficient and/or unconvincing evidence of an effective engagement process with wider consumer interest groups.</p> <ul style="list-style-type: none"> The CCG does not confirm that it is satisfied that all relevant stakeholders have been engaged throughout the development process by the company, AND The company provides insufficient and/or unconvincing evidence that it has engaged with all relevant stakeholders throughout the development process, OR <p>The company has provided insufficient and/or unconvincing evidence and other stakeholders (eg, CCG,EA, DWI) have not provided evidence that the company has:</p> <ul style="list-style-type: none"> Consulted with other regulators effectively in order to fully understand statutory requirements, OR Engaged on outcomes which clearly extend beyond the five-year period, OR Engaged with relevant stakeholders to understand potential future issues/priorities, including environmental sustainability issues, OR Explicitly demonstrated how it has addressed stakeholder views in the development of its plan.
		D	<p>The company has provided little or no of an effective engagement process with wider consumer interest groups.</p> <ul style="list-style-type: none"> The CCG has confirmed that it is not satisfied that all relevant stakeholders have been engaged

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Criterion	Interpretation of criterion	Guidelines	
			<p>throughout the development process by the company, AND</p> <ul style="list-style-type: none"> The company has provided little or no evidence that it has engaged with all relevant stakeholders throughout the development process. <p>OR</p> <p>The company, or other stakeholders (eg, CCG, EA, DWI) where appropriate, have provided little or no evidence that the company has:</p> <ul style="list-style-type: none"> Consulted with other regulators effectively in order to fully understand statutory requirements, OR Engaged on outcomes which clearly extend beyond the five-year period, OR Engaged with relevant stakeholders to understand potential future issues/priorities, including environmental sustainability issues, OR Explicitly demonstrated how it has addressed stakeholder views in the development of its plan.
<p>Criterion 1.3 How far has the company demonstrated a robust approach to gathering willingness to pay information and in mapping this to its outcomes, performance commitments, and outcome delivery incentives?</p>	<p>Assess at plan level (with cross check for any differences at element level). Based on the information provided in the company's business plan, the CCG's independent report (dependent on the Portfolio Team's review of the report) and other independent assurance to what extent is there evidence that the company has:</p> <ul style="list-style-type: none"> Undertaken a robust approach to estimating customers' willingness to 	A	<p>The company has provided comprehensive and exceptional evidence of a robust approach to gathering WTP information and mapping this to its outcomes, PCs and ODIs.</p> <p>Taking a balanced view of the evidence provided there is comprehensive and exceptional evidence that a robust approach to estimating customers' willingness to pay has been adhered to. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG confirms that it has been fully engaged in the development of the company's quantitative analysis. The CCG has reviewed the analysis undertaken and supports the approach(es) taken. Independent expert review has been undertaken throughout the development of quantitative analysis. It confirms support for the approach adopted or the company has provided comprehensive and exceptional evidence to justify its approach where the expert review has raised significant concerns. The company has clearly explained how its survey(s) conform to best practice, such as relevant UKWIR guidance. Any key methodological choices have been clearly explained and evidenced. <p>AND</p> <p>Taking a balanced view of the evidence provided there is comprehensive and exceptional evidence that</p>

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Criterion	Interpretation of criterion	Guidelines	
	<p>pay.</p> <ul style="list-style-type: none"> • Estimated robust, defensible WTP estimates. • Considered WTP estimates alongside the findings of other research and considered the implications of other issues/priorities on customer WTP. • Used customer views and WTP estimates to develop its outcomes, performance commitments and outcome delivery incentives. 		<p>robust, defensible willingness to pay values have been estimated. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> • The CCG confirms that it is supportive of the results obtained and that they appear consistent with other evidence. • The company has undertaken comprehensive testing of the results including sensitivity testing and consistency checking of responses within the survey to understand the robustness of the results. • The company has compared its results with other information, including results from its previous surveys and other research as well as other available information, such as other company's PR14 WTP surveys. • Any 'outliers' or apparent anomalies in results have been analysed, understood and accounted for. <p>AND</p> <p>Taking a balanced view of the following evidence provided there is comprehensive and exceptional evidence that the company has sought to account for other factors impacting on bills when eliciting customer WTP estimates and using these estimates in building its plan. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> • The company has accounted for other pressures on household bills when understanding customers' willingness to pay for service improvements (for water only companies this includes wastewater services). • the company has taken care to ensure that customers understand the need for companies to adhere to environmental/quality regulations when expressing their views. • The company has addressed the issue of inflation when engaging with customers about bill increases – eg, they have expressed future bills in nominal rather than real terms. <p>AND</p> <p>Taking a balanced view of evidence provided there is comprehensive and exceptional evidence that the company has clearly and appropriately used the WTP estimates, balanced with other information, in developing its outcomes, performance commitments and outcome delivery incentives. The following are examples of the evidence the company may provide:</p>

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Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> It is clear how the results have fed into any subsequent analysis (CBA). It is clear how the WTP values have been adjusted to align with performance measures where they differ. Any adjustments are shown to be appropriate. The CCG confirms that it is supportive of how the analysis has been used to inform the plan. Customer views obtained have clearly informed the development of the outcomes and associated performance measures and commitments. The company has clearly explained how it has balanced competing results (eg, differences in marginal and overall WTP estimates). Evidence that customers support the overall plan, not just individual aspects. No high priority customer issues have been omitted from the outcomes or PCs without convincing evidence and explanation.
		B	<p>The company has provided sufficient and convincing evidence of a robust approach to gathering WTP information and mapping this to its outcomes, PCs and ODIs.</p> <p>Taking a balanced view of the evidence provided there is sufficient and convincing evidence that a robust approach to estimating customers' willingness to pay has been adhered to. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG confirms that it has been fully engaged in the development of the company's quantitative analysis. The CCG has reviewed the analysis undertaken and supports the approach(es) taken. Independent expert review has been undertaken throughout the development of quantitative analysis. It confirms support for the approach adopted or the company has provided sufficient and convincing evidence to justify its approach where the expert review has raised significant concerns. The company has clearly explained how its survey(s) conform to best practice, such as relevant UKWIR guidance. Any key methodological choices have been clearly explained and evidenced. <p>AND</p> <p>Taking a balanced view of the evidence provided there is sufficient and convincing evidence that robust, defensible willingness to pay values have been estimated. The following are examples of the evidence the</p>

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<p>company may provide:</p> <ul style="list-style-type: none"> The CCG confirms that it is supportive of the results obtained and that they appear consistent with other evidence. The company has undertaken comprehensive testing of the results including sensitivity testing and consistency checking of responses within the survey to understand the robustness of the results. The company has compared its results with other information, including results from its previous surveys and other research as well as other available information, such as other company's PR14 WTP surveys. Any 'outliers' or apparent anomalies in results have been analysed, understood and accounted for. <p>AND</p> <p>Taking a balanced view of the evidence provided there is sufficient and convincing evidence that the company has sought to account for other factors impacting on bills when eliciting customer WTP estimates and using these estimates in building its plan. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The company has accounted for other pressures on household bills when understanding customers' willingness to pay for service improvements (for water only companies this includes wastewater services). the company has taken care to ensure that customers understand the need for companies to adhere to environmental/quality regulations when expressing their views. The company has addressed the issue of inflation when engaging with customers about bill increases – eg, they have expressed future bills in nominal rather than real terms. <p>AND</p> <p>Taking a balanced view of the evidence provided there is sufficient and convincing evidence that the company has clearly and appropriately used the WTP estimates, balanced with other information, in developing its outcomes, performance commitments and outcome delivery incentives. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> It is clear how the results have fed into any subsequent analysis (CBA).

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Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> It is clear how the WTP values have been adjusted to align with performance measures where they differ. Any adjustments are shown to be appropriate. The CCG confirms that it is supportive of how the analysis has been used to inform the plan. Customer views obtained have clearly informed the development of the outcomes and associated performance measures and commitments. The company has clearly explained how it has balanced competing results (eg, differences in marginal and overall WTP estimates). Evidence that customers support the overall plan, not just individual aspects. No high priority customer issues have been omitted from the outcomes or PCs without convincing evidence and explanation.
		C	<p>The company has provided insufficient and/or unconvincing evidence of a robust approach to gathering WTP information and mapping this to its outcomes, PCs and ODIs.</p> <p>Taking a balanced view of the evidence provided there is insufficient and/or unconvincing evidence that a robust approach to estimating customers' willingness to pay has been adhered to. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG has not confirmed that it has been fully engaged in the development of the company's quantitative analysis or it does not support the approach(es) taken. Independent expert review has not been undertaken or it has raised significant concerns and the company has provided insufficient and/or unconvincing evidence to justify its approach. Company has not explained how its survey(s) conform to best practice, such as relevant UKWIR guidance. Any key methodological choices have not been clearly explained and evidenced. <p>OR</p> <p>Taking a balanced view of the evidence provided there is insufficient and/or unconvincing evidence that robust, defensible willingness to pay values have been estimated. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG does not confirm that it is supportive of the results obtained or that they appear inconsistent

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Criterion	Interpretation of criterion	Guidelines	
			<p>with other evidence.</p> <ul style="list-style-type: none"> The company has not undertaken comprehensive testing of the results including sensitivity testing and consistency checking of responses within the survey to understand the robustness of the results. The company has not compared its results with other information, including results from its previous surveys and other research as well as other available information, such as other company's PR14 WTP surveys. Any 'outliers' or apparent anomalies in results have not been analysed, understood or accounted for. <p>OR</p> <p>Taking a balanced view of the evidence provided there is insufficient and/or unconvincing evidence that the company has sought to account for other factors impacting on bills when eliciting customer WTP estimates and using these estimates in building its plan. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The company has not accounted for other pressures on household bills when understanding customers' willingness to pay for service improvements (for water only companies this includes wastewater services). the company has not engaged with customers on the need for companies to adhere to environmental/quality regulations. The company has not addressed the issue of inflation when engaging with customers about bill increases – eg, they have expressed future bills in real rather than nominal terms. <p>OR</p> <p>Taking a balanced view of the evidence provided there is insufficient and/or unconvincing evidence that the company has clearly and appropriately used the WTP estimates, balanced with other information, in developing its outcomes, performance commitments and outcome delivery incentives. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> It is unclear how the results have fed into any subsequent analysis (CBA). It is unclear how the WTP values have been adjusted to align with performance measures where they

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<p>differ or any adjustments are not shown to be appropriate.</p> <ul style="list-style-type: none"> The CCG is not supportive of how the analysis has been used to inform the plan. It is not clear how customer views obtained have informed the development of the outcomes and associated performance measures and commitments. It is not clear how the company has balanced competing results (eg, differences in marginal and overall WTP estimates). No evidence that customers support the overall plan, just individual aspects. High priority customer issues have been omitted from the outcomes or PCs without convincing evidence and explanation.
		D	<p>The company has provided little or no evidence of a robust approach to gathering WTP information and mapping this to its outcomes, PCs and ODIs.</p> <p>Taking a balanced view of the evidence provided there is little or no evidence that a robust approach to estimating customers' willingness to pay has been adhered to. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG has not confirmed that it has been fully engaged in the development of the Company's quantitative analysis or it does not support the approach(es) taken. Independent expert review has not been undertaken or it has raised significant concerns and the Company has provided little or no evidence to justify its approach. Company has not explained how its survey(s) conform to best practice, such as relevant UKWIR guidance. Any key methodological choices have not been clearly explained and evidenced. Or there were clear key methodological issues evident in the company's approach. <p>OR</p> <p>Taking a balanced view of the evidence provided there is little or no evidence that robust, defensible willingness to pay values have been estimated. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The CCG confirms that it is not supportive of the results obtained or that they appear inconsistent with

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<p>other evidence.</p> <ul style="list-style-type: none"> The company has not undertaken testing of the results including sensitivity testing and consistency checking of responses within the survey to understand the robustness of the results. The company has not compared its results with other information, including results from its previous surveys and other research as well as other available information, such as other company's PR14 WTP surveys . Any 'outliers' or apparent anomalies in results have not been analysed, understood or accounted for. <p>OR</p> <p>Taking a balanced view of the evidence provided there is little or no evidence that the company has sought to account for other factors impacting on bills when eliciting customer WTP estimates and using these estimates in building its plan. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> The company has not accounted for other pressures on household bills when understanding customers' willingness to pay for service improvements (for water only companies this includes wastewater services). the company has not engaged with customers on the need for companies to adhere to environmental/quality regulations. The company has not addressed the issue of inflation when engaging with customers about bill increases – eg, they have expressed future bills in real rather than nominal terms with no explanation of inflation. <p>OR</p> <p>Taking a balanced view of the evidence provided there is little or no evidence that the company has clearly and appropriately used the WTP estimates, balanced with other information, in developing its outcomes, performance commitments and outcome delivery incentives. The following are examples of the evidence the company may provide:</p> <ul style="list-style-type: none"> It is unclear how the results have fed into any subsequent analysis (CBA). It is unclear how the WTP values have been adjusted to align with performance measures where they differ or any adjustments are shown to be inappropriate.

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: customer engagement and willingness to pay (WTP) evidence	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> • The CCG is not supportive of how the analysis has been used to inform the plan. • It is not clear how customer views obtained have informed the development of the outcomes and associated performance measures and commitments. It is not clear how the company has balanced competing results (eg, differences in marginal and overall WTP estimates). • No evidence that customers support the overall plan, just individual aspects. • High priority customer issues have been omitted from the outcomes or PCs with little or no evidence and explanation.
Overall test		Guidelines	
Test 1: customer engagement and willingness to pay information		A	As a general guide, all criteria must score A or B and at least two criteria must score A, and there must not be a D score on wholesale cost assessment (test 4) or affordability (test 13). However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, all criteria must score A or B and less than two criteria score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, at least one criterion score C or D and less than two criteria score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, at least two criteria score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).

Test 2: performance commitments

Element: all elements, except non-household retail for companies operating wholly or mainly in England (except as marked for criterion 2.2)		Test: performance commitments	
Criterion	Interpretation of criterion	Guidelines	
Criterion 2.1 How clearly and appropriately has the company allocated its outcome commitments between its separate controls (household retail, wholesale water and, where relevant, wholesale wastewater)?	Assess at PC level (on pass/fail basis), aggregate to element score. Based on the information provided in the company's business plan and in tables W1, S1 and R1, to what extent is there evidence that the company has: <ul style="list-style-type: none"> Allocated its outcomes and performance commitments (PCs) to the appropriate element(s). Appropriately allocated totex and incentives across elements for PCs that span more than one. 	A	There are no performance commitments obviously misallocated (eg, wholesale wastewater only PC allocated to wholesale water). For all high significance, for the significant majority of medium significance and for the majority of low significance PCs the company has provided clear evidence that it has: <ul style="list-style-type: none"> Allocated the PC to the appropriate element, AND Explained any overlaps and/or linkages across elements and that it has appropriately allocated expenditure and incentives across the elements.
		B	There are no performance commitments obviously misallocated (eg, wholesale wastewater only PC allocated to wholesale water). For all high significance and some medium significance PCs the company has provided clear evidence that it has: <ul style="list-style-type: none"> Allocated the PC to the appropriate element, AND Explained any overlaps and/or linkages across elements and that it has appropriately allocated expenditure and incentives across the elements.
		C	For only the majority, but not all, of high significance or only a small minority of medium significance PCs the company has provided clear evidence that it has: <ul style="list-style-type: none"> Allocated the PC to the appropriate element, AND Explained any overlaps and/or linkages across elements and that it has appropriately allocated expenditure and incentives across the elements.
		D	For only a minority of high significance PCs the company has provided clear evidence that it has: <ul style="list-style-type: none"> Allocated the PC to the appropriate element, AND

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Element: all elements, except non-household retail for companies operating wholly or mainly in England (except as marked for criterion 2.2)		Test: performance commitments	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> Explained any overlaps and/or linkages across elements and that it has appropriately allocated expenditure and incentives across the elements.
Criterion 2.2 How consistent are the company's proposed commitments with requirements specified in our methodology, including in relation to SIM, AIM, and leakage?	Assess at wholesale water element level only. Based on the information provided in the company's business plan and in tables W1 and W7, to what extent is there evidence that the company has complied with our final methodology statement (pages 70-74 and chapter 8, pages 117-120)? <ul style="list-style-type: none"> Has the company included PCs related to leakage and AIM? Do the relevant PCs adhere to the guidance as set out in our final methodology statement? Wholesale wastewater: Test is not relevant as there are no required outcomes. Household retail and non-household retail in Wales:	A	The company has provided comprehensive and exceptional evidence that its PCs are compliant with the methodology. For wholesale water: The company demonstrates that it has met the requirements for both leakage and AIM, and has exceeded the requirements for one of them, as demonstrated by the following. <ul style="list-style-type: none"> The company has included a PC that relates to leakage and has provided comprehensive and exceptional evidence that it adheres to guidance, such that it demonstrates that the PC is aligned to the sustainable economic level of leakage (SELL) calculations in the water resources management plan (WRMP) or any differences have been clearly evidenced and it provides clear evidence of customer support for any proposed deadbands that are material, AND The company has provided the necessary information in table W7 for the relevant sites as identified in correspondence between Ofwat and the company about the EA site lists (and/or additional evidence provided to explain any discrepancies if relevant), AND EITHER The company proposes an overall reduction in leakage or includes robust evidence that this is not appropriate, OR The company proposes a PC for AIM and an associated financial incentive. For wholesale wastewater: This key assessment criterion is not relevant. For household retail and non-household retail in Wales: This key assessment criterion is not relevant.
		B	The company has provided sufficient and convincing evidence that its PCs are compliant with the methodology.

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Criterion	Interpretation of criterion	Guidelines	
	Ofwat confirmed that it will continue to implement SIM at a national level. There is no requirement on the company to propose it as a retail performance commitment and, therefore, this criterion is not relevant.		<p>For wholesale water:</p> <p>The company demonstrates that it has met the requirements for both leakage and AIM, as demonstrated by the following.</p> <ul style="list-style-type: none"> • The company has included a PC that relates to leakage and has provided sufficient and convincing evidence that it adheres to guidance, such that it demonstrates that the PC is aligned to the SELL calculations in the WRMP or any differences have been clearly evidenced and it provides clear evidence of customer support for any proposed deadbands that are material, AND • The company has provided the necessary information in table W7 for the relevant sites as identified in correspondence between Ofwat and the company about the EA site lists (and/or additional evidence provided to explain any discrepancies if relevant). <p>For wholesale wastewater:</p> <p>This key assessment criteria is not relevant.</p> <p>For household retail and non-household retail in Wales:</p> <p>This key assessment criteria is not relevant</p>
		C	<p>The company has provided insufficient and/or unconvincing evidence that its PCs are compliant with the methodology.</p> <p>For wholesale water:</p> <p>The company has proposed a leakage PC that fails requirements or the company fails to meet the AIM requirements, as demonstrated by the following.</p> <ul style="list-style-type: none"> • The company has included a PC for leakage but it provides insufficient and/or unconvincing evidence that it has followed the guidance, such that there are inconsistencies between its SELL calculations and those in the WRMP which are not clearly justified, or it has not provided clear evidence of customer support to justify any deadbands around the performance commitment that are material, OR • The company has not provided the necessary information in table W7 for the relevant sites as identified in correspondence between Ofwat and the company about the EA site lists and additional evidence not

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Element: all elements, except non-household retail for companies operating wholly or mainly in England (except as marked for criterion 2.2)		Test: performance commitments	
Criterion	Interpretation of criterion	Guidelines	
			<p>provided to explain any discrepancies.</p> <p>For wholesale wastewater: This key assessment criteria is not relevant.</p> <p>For household retail and non-household retail in Wales: This key assessment criteria is not relevant</p>
		D	<p>The company has provided little or no evidence that its PCs are compliant with the methodology.</p> <p>For wholesale water: The company has not proposed a leakage PC, OR the company has proposed a leakage PC that fails requirements and the company fails to meet the AIM requirements, as demonstrated by the following.</p> <ul style="list-style-type: none"> • The company has provided little or no evidence that it has included a PC that relates to leakage, OR • The company has included a PC for leakage but it provides insufficient or unconvincing evidence that it has followed the guidance, such that there are inconsistencies between its SELL calculations and those in the WRMP which are not clearly justified, or it has not provided clear evidence to justify any deadbands around the performance commitment that are material, AND • The company has not provided the necessary information in table W7 for the relevant sites as identified in correspondence between Ofwat and the company about the EA site lists and additional evidence not provided to explain any discrepancies. <p>For wholesale wastewater: This key assessment criteria is not relevant.</p> <p>For household retail and non-household retail in Wales: This key assessment criteria is not relevant</p>
Criterion 2.3 To what degree has	Assess at element level. Based on the information	A	The company has provided comprehensive and exceptional evidence that its PCs are consistent with its relevant obligations, statutory requirements and licence conditions.

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Criterion	Interpretation of criterion	Guidelines	
<p>the company given adequate assurance that its performance commitments are consistent with Defra's and(or) Welsh Government's Statement of Obligations, relevant statutory requirements and licence obligations?</p>	<p>provided in the company's business plan, including the Board assurance statement, and other regulators' statements in the CCG report, to what extent is there evidence that the PCs are consistent with statutory requirements?</p>		<ul style="list-style-type: none"> Board assurance statement provided and comprehensive and exceptional evidence that the company understands ALL its obligations and requirements (reference to explicit obligations made in the statement) and its PCs are consistent with statutory and licence obligations and take account of future pressures, AND Confirmation from CCG (or directly from other regulators if also shared with the CCG for comment) that performance commitments are consistent with meeting environmental and drinking water quality obligations.
	<p>To what extent has the company provided assurance that it understands its licence conditions and environmental and drinking water quality obligations and that it will meet them – eg, has the company's Board seen and challenged requirements?</p>	B	<p>The company has provided sufficient and convincing evidence that its PCs are consistent with its relevant obligations, statutory requirements and licence conditions.</p> <ul style="list-style-type: none"> Statement of assurance provided and sufficient and convincing evidence that the company understands its obligations and requirements and its PCs are consistent with statutory and licence obligations, AND Confirmation from CCG (or directly from other regulators, if also shared with the CCG for comment) that performance commitments are consistent with meeting environmental and drinking water quality obligations.
	<p>To what extent has the company demonstrated that its proposed performance measures and commitments will enable them to demonstrate if their statutory and licence obligations have been delivered?</p>	C	<p>The company has provided insufficient and/or unconvincing evidence that its PCs are consistent with its relevant obligations, statutory requirements and licence conditions.</p> <ul style="list-style-type: none"> Statement of assurance provided but insufficient and/or unconvincing evidence to demonstrate that it understands its obligations and requirements or that its PCs are consistent with them, OR Some concerns raised by CCG (or direct from other regulators, if also shared with the CCG for comment) that company is not planning to meet statutory obligations, AND The company does not provide sufficient and/or convincing evidence that it has, or will, address these concerns.
	<p>To what extent does our intelligence on statutory requirements – eg, latest version</p>	D	<p>The company has provided little or no evidence that its PCs are consistent with its relevant obligations, statutory requirements and licence conditions.</p> <ul style="list-style-type: none"> No statement of assurance or very basic statement but with little or no evidence to demonstrate that it

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	<p>of NEP (summarised in assessor pack) correlate with forecast expenditure in tables W/S3B?</p> <p>To what extent has the CCG report, or direct correspondence from other regulators if also shared with the CCG for comment, provided confirmation and evidence that the company's proposed commitments are likely to demonstrate compliance with licence obligations and statutory requirements?</p>		<p>understands its obligations and requirements or that its PCs are consistent with them, OR</p> <ul style="list-style-type: none"> • Statement of assurance provided but significant concerns raised by the CCG or other regulators that contradicts the company statement, AND • The company does not provide sufficient and/or convincing evidence that it has, or will, address these concerns.
<p>Criterion 2.4</p> <p>How reasonable are the company's assumptions in relation to areas of anticipated statutory requirements and (or) environmental programme that remain uncertain?</p>	<p>Assess at element level.</p> <p>Based on the information provided in tables W/S11 and W/S3B, the company's business plan and regulators' statements in the CCG report, to what extent is there evidence that the company has made reasonable assumptions with regard to future statutory requirements that remain uncertain?</p> <p>To what extent has the company</p>	A	<p>The company has provided comprehensive and exceptional evidence of robust assumptions in relation to areas of anticipated statutory requirements and the NEP, which remain uncertain.</p> <ul style="list-style-type: none"> • Evidence from BP that company understands what requirements remain uncertain, has actively considered different approaches for managing uncertain elements and has proposed measures to address the uncertainty in its BP. • Confirmation from CCG (or directly from other regulators) that the company has actively considered and proposed measures to manage uncertain environmental and drinking water quality obligations. • The company has considered potential implications of uncertain requirements and has accounted for this in its final business plan.
		B	<p>The company has provided sufficient and convincing evidence of robust assumptions in relation to areas of anticipated statutory requirements and the NEP, which remain uncertain.</p>

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	<p>provided evidence that it has:</p> <ul style="list-style-type: none"> Fully understood and investigated what remains uncertain through engagement with relevant regulators and has considered whether to include proposals in the plan or to put in place methods for dealing with the uncertainty, such as undertaking investigations or proposing change mechanisms. Made reasonable assumptions as to the potential implications (eg, bill impacts) of uncertain requirements and accounted for this in its business plan. 		<ul style="list-style-type: none"> Evidence from BP that company understands what material requirements remain uncertain and has actively considered different approaches for managing uncertain elements and has proposed measures to address the uncertainty in its BP. No concerns raised by CCG (or directly from other regulators) that the company has considered and proposed measures to manage uncertain environmental and drinking water quality obligations. The company has considered potential implications of uncertain requirements and has accounted for this in its final business plan.
		C	<p>The company has provided insufficient and/or unconvincing evidence of robust assumptions in relation to areas of anticipated statutory requirements and the NEP, which remain uncertain.</p> <ul style="list-style-type: none"> Insufficient and/or unconvincing evidence from BP that company understands what material requirements remain uncertain and has actively considered different approaches for managing uncertain elements and has proposed measures to address the uncertainty in its BP, OR Some concerns have been raised by the CCG, other regulators or stakeholders that the company is not actively managing uncertain statutory requirements, OR Insufficient and/or unconvincing evidence that company has considered potential implications of uncertain requirements and has accounted for this in its final business plan.
		D	<p>The company has provided little or no evidence of robust assumptions in relation to areas of anticipated statutory requirements and the NEP, which remain uncertain.</p> <ul style="list-style-type: none"> Little or no evidence from BP that company understands what material requirements remain uncertain and has actively and successfully considered different approaches for managing uncertain elements, OR Significant concerns have been raised by the CCG, other regulators or stakeholders that the company is not actively managing uncertain statutory requirements, OR Little or no evidence that company has considered potential implications of uncertain requirements and has accounted for this in its final business plan.

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Criterion 2.5 How well do the company's proposed commitments reflect value for money, and how reasonable are the costs?	Assess at element (first part) and PC level (second part, on a pass/fail basis), aggregate to element score. Based on the information provided in the company's business plan and in tables W1,S1,R1, W2a, S2a and R2a, to what extent is there evidence that the proposed PCs reflect value for money? To what extent has the company demonstrated it has undertaken robust CBA that follows best practice guidance and considered the results of these with wider considerations? For each PC, to what extent has the company: <ul style="list-style-type: none"> • Explained why it has selected the performance level and why this reflects value for money, including (a) evidence that the performance commitment is at the most cost beneficial 	A	<p>The company has provided comprehensive and exceptional evidence that its PCs reflect value for money and reasonable costs.</p> <p>The company has provided comprehensive and exceptional evidence of the approach it has followed in undertaking CBA and that the methodology followed is technically robust and conforms to best practice guidelines. Examples of this evidence might include:</p> <ul style="list-style-type: none"> • How it has accounted for industry-wide guidelines, such as UKWIR guidance, or other guidelines, such as HMT Green Book. • Whether lessons have been learned from the company's PR09 analysis and/or independent expert review has been commissioned. <p>AND</p> <p>For all high significance, for at least 75% medium significance PCs and for the majority of low significance PCs the company has provided clear evidence that:</p> <ul style="list-style-type: none"> • The PC is at the most cost beneficial level or, if not, selection of the level is clearly and fully justified, including evidencing the reasons for setting a PC at a level beyond the most cost-beneficial or for PCs set at a level below the most cost-beneficial level that they are not 'aiming low' in order to earn a reward. • It considered a range of solutions and opted for the most cost-beneficial approach. • Any benefits estimates used in the analysis were appropriate to the PC and used appropriately in the analysis. • Costs have been allocated to the appropriate PCs and clear evidence provided for any allocation across PCs. • The PC measure will demonstrate if the priority has been achieved.
		B	<p>Taking a balanced view of the following factors, the company has provided sufficient and convincing evidence that its PCs reflect value for money and reasonable costs.</p> <p>The company has provided sufficient and convincing evidence of the approach it has followed in undertaking</p>

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Criterion	Interpretation of criterion	Guidelines	
	<p>level, or (b) clearly evidenced where a company has not selected the most cost beneficial level?</p> <ul style="list-style-type: none"> • Provided clear evidence that appropriate options/solutions have been considered and the most cost beneficial solution has been selected? • Provided evidence that the benefit estimates (WTP or other values) used in the analysis are reasonable? Provided convincing reasoning where CBA has not been undertaken and demonstration that the most cost effective level has been selected? • Provided evidence that the company has applied the best practice approaches to derive the long term economic level of performance? • Clearly evidenced how it has 		<p>CBA and that the methodology followed is technically robust and conforms to best practice guidelines. Examples of this evidence might include:</p> <ul style="list-style-type: none"> • How it has accounted for industry-wide guidelines, such as UKWIR guidance, or other guidelines, such as HMT Green Book; • Whether lessons have been learned from the company's PR09 analysis and/or independent expert review has been commissioned. <p>AND</p> <p>For all high significance and at least 25% medium significance PCs the company has provided clear evidence that:</p> <ul style="list-style-type: none"> • The PC is at the most cost beneficial level or, if not, selection of the level is clearly and fully justified, including evidencing the reasons for setting a PC at a level beyond the most cost-beneficial or for PCs set at a level below the most cost-beneficial level that they are not 'aiming low' in order to earn a reward. • It considered a range of solutions and opted for the most cost-beneficial approach. • Any benefits estimates used in the analysis were appropriate to the PC and used appropriately in the analysis. • Costs have been allocated to the appropriate PCs and clear evidence provided for any allocation across PCs. • The PC measure will demonstrate if the priority has been achieved.
		C	<p>The company has provided insufficient and/or unconvincing evidence that its PCs reflect value for money and reasonable costs.</p> <p>The company has provided insufficient and/or unconvincing evidence of the approach it has followed in undertaking CBA and that the methodology followed is technically robust and conforms to best practice guidelines. Examples of this evidence might include:</p> <ul style="list-style-type: none"> • How it has accounted for industry-wide guidelines, such as UKWIR guidance, or other guidelines, such

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	derived and allocated appropriately the incremental costs and benefits to PCs (including those that cross more than one PC or outcome)?		<p>as HMT Green Book.</p> <ul style="list-style-type: none"> Whether lessons have been learned from the company's PR09 analysis and/or independent expert review has been commissioned. <p>OR</p> <p>The company has only provided clear evidence for 50-99% of high significance or less than 25% medium significance PCs that:</p> <ul style="list-style-type: none"> The PC is at the most cost beneficial level or, if not, selection of the level is clearly and fully justified, including evidencing the reasons for setting a PC at a level beyond the most cost-beneficial or for PCs set at a level below the most cost-beneficial level that they are not 'aiming low' in order to earn a reward. It considered a range of solutions and opted for the most cost-beneficial approach. Any benefits estimates used in the analysis were appropriate to the PC and used appropriately in the analysis. Costs have been allocated to the appropriate PCs and clear evidence provided for any allocation across PCs. The PC measure will demonstrate if the priority has been achieved.
		D	<p>The company has provided little or no evidence that its PCs reflect value for money and reasonable costs. The company has provided little or no evidence of the approach it has followed in undertaking CBA and that the methodology followed is technically robust and conforms to best practice guidelines. Examples of this evidence might include:</p> <ul style="list-style-type: none"> How it has accounted for industry-wide guidelines, such as UKWIR guidance, or other guidelines, such as HMT Green Book. Whether lessons have been learned from the company's PR09 analysis and/or independent expert review has been commissioned. <p>OR</p>

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Criterion	Interpretation of criterion	Guidelines	
			<p>The company has only provided clear evidence for less than 50% of high significance PCs that:</p> <ul style="list-style-type: none"> • The PC is at the most cost beneficial level or, if not, selection of the level is clearly and fully justified, including evidencing the reasons for setting a PC at a level beyond the most cost-beneficial or for PCs set at a level below the most cost-beneficial level that they are not 'aiming low' in order to earn a reward. • It considered a range of solutions and opted for the most cost-beneficial approach. • Any benefits estimates used in the analysis were appropriate to the PC and used appropriately in the analysis. • Costs have been allocated to the appropriate PCs and clear evidence provided for any allocation across PCs. • The PC measure will demonstrate if the priority has been achieved.
<p>Criterion 2.6 How strong is the evidence that the company has provided in relation to its previous track record of delivery in relation to performance commitments and to what degree does this support its commitments for the future? To what extent has the company properly</p>	<p>Assess at PC level (on a pass/fail basis), aggregate to element score. Based on the information provided in the company's business plan and on historic information in the assessor pack, to what extent is there evidence that the PCs are set at a reasonable level? For each PC has the company provided evidence that:</p> <ul style="list-style-type: none"> • Any changes to the definition from previous measures is appropriate and 	A	<p>The company has provided comprehensive and exceptional evidence relating to the justification of its future PCs in the context of its past performance. For all high significance, for at least 75% medium significance PCs and for the majority of low significance PCs the company has provided clear evidence that:</p> <ul style="list-style-type: none"> • The performance measure can be related to previous measures such that current performance can be established and performance commitments related to past performance OR if the PC relates to a completely new measure that cannot be related to past performance the company provides clear evidence about how it has established current performance. • Track record supports PC and, where current and ongoing issues with delivery have been identified, there is clear evidence that the company is learning from this in order to deliver future commitments. • Where appropriate, the PC level is within expected range or comprehensive justification is provided where it is not within the expected range.
		B	<p>The company has provided sufficient and convincing evidence relating to the justification of its future PCs in the context of its past performance.</p>

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justified any changes in proposed performance levels?	<p>any new performance measures can be related to the company's track record in order to establish current performance?</p> <ul style="list-style-type: none"> It will be able to achieve the PC based on the current and historic level of performance, including evidence that, where the company has failed to deliver in the past it has learnt lessons to ensure future delivery? The PC level is not an unjustified deterioration from current service (ie, that the PC is not too easy to achieve)? 		<p>For all high significance and at least 25% medium significance PCs the company has provided clear evidence that:</p> <ul style="list-style-type: none"> The performance measure can be related to previous measures such that current performance can be established and performance commitments related to past performance OR if the PC relates to a completely new measure that cannot be related to past performance the company provides clear evidence about how it has established current performance. Track record supports PC and, where current and ongoing issues with delivery have been identified, there is clear evidence that the company is learning from this in order to deliver future commitments. Where appropriate, the PC level is within expected range or clear justification is provided where it is not within the expected range.
		C	<p>The company has provided insufficient and/or unconvincing evidence relating to the justification of its future PCs in the context of its past performance.</p> <p>The company has only provided clear evidence for 50-99% of high significance or less than 25% of medium significance PCs that:</p> <ul style="list-style-type: none"> The performance measure can be related to previous measures such that current performance can be established and performance commitments related to past performance OR if the PC relates to a completely new measure that cannot be related to past performance the company provides clear evidence about how it has established current performance. Track record supports PC and, where current and ongoing issues with delivery have been identified, there is clear evidence that the company is learning from this in order to deliver future commitments. Where appropriate, the PC level is within expected range or clear justification is provided where it is not within the expected range.
		D	<p>The company has provided little or no evidence relating to the justification of its future PCs in the context of its past performance.</p> <p>The company has only provided clear evidence for less than 50% of high significance PCs that:</p>

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			<ul style="list-style-type: none"> The performance measure can be related to previous measures such that current performance can be established and performance commitments related to past performance OR, if the PC relates to a completely new measure that cannot be related to past performance the company provides clear evidence about how it has established current performance. Track record supports PC and, where issues with delivery have been identified in the past, there is clear evidence that the company is learning from the past in order to deliver future commitments. Where appropriate, the PC level is within expected range or clear justification is provided where it is not within the expected range.
Criterion 2.7 How well has the company demonstrated that its proposed outcome commitments are consistent with the interests of consumers in the longer-term (in particular that its activities and outcomes will be economic and efficient in the longer term)?	Assess at outcome level (on a pass/fail basis), aggregate to element score. Based on the information provided in the company's business plan, to what extent is there evidence that the company's outcomes (and associated performance commitments) are in the interests of consumers in the longer-term? There should be evidence that: <ul style="list-style-type: none"> The company has taken account of future customer needs and likely priorities and demonstrated how the 	A	The company has provided comprehensive and exceptional evidence relating to the justification of its outcomes in the context of protecting the long term interests of consumers and the environment. For all high significance, for at least 75% medium significance and for the majority of low significance outcomes the company has provided clear evidence that: <ul style="list-style-type: none"> The outcomes and PCs are consistent with the interests of future customers and environment. It has applied relevant best practice approaches to ensure they have fully understood and quantified the risks to future customers and the environment. The company has identified the least whole life cost options and performance levels (including consideration of sustainable and innovative approaches). The company has a long-term vision for how the outcome and performance levels might change over time. The company has considered long-term considerations as well as short-term priorities.
		B	The company has provided sufficient and convincing evidence relating to the justification of its outcomes in the context of protecting the long term interests of consumers and the environment. For all high significance and at least 25% medium significance outcomes the company has provided clear evidence that:

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	<p>outcomes and PCs capture those needs and priorities.</p> <ul style="list-style-type: none"> The company has considered innovative approaches and the sustainability of alternative options. The company has included PCs that will act as a trigger to inform if the company is on track to deliver their outcomes over the long term (ie, are there PCs that will flag emerging problems?). The company has a long-term vision for how the outcome and performance levels might change over time and that the PC levels within the 2015-20 period are consistent with that long-term vision. The company has followed best practice approaches for ensuring it is protecting future customers and the environment. 		<ul style="list-style-type: none"> The outcomes and PCs are consistent with the interests of future customers and environment. It has applied relevant best practice approaches to ensure they have fully understood and quantified the risks to future customers and the environment. The company has identified the least whole life cost options and performance levels (including consideration of sustainable and innovative approaches). The company has a long-term vision for how the outcome and performance levels might change over time. The company has considered long-term considerations as well as short-term priorities.
		C	<p>The company has provided insufficient and/or unconvincing evidence relating to the justification of its outcomes in the context of protecting the long term interests of consumers and the environment.</p> <p>The company has only provided clear evidence for 50-99% of high significance or less than 25% of medium significance outcomes that:</p> <ul style="list-style-type: none"> The outcomes and PCs are consistent with the interests of future customers and environment. It has applied relevant best practice approaches to ensure they have fully understood and quantified the risks to future customers and the environment. The company has identified the least whole life cost options and performance levels (including consideration of sustainable and innovative approaches). The company has a long-term vision for how the outcome and performance levels might change over time. The company has considered long-term considerations as well as short-term priorities.
		D	<p>The company has provided little or no evidence relating to the justification of its outcomes in the context of protecting the long term interests of consumers and the environment.</p> <p>The company has only provided clear evidence for less than 50% of high significance outcomes that:</p> <ul style="list-style-type: none"> The outcomes and PCs are consistent with the interests of future customers and environment.

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	<ul style="list-style-type: none"> The company has considered long-term considerations alongside short-term priorities and has not prioritised future needs at the detriment of current customers. <p>Where the assessors are notified of concerns about areas of current asset performance by the AMP5 legacy team, the assessors will check whether the proposed PCs provide sufficient coverage of that area to provide future confirmation that the company is addressing this historic issue. In the event that the coverage is not sufficient, the test score for this criteria shall be downgraded to a C, or if already a C, to a D.</p>		<ul style="list-style-type: none"> It has applied relevant best practice approaches to ensure they have fully understood and quantified the risks to future customers and the environment. The company has identified the least whole life cost options and performance levels (including consideration of sustainable and innovative approaches). The company has a long-term vision for how the outcome and performance levels might change over time. The company has considered long-term considerations as well as short-term priorities.
<p>Criterion 2.8</p> <p>How clearly has the company demonstrated that the proposed commitments can be measured and</p>	<p>Assess at element level.</p> <p>Based on the information provided in the company's business plan to what extent is there evidence that the PCs can be measured, recorded and</p>	A	<p>Taking a balanced view of the following factors, the company has provided comprehensive and exceptional evidence that its PCs can be measured and recorded consistently, and that it has appropriate accountability, governance and quality assurance processes.</p> <ul style="list-style-type: none"> It has comprehensively documented how the required data will be captured and assured. This to include tailored data and quality assurance approaches for investment that offers longer-term reward for customers and the environment.

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<p>recorded consistently and that it will have the appropriate governance and quality assurance processes in place to ensure that the proposed performance commitments will be based on robust data?</p>	<p>assured consistently? Can the company reliably capture and report the data needed to assess whether they have delivered the PCs and therefore the outcome? There should be evidence that:</p> <ul style="list-style-type: none"> • There are documented procedures for capturing data. • There is a process for assuring the data. • There is clear responsibility for ensuring data is captured consistently across the company and over time. • Any current and ongoing 'counting' concerns are being resolved and appropriate processes are being put in place. <p>Is there a governance process for monitoring performance and responding/escalating issues and assuring compliance reporting?</p>		<ul style="list-style-type: none"> • There is clear responsibility for ensuring a consistent approach to data capture across the company. • The plan confirms there are no weaknesses in the current data capture and assurance processes performance is monitored and challenged at appropriate levels. • There is comprehensive evidence of a governance process to monitor and confirm if the commitments are being met, including regular and transparent reporting of results to customers and other stakeholders. • There is comprehensive evidence of a defined process for escalating issues. • There is comprehensive evidence of formal accountability for all high and medium outcomes and performance commitments in the company.
		B	<p>Taking a balanced view of the following factors, the company has provided sufficient and convincing evidence that its PCs can be measured and recorded consistently, and that it has appropriate governance and quality assurance processes.</p> <ul style="list-style-type: none"> • It has sufficiently documented how the required data will be captured and assured. • There is responsibility for ensuring a consistent approach to data capture across the company. • The plan confirms that weaknesses in the current data capture and assurance processes are being addressed. • There is sufficient evidence of a governance process to monitor and confirm if the commitments are being met, including regular and transparent reporting of results to customers and other stakeholders. • There is sufficient evidence of a defined process for escalating issues. • There is sufficient evidence of formal accountability for all high priority and 25% outcomes and performance commitments in the company.
		C	<p>Taking a balanced view of the following factors, the company has provided insufficient and/or unconvincing evidence that its PCs can be measured and recorded consistently, and that it has appropriate governance and quality assurance processes.</p>

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	<p>There should be evidence that:</p> <ul style="list-style-type: none"> • There is a performance reporting process. • Performance is monitored and challenged at appropriate levels in the organisation and at appropriate intervals. • There is formal accountability for each outcome and PC within the company. 		<ul style="list-style-type: none"> • The company has insufficiently documented how the required data will be captured and assured. • There is unconvincing responsibility for ensuring a consistent approach to data capture across the company. • The plan identifies weaknesses in the current data capture and assurance processes and there is insufficient evidence these are being addressed. • There is insufficient evidence that performance will be monitored and challenged or that regular and transparent reporting of results to customers and other stakeholders will be in place. • There is insufficient evidence of a governance process to monitor and confirm if the commitments are being met. • There is insufficient evidence of a defined process for escalating issues. • There is unconvincing evidence of accountability for all outcomes and performance commitments in the company.
		D	<p>Taking a balanced view of the following factors, the company has provided little or no evidence that its PCs can be measured and recorded consistently, and that it has appropriate governance and quality assurance processes.</p> <ul style="list-style-type: none"> • The company not documented how the required data will be captured and assured. • There is no defined responsibility for ensuring a consistent approach to data capture across the company. • The plan identifies weaknesses in the current data capture and assurance processes with little or no evidence that these are being addressed. • There is little or no evidence that performance will be monitored and challenged or that regular and transparent reporting of results to customers and other stakeholders will be in place, • There is little or no evidence of a governance process to monitor and confirm if the commitments are being met,

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			<ul style="list-style-type: none"> • There is little or no evidence of a defined process for escalating issues. • There is little or no evidence of accountability for all outcomes and performance commitments in the company.
Overall test		Guidelines	
Test 2: performance commitments		A	As a general guide, all criteria must score A or B and at least four criteria must score A, AND affordability (test 13) does not score C or D, AND wholesale cost assessment (test 4) and retail ACTS adjustment (test 5) do not score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, all criteria must score A or B and less than four criteria score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, at least one criterion score C or D and less than four criteria score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, at least four criteria score D. However, the Accountable Lead for this Test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).

Test 4: wholesale cost assessment

Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment	
Criterion	Interpretation of criterion	Guidelines	
<p>Criterion 4.1</p> <p>To what extent has the company provided sufficiently persuasive evidence in relation to its costs such that we decide that it is appropriate to either modify our approach to the modelling of costs, or, that it is appropriate to make specific changes to the cost corridors/thresholds for the company concerned?</p>	<p>Criterion 4.1 considers two separate issues in relation to the quality of information to support proposed adjustments.</p> <ul style="list-style-type: none"> To what extent has the company provided robust, independent and compelling evidence about the proposed consideration of special cost factors that would justify an adjustment to our cost thresholds? To what extent has the company provided robust, independent and compelling evidence about special treatment for items in relation to cost sharing incentives and cost thresholds (eg, for items outside management control where there is significant uncertainty on future cost levels – ie, 'risky items')? <p>In order to determine whether the company's arguments justify adjustments being made to its cost thresholds, we will undertake both a shallow dive and a deep dive.</p> <p>In the shallow dive, we will apply filters to each of the proposed cost</p>	A	Based on the quality of evidence provided for each reviewed item (taking account of materiality and the number of claims for special treatment), the company has provided comprehensive and exceptional evidence to support the proposed special cost factors and/or special treatment in relation to cost sharing incentives.
		B	Based on the quality of evidence provided for each reviewed item (taking account of materiality and the number of claims for special treatment), the company has provided sufficient and convincing evidence to support the proposed special cost factors and/or special treatment in relation to cost sharing incentives.
		C	Based on the quality of evidence provided for each reviewed item (taking account of materiality and the number of claims for special treatment), the company has provided insufficient and/or unconvincing evidence to support the proposed special cost factors and/or special treatment in relation to cost sharing incentives.

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Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment	
Criterion	Interpretation of criterion	Guidelines	
	<p>items, to determine whether and how the evidence provided needs to be assessed more fully. The filters that will be used are:</p> <ul style="list-style-type: none"> • Materiality of cost item. Is the cost item worth more than 0.5% of the company’s AMP6 totex for the element? • Existing policy decision. Is the cost item already covered by an existing Ofwat policy decision? • Is there evidence? Has a reasonable amount of evidence been provided to justify the special treatment for the cost item? <p>Any proposed items that pass these filters will progress to the deep dive. The initial stage of the deep dive will be to apply a further filter to the special cost items that may justify and adjustment to cost thresholds.</p> <ul style="list-style-type: none"> • Implicit allowance. Is there quantitative and/or qualitative evidence which suggests that there is a reasonable allowance implicit in the cost modelling for the cost item under consideration? <p>The deep dive will then consider:</p> <ol style="list-style-type: none"> 1. Need for cost (eg, robust need assessment, willingness to pay analysis, extent of stakeholder support, any independent evidence, etc). 2. Whether it is the most cost beneficial solution (eg, options appraisal, CBA, WLC analysis, value for money analysis, etc). 3. Robustness of estimate (eg, robustness of company’s approach to justifying expenditure, comparison with AMP5, use/quality of benchmarking, etc). 4. Whether consumers are protected (can the benefits from this 	D	Based on the quality of evidence provided for each reviewed item (taking account of materiality and the number of claims for special treatment), the company has provided little or no evidence to support the proposed special cost factors and/or special treatment in relation to cost sharing incentives.

Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment	
Criterion	Interpretation of criterion	Guidelines	
	<p>expenditure be verified? Links to outcomes?).</p> <p>In general, we would expect that claims need to satisfy all the above elements to be accepted. Where items are a higher value, we would expect the evidence to reflect this. If the proposed adjustments are appropriate, the baseline for the cost assessment will be adjusted accordingly (see step 5 in in criterion 4.2).</p> <p>When considering proposals for special treatment for risky items, Ofwat will filter items in the shallow dive as above (but with materiality tests focused on the range of costs) and then assess evidence provided for the following elements in the deep dive on the following basis.</p> <ol style="list-style-type: none"> 1. Internal business plan consistency. This will check whether the relevant totex table includes a mid-point estimate for that particular cost, or whether there is compelling evidence why this should not be the case. 2. Controllability. This will be a qualitative assessment of evidence focusing on whether reasonable management could be expected to have little or no control over the level of costs associated with the item. 3. Materiality and uncertainty. We will assess whether there is compelling evidence for a material level of uncertainty, robust evidence of the likely range of costs, and, whether the uncertainty unlikely to be substantially offset by averaging effects (eg, where overruns in one scheme could be plausibly offset by savings in other schemes). 4. Mechanism. We will assess whether the proposed mechanism for dealing with the item acceptable (eg, whether the 		

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Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment	
Criterion	Interpretation of criterion	Guidelines	
	<p>mechanism appropriately balances the interests of customers and shareholder, makes appropriate use of ODIs, can be reconciled to or sensibly replaces the existing IDoK licence provisions, and, integrates with menus/cost sharing incentives).</p> <p>As a general guide, all claims need to satisfy all the above elements to be accepted. Where items are a higher value/uncertainty, we would expect the evidence to reflect this.</p> <p>Scoring of criterion. The criterion score is based on a red light/green light review at a plenary session. The review will consider the quality of the evidence provided for each reviewed item (taking account of materiality and the number of claims for special treatment). Claims which do not pass the cost filters (and hence are not further reviewed) will not directly contribute to the criterion score. However, these claims would be included within the total number of claims made by the company, which is taken into account.</p>		
<p>Criterion 4.2</p> <p>How consistent are the company's proposed costs with our view of an efficient company?</p>	<p>Criterion 4.2 compares the companies' costs in relation to the cost thresholds. Initial cost thresholds have been developed according to the following five steps.</p> <p>Ofwat is applying the following method for assessing the company's wholesale costs.</p> <ul style="list-style-type: none"> • Step 1. Obtain and verify historical data relating to wholesale costs. • Step 2. Develop models that explain these costs. • Step 3. Use these models (together with projections of the model explanatory variables) to make projections of future 	A	The company's equivalent totex proposal is lower than our lowest approved efficiency threshold for the relevant wholesale element being assessed (ie, water or wastewater).
		B	The company's equivalent totex proposal is between our lowest approved efficiency threshold] and [our approved upper quartile efficiency threshold for the relevant wholesale element being assessed (ie, water or wastewater).
		C	The company's equivalent totex proposal is between our approved upper quartile efficiency threshold and our approved average efficiency threshold for the relevant wholesale element being assessed (ie, water or

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Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment	
Criterion	Interpretation of criterion	Guidelines	
	<p>costs.</p> <ul style="list-style-type: none"> • Step 4. Initial consideration of generic special cost items – eg, business rates, pensions) and cost targets in order to derive initial cost thresholds consistent with all of the above. • Step 5. Consider company specific arguments in business plans and, where appropriate (see criterion 4.1 for guidelines), make changes to the cost thresholds in the RBR. <p>In scoring this criterion for each company, we will note whether the company only marginally fell above or below the relevant threshold.</p>		wastewater).
		D	The company's equivalent totex proposal is higher than our approved average efficiency threshold for the relevant wholesale element being assessed (ie, water or wastewater).
Overall test		Guidelines	
<p>Test 4: wholesale cost assessment</p> <p>The overall score for the cost assessment test will be based on the separate scores recorded for criterion 4.2 and criterion 4.1. As a general guide, the test score will be set based on the lowest of the two individual criteria scores. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).</p> <p>In exercising regulatory judgement during the pre-qualification stage the Accountable Lead will take into account the risk and reward guidance published in January 2013, which has provided additional clarity to companies on the scope and operation of cost uncertainty mechanisms in PR14. Bearing the requirements of this guidance in mind, it will not be appropriate to penalise companies in relation to cost uncertainty mechanisms which they will in any case be required to reconsider either as pre-qualified companies or later in the price control process.</p>		A	As a general guide, both criteria score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, one criterion scores A and one criterion scores B, OR both criteria score B. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, at least one criterion scores C and neither criteria scores D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, at least one criterion scores D. However, the Accountable Lead for this test will use regulatory judgement to determine

Element: wholesale water and wholesale wastewater		Test: wholesale cost assessment
Criterion	Interpretation of criterion	Guidelines
		the test score in exceptional or marginal cases (as defined in this document).

Test 5: retail cost allocation

Element: household retail and non-household Retail		Test: retail cost allocation
Criterion	Interpretation of criterion	Guidelines
<p>Criterion 5.1 How clearly and appropriately has the company allocated current and historic costs, including between wholesale and retail, and between household and non-household retail?</p>	<p>a) Allocation between wholesale and retail. Operating expenditure must be allocated between wholesale and retail materially in accordance with the business planning guidance. “Materially in accordance with the business planning guidance” means the net sum of known or potential misallocations of operating expenditure between retail and wholesale for 2013-14 is less than or equal to 2% of total retail operating expenditure for 2013-14 (which is the sum of line A1 in table R3 and line A1 in</p>	<p>A</p> <p>Sub-criterion a)</p> <ul style="list-style-type: none"> The company’s allocation between retail and wholesale operating expenditure is within 2% of our expectation based on the 2012-13 regulatory accounts (adjusted for known policy changes) AND the company’s cost allocation between retail and wholesale operating expenditure is in accordance with the business planning guidance, with comprehensive and exceptional evidence provided to support this, OR The company’s allocation between retail and wholesale operating expenditure is NOT within 2% of our expectation based on the 2012-13 regulatory accounts (adjusted for known policy changes), AND the company’s cost allocation between retail and wholesale operating expenditure is materially in accordance with the business planning guidance, with comprehensive and exceptional evidence provided to support this AND the company has provided external assurance that retail cost allocations between wholesale and retail operating expenditure is materially in accordance with business planning guidance. <p>Sub-criterion b)</p> <ul style="list-style-type: none"> The company’s % allocation between household and non-household retail operating expenditure (adjusted for directly attributable costs) is within 2% of our expectation based on the % split between household and non-household customer numbers from the 2012-13 regulatory accounts, AND the company’s cost allocation between household and non-household operating expenditure is materially in accordance with business planning guidance (or is based on what we have defined to be more

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Element: household retail and non-household Retail		Test: retail cost allocation	
Criterion	Interpretation of criterion	Guidelines	
	<p>table R4), and where there is no reasonable basis for quantifying misallocations, in the Accountable Lead’s regulatory judgement, the risks posed by those unquantifiable misallocations is acceptable.</p> <p>b) Allocation between household and non-household retail.</p> <p>Retail operating expenditure must be allocated between household and non-household materially in accordance with the business planning guidance, OR using what Ofwat define to be a more appropriate cost driver.</p> <p>‘Materially’ in accordance with the business planning guidance means the net sum of known or potential misallocations of operating expenditure between household and non-household for 2013-14 must be less than or equal to 2% of total non-household operating expenditure for 2013-14 (which is line A1 in table R4), and where there is no reasonable</p>		<p>appropriate cost drivers), with comprehensive and exceptional evidence provided to support this, OR</p> <ul style="list-style-type: none"> The company’s % allocation between household and non-household retail operating expenditure (adjusted for directly attributable costs) is NOT within 2% of our expectation based on the % split between household and non-household customer numbers from the 2012-13 regulatory accounts, AND the company’s cost allocation between household and non-household operating expenditure is materially in accordance with business planning guidance (or is based on what we have defined to be more appropriate cost drivers), with comprehensive and exceptional evidence provided to support this, AND the company has provided external assurance that cost allocation between household and non-household operating expenditure is materially in accordance with business planning guidance.
		B	<p>Sub-criterion a)</p> <ul style="list-style-type: none"> The company’s allocation between retail and wholesale operating expenditure is NOT within 2% of our expectation based on the 2012-13 regulatory accounts (adjusted for known policy changes), AND the company’s cost allocation between retail and wholesale operating expenditure is materially in accordance with business planning guidance with sufficient and convincing evidence provided to support this ,AND the company has NOT provided external assurance that cost allocation between retail and wholesale operating expenditure is materially in accordance with business planning guidance. <p>Sub-criterion b)</p> <ul style="list-style-type: none"> The company’s % allocation between household and non-household retail operating expenditure (adjusted for directly attributable costs) is NOT within 2% of our expectation based on the % split between household and non-household customer numbers from the 2012-13 regulatory accounts, AND the company’s cost allocation between household and non-household operating expenditure is materially in accordance with business planning guidance (or is based on what we have defined to be more appropriate cost drivers), with sufficient and convincing evidence provided to support this, AND the company has NOT provided external assurance that cost allocation between household and non-household operating expenditure is materially in accordance with business planning guidance.
		C	<p>Sub-criterion a)</p> <ul style="list-style-type: none"> The company’s allocation between retail and wholesale operating expenditure is within 2% of our expectation based on the 2012-13 regulatory accounts (adjusted for known policy changes), AND the

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Element: household retail and non-household Retail		Test: retail cost allocation	
Criterion	Interpretation of criterion	Guidelines	
	<p>basis for quantifying misallocations, in the Accountable Lead’s regulatory judgement, the risks posed by those unquantifiable misallocations must be acceptable.</p> <p>‘In accordance with the business planning guidance’ means that retail operating expenditure is allocated between household and non-household based on the number of household and non-household customers, unless the costs are directly attributable either to regulated retail household services or regulated retail non-household services.</p>		<p>company’s cost allocation between retail and wholesale operating expenditure is NOT materially in accordance with business planning guidance, OR insufficient and/or unconvincing evidence is provided.</p> <p>Sub-criterion b)</p> <ul style="list-style-type: none"> The company’s % allocation between household and non-household retail operating expenditure (adjusted for directly attributable costs) is within 2% of our expectation based on the % split between household and non-household customer numbers from the 2012-13 regulatory accounts, AND the company’s cost allocation between household and non-household operating expenditure is NOT materially in accordance with business planning guidance (and is NOT based on what we have defined to be more appropriate cost drivers) OR insufficient and/or unconvincing evidence is provided.
		D	<p>Sub-criterion a)</p> <ul style="list-style-type: none"> The company’s allocation between retail and wholesale operating expenditure is NOT within 2% of our expectation based on the 2012-13 regulatory accounts (adjusted for known policy changes), AND the company’s cost allocation between retail and wholesale operating expenditure is NOT materially in accordance with business planning guidance, OR little or no evidence is provided. <p>Sub-criterion b)</p> <ul style="list-style-type: none"> The company’s % allocation between household and non-household retail operating expenditure (adjusted for directly attributable costs) is NOT within 2% of our own expectation based on the % split between household and non-household customer numbers from the 2012-13 regulatory accounts, AND the company’s cost allocation between household and non-household operating expenditure is NOT materially in accordance with business planning guidance and is NOT based on what we have defined to be more appropriate cost drivers, OR little or no evidence is provided.
Overall test		Guidelines	
Test 5: retail cost allocation		We will score each sub-criterion separately. As a general guide, the overall test score will be the lowest of the two sub-criterion scores. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 6: ACTS adjustments

Element: household retail	Test: ACTS adjustments	
Criterion	Interpretation of criterion	Guidelines
<p>Criterion 6.1</p> <p>To what extent has the company provided sufficient evidence to show that any proposed adjustment to the company’s cost to serve relates to a factor that:</p> <ul style="list-style-type: none"> • Has a material impact on their costs? • Is beyond efficient management control (having taken all possible steps to control it)? 	<p>Criterion 6.1 considers the quality of the information in relation to proposed adjustments and new costs – to what extent has the company provided sufficient and convincing evidence about the proposed consideration of special cost factors and new costs that would justify an adjustment or modification to our retail cost allowances, including both the nature of cost allowances and the quantum of them?</p> <p>In order to evaluate the company’s arguments regarding special cost factors, we will undertake both a shallow dive and a deep dive.</p> <p>In the shallow dive, we will apply filters to each of the proposed cost items, to determine whether the evidence provided needs to be assessed more fully. The filters that will be used are:</p> <ul style="list-style-type: none"> • Materiality of cost item. For new costs, the Accountable Lead for this test will use regulatory judgement. For special cost factors: Is the cost item worth more over AMP6 than 2.25% of the company’s AMP6 household retail operating costs (ie, depreciation plus opex)? 	<p>A</p> <p>Special factor adjustments</p> <p>Where a company proposes more than one special factor adjustment, we will assess each adjustment separately. The criterion score will be the lowest of the individual assessments.</p> <ul style="list-style-type: none"> • The company has provided convincing evidence that the special factor is clearly outside of management control, AND • The company has provided convincing evidence that the special factor clearly impacts the company in a materially different way to other companies, AND • The proposed level of adjustment is supported by strong and reliable evidence calculated using a suitable approach. <p>Modifications for new retail cost increases/investments</p> <p>The company has provided convincing evidence that new costs are clearly justified.</p>

Element: household retail	Test: ACTS adjustments	
Criterion	Interpretation of criterion	Guidelines
<ul style="list-style-type: none"> Impacts the company in a materially different way to other companies? <p>Where forecast new costs would result in a material modification to the ACTS, or relate to retail investments for which funding was requested in the AMP5 price control, has the company provided sufficient and convincing evidence to support these new costs?</p>	<ul style="list-style-type: none"> Existing policy decision. Is the cost item already covered by an existing Ofwat policy decision? <p>Any proposed items that pass these filters would then progress to be assessed in the deep dive where Ofwat will consider if the evidence provided is sufficient and convincing. In assessing the evidence in the deep dive, Ofwat will consider:</p> <ol style="list-style-type: none"> Claims for adjustments to the company’s cost allowances for special factors that are outside management control and impact on the company differently to other companies. Claims for new retail cost increases/investments. <p>Both areas will be assessed to determine whether there is a reasonable allowance implicit in the retail cost allowance for the cost item under consideration.</p> <p>Adjustments for special cost factors</p> <p>When considering proposals for claims for adjustments to the companies’ cost allowances for special factors that are outside management control and impact on the company differently to other companies, we will assess whether there is sufficient evidence to justify the adjustments, based on:</p> <ul style="list-style-type: none"> Controllability. This is a qualitative and quantitative assessment of evidence from companies that the factor drives a change in the company’s efficient retail costs and that the factor is outside the control of efficient management. Comparability to other companies. This is a qualitative and quantitative assessment that special cost driver impacts them in 	<p>B</p> <p>Special factor adjustments</p> <p>Where a company proposes more than one special factor adjustment, we will assess each adjustment separately. The criterion score will be the lowest of the individual assessments.</p> <ul style="list-style-type: none"> No special factor adjustments are proposed, OR The company has provided convincing evidence that the special factor is outside of management control, OR IF new costs are immaterial and do not relate to retail investments for which funding was requested in the AMP5 price control BUT the company has special factor adjustments, the overall score for this test is the minimum score received for any adjustment, AND The company has provided convincing evidence that special factor impacts the company in a materially different way to other companies, AND The level of the adjustment is not calculated using a suitable approach but the level of the adjustment is the same or lower than Ofwat’s estimate of a suitable level for the adjustment. <p>Modifications for new retail cost increases/investments</p> <ul style="list-style-type: none"> IF new costs are immaterial and do not relate to retail investments for which funding was requested in the AMP5 price control, AND the company has no special factor adjustments, the overall score for this test is B, OR The company has provided convincing evidence that new costs are justified.

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Element: household retail	Test: ACTS adjustments	
Criterion	Interpretation of criterion	Guidelines
	<p>a materially different way to other companies.</p> <ul style="list-style-type: none"> • Quantum of the level of adjustment. This is an assessment of whether the size of the adjustment is sufficiently evidenced, including a qualitative assessment of whether it has been calculated using a suitable approach. <p>In general we would expect that claims need to satisfy all the above elements to be accepted, but this may not be the case in all instances and we will use regulatory judgement. Where items are a higher value/uncertainty, we would expect the evidence to reflect this.</p> <p>If, after assessing the evidence in the deep dive in the round, Ofwat consider that an adjustment is appropriate, the cost allowance will be adjusted accordingly as well as the appointee's 'Cost to Serve' as it feeds into the ACTS calculation.</p> <p>Modifications for new retail cost increases/investments</p> <p>For new retail cost increases/investments (ie, increases in the cost to serve excluding adjustments that would result in a modification to the ACTS) we will then assess whether there is sufficient evidence to justify the new costs across AMP6 relative to the base year, based on:</p> <ul style="list-style-type: none"> • The need for the cost (eg, evidence of need for new investment, willingness to pay analysis, extent of stakeholder support, any independent evidence, etc). • Whether it is the most cost beneficial solution (eg, options appraisal, CBA, value for money analysis, etc). • Robustness of estimate (eg, robustness of company's approach to justifying expenditure, comparison with AMP5, 	<p>C</p> <p>Special factor adjustments</p> <p>Where a company proposes more than one special factor adjustment, we will assess each adjustment separately. The criterion score will be the lowest of the individual assessments.</p> <ul style="list-style-type: none"> • The special factor adjustment is immaterial OR • The company has provided insufficiently convincing evidence that the special factor is outside of management control AND • The company has provided insufficiently convincing evidence that the special factor impacts the company in a materially different way to other companies AND • The level of the adjustment is not calculated using a suitable approach. The level of the adjustment is higher than Ofwat's estimate of a suitable level for the adjustment. The level of the adjustment is supported by sufficient evidence. <p>Modifications for new retail cost increases/investments</p> <p>The company has provided insufficiently convincing evidence that new costs are justified.</p>
		<p>D</p> <p>Special factor adjustments</p> <p>Where a company proposes more than one special factor adjustment, we will assess each adjustment separately. The criterion score will be the lowest of the individual assessments.</p> <ul style="list-style-type: none"> • The company has provided little or no evidence that the special factor is outside of management control, AND • The company has provided little or no evidence that the special factor impacts the company in a materially different way to other

Element: household retail	Test: ACTS adjustments	
Criterion	Interpretation of criterion	Guidelines
	<p>use/quality of benchmarking, etc).</p> <ul style="list-style-type: none"> Whether consumers are protected (can the benefits from this expenditure be verified – eg, any link to outcomes, other evidence?). <p>In general, we would expect that claims need to satisfy all the above elements to be accepted, but this may not be the case in all instances and we will use regulatory judgement. Where items are a higher value/uncertainty, we would expect the evidence to reflect this.</p>	<p>companies, AND</p> <ul style="list-style-type: none"> The level of the adjustment is not calculated using a suitable approach. The level of the adjustment is higher than Ofwat’s estimate of a suitable level for the adjustment. The level of the adjustment is not supported by sufficient evidence. <p>Modifications for new retail cost increases/investments</p> <p>The company has provided little or no evidence that new costs are justified.</p>
Overall test		
Test 6: ACTS adjustments	As a general guide, the test score will be the criterion score. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 13: affordability

Element: whole company	Test: affordability	
Criterion	Interpretation of criterion	Guidelines
<p>Criterion 13.1</p> <p>How well has the company demonstrated that its</p>	<p>How credible is the evidence that the company has provided showing that:</p> <ol style="list-style-type: none"> It has robustly tested its 	<p>A</p> <ol style="list-style-type: none"> Taking a balanced view of the following factors, the company has strongly demonstrated a robust approach to testing its proposals with its customers for affordability. There is comprehensive and exceptional evidence that the CCG has scrutinised customer research into the affordability of the company’s whole price and service package, it has challenged and is supportive

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
proposals are affordable over 2015-20 and that it has used appropriate means to secure the affordability of bills for customers?	<p>proposals with its customers for affordability.</p> <p>2. Its customers find its proposals affordable?</p> <p>‘Proposals’ means a company’s whole package of price and service.</p> <p>‘Customers’ means all customers and sub-groups of customers (such as different socio-economic groups).</p> <p>Has the company demonstrated that it has explored all available means – including particularly but not limited to the means introduced for the first time in this price control – to make bills as affordable as possible?</p>		<p>of the approach taken.</p> <ul style="list-style-type: none"> • There is comprehensive evidence that the company has used a variety of customer engagement techniques to assess affordability such as: <ul style="list-style-type: none"> – Quantitative surveys of a representative sample of its customer base, provide comprehensive and accurate information to customers on bills and service and survey methodology is consistent with best practice. – Qualitative research techniques such as customer focus groups, depth interviews and deliberative research consistent with best practice. – Opportunities for customers to offer representations. • Company must present comprehensive evidence that it has presented accurate price and service package information to its customers in any research activity and that questions posed were formulated in a sufficiently careful and neutral manner. <p>2. Taking a balanced view of the following factors, the company has strongly demonstrated that its customers find its proposals affordable.</p> <ul style="list-style-type: none"> • There is comprehensive evidence that the CCG has actively challenged the company in how it is has defined and addressed affordability and these issues have been proactively dealt with and reflected in the company business plan. • In its report the CCG has confirmed that the company’s plans are affordable. • There is comprehensive and exceptional evidence that the majority of customers agree that the proposed level of bill for 2015-20 is affordable to them. • Groups of customers who find the proposed level of bill for 2015-20 unaffordable are clearly identified. • Rebalancing (WaSC only). To the extent appropriate, the company has produced comprehensive and exceptional evidence that any rebalancing between water and sewerage charges in 2015-20 (within management control) will not have a materially adverse effect on its sewerage only customers. Evidence will include how the company has considered specifically the views of sewerage only customers. (Appropriateness is evaluated by considering the share of the company’s customers that are sewerage-only customers and the size of impact on sewerage only customers.)

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Element: whole company		Test: affordability
Criterion	Interpretation of criterion	Guidelines
		<p>3. Taking a balanced view of the following factors, the company has strongly demonstrated a robust approach to securing that its proposals are affordable to its customers.</p> <ul style="list-style-type: none"> • PR14 cost recovery profile. The company has proposed a cost recovery profile (PAYG/RCV and RCV run off rates for both pre and post 2015 RCV) that aligns the profile of bills with customer preferences. The company has provided comprehensive and exceptional evidence of customers' preferences in this regard. • Actions to address the needs of customers who consider the price and service package proposed by the company is unaffordable to them. The company has proposed appropriate tariff measures to ensure affordability for customers identified as having affordability problems, which may include but not limited to the use of social tariffs and win-win tariff discounts. (Measures are appropriate if they do not place an additional burden on the average customer that is greater than their willingness to pay. Absent evidence to the contrary, we will have regard to a benchmark for cross subsidies to pay for social tariffs of 1.5% of bills in England and 2.5% in Wales, this in line with the guidance from DEFRA⁵ and Welsh⁶ Government, respectively.) <p>The company has explored and proposed comprehensive additional measures to ensure affordability for customers identified as having affordability problems such as – promoting metering; water efficiency audits; assessed charges; benefits checks; partnership working with other agencies; transitional tariffs for compulsory metering; promoting uptake of schemes such as Water Direct, WaterSure and trust funds; promoting payment methods and plans/right-off schemes; and sharing information with credit reference agencies.</p>
		<p>B</p> <p>1. Taking a balanced view of the following factors, the company has demonstrated a robust approach to testing its proposals with its customers for affordability.</p> <ul style="list-style-type: none"> • There is sufficient and convincing evidence that the CCG has scrutinised customer research into the

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69564/pb13787-social-tariffs-guidance.pdf (section 6.4).

⁶ <http://wales.gov.uk/docs/desh/publications/130301guidance-to-water-companies-and-ofwat-en.pdf> (page 6).

Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>affordability of the company's whole price and service package, it has challenged and is broadly supportive of the approach taken with only minor or immaterial concerns.</p> <ul style="list-style-type: none"> • There is sufficient and convincing evidence that the company has used a variety of customer engagement techniques to assess affordability such as. <ul style="list-style-type: none"> – Quantitative surveys of a representative sample of its customer base, provide comprehensive and accurate information to customers on bills and service and survey methodology is consistent with best practice. – Qualitative research techniques such as customer focus groups, depth interviews and deliberative research consistent with best practice. – Opportunities for customers to offer representations. • Company must present sufficient and convincing evidence that it has presented accurate price and service package information to its customers in any research activity and that questions posed were formulated in a sufficiently careful and neutral manner. <p>2. Taking a balanced view of the following factors, the company has demonstrated that its customers find its proposals affordable.</p> <ul style="list-style-type: none"> • There is sufficient and convincing evidence that the CCG has actively challenged the company in how it is has defined and addressed affordability and these issues have been proactively dealt with and reflected in the company business plan. • In its report the CCG has confirmed that the company's plans are affordable or takes a neutral view. • There is sufficient and convincing evidence that the majority of customers agree that the proposed level of bill for 2015-20 is affordable to them or that the level of increase is outside management control. • The proportion or number of customers who find the proposed level of bill for 2015-20 unaffordable are clearly identified. • Rebalancing (WaSC only). To the extent appropriate, the company has produced sufficient and convincing evidence that any rebalancing between water and sewerage charges in 2015-20 (within management control) will not have a materially adverse effect on its sewerage only customers. Evidence will include how the company has considered specifically the views of sewerage only customers.

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>(Appropriateness is evaluated by considering the share of the company's customers that are sewerage-only customers and the size of impact on sewerage only customers.)</p> <p>3. Taking a balanced view of the following factors, the company has demonstrated a robust approach to securing that its proposals are affordable to its customers.</p> <ul style="list-style-type: none"> • PR14 cost recovery profile. The company has proposed a cost recovery profile (PAYG/RCV and RCV run off rates) that aligns the profile of bills with customer preferences. The company has provided sufficient and convincing evidence of customers' preferences in this regard. • Actions to address the needs of customers who consider the price and service package proposed by the company is unaffordable to them. The company has proposed appropriate tariff measures to ensure affordability for customers identified as having affordability problems, which may include but not limited to the use of social tariffs and win-win tariff discounts. (Measures are appropriate if they do not place an additional burden on the average customer that is greater than their willingness to pay. Absent evidence to the contrary, we will have regard to a benchmark for cross-subsidies to pay for social tariffs of 1.5% of bills in England and 2.5% in Wales, this in line with the guidance from DEFRA⁷ and Welsh⁸ Government, respectively.) <p>The company has explored and proposed some additional measures to ensure affordability for customers identified as having affordability problems such as: promoting metering; water efficiency audits; assessed charges; benefits checks; partnership working with other agencies; transitional tariffs for compulsory metering; promoting uptake of schemes such as Water Direct, WaterSure and trust funds; promoting payment methods and plans/right-off schemes; and sharing information with credit reference agencies.</p>
		C	<p>1. Taking a balanced view of the following factors, the company has not demonstrated a robust approach to testing its proposals with its customers for affordability.</p> <ul style="list-style-type: none"> • There is insufficient and/or unconvincing evidence that the CCG has scrutinised customer research into

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69564/pb13787-social-tariffs-guidance.pdf (section 6.4).

⁸ <http://wales.gov.uk/docs/desh/publications/130301guidance-to-water-companies-and-ofwat-en.pdf> (page 6).

Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>the affordability of the company’s whole price and service package, it has not challenged and/or is not supportive of the approach taken.</p> <ul style="list-style-type: none"> • There is insufficient and/or unconvincing evidence that the company has used a variety of customer engagement techniques to assess affordability such as: <ul style="list-style-type: none"> – Quantitative surveys of a representative sample of its customer base, provide comprehensive and accurate information to customers on bills and service and survey methodology is consistent with best practice. – Qualitative research techniques such as customer focus groups, depth interviews and deliberative research consistent with best practice. – Opportunities for customers to offer representations. • The company has presented insufficient and/or unconvincing evidence that it has presented accurate price and service package information to its customers in any research activity and that questions posed were formulated in a sufficiently careful and neutral manner. <p>2. Taking a balanced view of the following factors, the company has not demonstrated that its customers find its proposals affordable.</p> <ul style="list-style-type: none"> • There is insufficient and/or unconvincing evidence that the CCG has actively challenged the company in how it is has defined and addressed affordability and these issues have been proactively dealt with and reflected in the company business plan. • In its report the CCG has confirmed that the company’s plans are unaffordable and that the bill impact is within management control. • There is insufficient and/or unconvincing evidence that the majority of customers agree that the proposed level of bill for 2015-20 is affordable to them. • Groups of customers who find the proposed level of bill for 2015-20 unaffordable are not clearly identified. • Rebalancing (WaSC only). To the extent appropriate, the company has produced insufficient and/or unconvincing evidence that any rebalancing between water and sewerage charges in 2015-20 (within management control) will not have a materially adverse effect on its sewerage only customers. Evidence

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>will include how the company has considered specifically the views of sewerage only customers. (Appropriateness is evaluated by considering the share of the company's customers that are sewerage-only customers and the size of impact on sewerage only customers.)</p> <p>3. Taking a balanced view of the following factors, the company has not demonstrated a robust approach to securing that its proposals are affordable to its customers.</p> <ul style="list-style-type: none"> • PR14 cost recovery profile. The company has proposed a cost recovery profile (PAYG/RCV and RCV run-off rate) that poorly aligns the profile of bills with customer preferences. The company has provided insufficient and/or unconvincing evidence of customers' preferences in this regard. • Actions to address the needs of customers who consider the price and service package proposed by the company is unaffordable to them. The company has proposed inappropriate measures to ensure affordability for customers identified as having affordability problems. (Measures are inappropriate if they place an additional burden on the average customer that is greater than their willingness to pay. Absent evidence to the contrary, we will have regard to a benchmark for cross subsidies to pay for social tariffs of 1.5% of bills in England and 2.5% in Wales, this in line with the guidance from DEFRA⁹ and Welsh¹⁰ Government, respectively.) • The company has only explored and proposed limited additional measures to ensure affordability for customers identified as having affordability problems including such as: promoting metering; water efficiency audits; assessed charges; benefits checks; partnership working with other agencies; transitional tariffs for compulsory metering; promoting uptake of schemes such as Water Direct, WaterSure and trust funds; promoting payment methods and plans/right-off schemes; and sharing information with credit reference agencies.

⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69564/pb13787-social-tariffs-guidance.pdf (section 6.4).

¹⁰ <http://wales.gov.uk/docs/desh/publications/130301guidance-to-water-companies-and-ofwat-en.pdf> (page 6).

Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
		D	<p>1. Taking a balanced view of the following factors, the company has demonstrated a poor approach to testing its proposals with its customers for affordability.</p> <ul style="list-style-type: none"> • There is little or no evidence that the CCG has scrutinised customer research into the affordability of the company's whole price and service package, it has not challenged and/or is not supportive of the approach taken. • There is evidence that the company has only used a minimum amount of customer engagement techniques to assess affordability. • The company presented inaccurate price and service package information to its customers in any research activity and that questions posed were not formulated in a sufficiently careful and neutral manner. <p>2. Taking a balanced view of the following factors, the company has misrepresented evidence that its customers find its proposals affordable.</p> <ul style="list-style-type: none"> • There is little or no evidence that the CCG has actively challenged the company in how it is has defined and addressed affordability and these issues have been proactively dealt with and reflected in the company business plan. • In its report the CCG has confirmed that the company's plans are unaffordable and that the bill impact is within management control. • There is evidence that a large majority of customers do not agree that the proposed level of bill for 2015-20 is affordable to them. • Groups of customers who find the proposed level of bill for 2015-20 unaffordable are not identified. • Rebalancing (WaSC only). To the extent appropriate, the company has produced little or no evidence that any rebalancing between water and sewerage charges in 2015-20 (within management control) will not have a materially adverse effect on its sewerage-only customers. Evidence will include how the company has considered specifically the views of sewerage only customers. (Appropriateness is evaluated by considering the share of the company's customers that are sewerage-only customers and the size of impact on sewerage only customers.) <p>3. Taking a balanced view of the following factors, the company has demonstrated a poor</p>

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>approach to securing that its proposals are affordable to its customers.</p> <ul style="list-style-type: none"> • PR14 cost recovery profile. The company has set its cost recovery profile within PR14 contrary to customers' preferences or the company provides little or no evidence of customers' preferences. • Actions to address the needs of customers who consider the price and service package proposed by the company is unaffordable to them. The company has proposed grossly inappropriate measures to ensure affordability for customers identified as having affordability problems. Measures are inappropriate if they place an additional burden on the average customer that is greater than their willingness to pay. • The company has not materially explored and proposed additional measures to ensure affordability for customers identified as having affordability problems.
<p>Criterion 13.2</p> <p>How clear is it that the company's proposals are affordable in the longer term? How far has the company demonstrated that it has explored all possible options to ensure that this is the case, for example, by the way it has set out its cost recovery proposals?</p>	<p>Has the company given sufficient attention to affordability trends over the longer term – ie, beyond 2015-20?</p> <p>Specifically, has the company demonstrated that it has explored all available means to make bills as affordable as possible for future customers as well as present ones?</p>	A	<p>Taking a balanced view of the following factors, the company has strongly demonstrated a robust approach to securing that its proposals are affordable to its customers in the longer term.</p> <p>CCG and customer engagement:</p> <ul style="list-style-type: none"> • The company has consulted its customers in a highly satisfactory manner about affordability after 2020. (The extent to which the company's consultation process was satisfactory is judged based on our overall assessment of the process design, including the question of whether a sufficiently representative sample of customers was included, and whether the questions posed were formulated in a sufficiently careful and neutral manner.) • There is comprehensive and exceptional evidence that the CCG has actively challenged the company on its plans beyond PR14 and these issues have been proactively dealt with and reflected in the company business plan. • There is comprehensive and exceptional evidence through the CCG process that the company's plans for the period after 2020 do not negatively impact affordability in that period. <p>Results of engagement:</p> <p>Based on its customer engagement, the company has produced comprehensive and exceptional evidence that its proposals for after 2020 are affordable.</p> <p>Post-PR14 cost recovery profile:</p>

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			The company has proposed a cost recovery profile (PAYG/RCV and RCV run-off rates for both pre and post 2015 RCV) that aligns the profile of bills with customer preferences. The company has provided comprehensive and exceptional evidence of customers' preferences in this regard.
		B	<p>Taking a balanced view of the following factors, the company has demonstrated a robust approach to securing that its proposals are affordable to its customers in the longer term.</p> <p>CCG and customer engagement:</p> <ul style="list-style-type: none"> The company has consulted its customers in a satisfactory manner about affordability after 2020. (The extent to which the company's consultation process was satisfactory is judged based on our overall assessment of the process design, including the question of whether a sufficiently representative sample of customers was included, and whether the questions posed were formulated in a sufficiently careful and neutral manner.) There is sufficient and convincing evidence through the CCG process that the company's engagement on post 2020 affordability is satisfactory and plans are affordable post 2020 or taken a neutral position. <p>Results of engagement:</p> <p>Based on its customer engagement, the company has produced sufficient and convincing evidence that its proposals for after 2020 are affordable.</p> <p>Post-PR14 cost recovery profile:</p> <p>The company has proposed a cost recovery profile (PAYG/RCV and RCV run off rates) that aligns the profile of bills with customer preferences. The company has provided sufficient and convincing evidence of customers' preferences in this regard.</p>
		C	<p>Taking a balanced view of the following factors, the company has not demonstrated a robust approach to securing that its proposals are affordable to its customers in the longer term.</p> <p>CCG and customer engagement:</p> <ul style="list-style-type: none"> The company has failed to consult its customers in a satisfactory manner about affordability after 2020. (The extent to which the company's consultation process was satisfactory is judged based on our overall assessment of the process design, including the question of whether a sufficiently representative sample of customers was included, and whether the questions posed were formulated in a sufficiently careful and

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
			<p>neutral manner.)</p> <ul style="list-style-type: none"> There is evidence from the CCG process that the company's plans for the period after 2020 may adversely impact affordability in that period. <p>Results of engagement: Based on its customer engagement, the company has produced insufficient and/or unconvincing evidence that its proposals for 2015-20 are affordable.</p> <p>Post-PR14 cost recovery profile: The company has proposed a cost recovery profile (PAYG/RCV and RCV run-off rate) that poorly aligns the profile of bills with customer preferences. The company has provided insufficient and/or unconvincing evidence of customers' preferences in this regard.</p>
		D	<p>Taking a balanced view of the following factors, the company has demonstrated a poor approach to securing that its proposals are affordable to its customers in the longer term.</p> <p>CCG and customer engagement:</p> <ul style="list-style-type: none"> The company has consulted its customers on affordability after 2020 in a highly unsatisfactory manner. The extent to which the company's consultation process was satisfactory is judged based on our overall assessment of the process design, including the question of whether a sufficiently representative sample of customers was included, and whether the questions posed were formulated in a sufficiently careful and neutral manner. There is evidence that the company's consultation on affordability is seriously deficient or that plans for the period after 2020 adversely impacts on affordability in that period. <p>Results of engagement: Based on its customer engagement, the company has produced little or no evidence that its proposals for 2015-20 are affordable.</p> <p>Post-PR14 cost recovery profile: The company has set its cost recovery profile within PR14 contrary to customers' preferences or the company provides little or no evidence of customers' preferences.</p>

Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
Overall test		Guidelines	
Test 13: affordability		A	As a general guide, both criteria score A or criterion 13.1 scores A and 13.2 scores B, AND the wholesale cost assessment test does not score D for both water and wastewater elements (or, the water element only, for WoCs). However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, both criteria score B. However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, either criteria scores C. However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, either criteria scores D. However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the Test score in exceptional or marginal cases (as defined in this document).

Test 14: other considerations – adjustments to 2015-20 price controls

Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
Criterion 14.1 How clear is it that the	To what extent has the company demonstrated clear evidence that it has made adjustments	A	The company has provided comprehensive and exceptional evidence that all of its proposed adjustments are either compliant with Ofwat’s methodology and tools (or in the case of change protocol, compliant with Ofwat’s policy guidance) for making all of the proposed adjustments. The adjustments are only applied (i)

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Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
<p>company has calculated any adjustments to 2015-20 price controls in line with our guidance and tools?</p>	<p>based upon its performance in 2010-15 to 2015-20 prices controls in line with our guidance and tools?</p> <p>The tools which we will assess for wholesale water and wholesale wastewater elements are:</p> <ul style="list-style-type: none"> • SIM*. • RCM. • Opex incentive. • CIS. • Change protocol (which covers logging up/ down and short falling). <p>* SIM test will be applied once only, and for WaSCs the result will then be assigned to both water and wastewater areas equally.</p> <p>As a general guide, the overall score for each criterion will be calculated based on a simple points system where for, each tool, A scores 4 points; B 3 points; C 2 points; and D 1 point.</p>		<p>where the relevant triviality rules have been satisfied or (ii) if the relevant triviality rules have not been satisfied where the net adjustments benefit customers.</p> <p>OR it has proposed an alternative adjustment methodology that clearly benefits customers.</p> <ul style="list-style-type: none"> • The company has comprehensively explained the basis of its adjustments. • The company has followed a consistent and appropriate approach for forecasting future performance measures and expenditure (appropriate to RCM, CIS and change protocol only). • The company has applied a consistent approach to capturing and reporting performance and expenditure throughout the 2010-13 period, or any changes to the processes have been justified
		B	<p>The company has provided sufficient and convincing evidence that all of its proposed adjustments are either compliant with Ofwat’s methodology and tools (or in the case of change protocol, compliant with Ofwat’s policy guidance) for making all of the proposed adjustments. The adjustments are only applied (i) where the relevant triviality rules have been satisfied or (ii) if the relevant triviality rules have not been satisfied where the net adjustments benefit customers.</p> <p>OR it has proposed an alternative adjustment methodology that clearly benefits customers.</p> <ul style="list-style-type: none"> • The company has explained the basis of its adjustments. • The company has followed a consistent and appropriate approach for forecasting future performance measures and expenditure (appropriate to RCM, CIS and change protocol only). • The company has applied a consistent approach to capturing and reporting performance and expenditure throughout the 2010-13 period, or any changes to the processes have been justified.
		C	<p>The company has provided insufficient and/ unconvincing evidence that all of its proposed adjustments are either compliant with Ofwat’s methodology and tools (or in the case of change protocol, compliant with Ofwat’s policy guidance) for making all of the proposed adjustments. The adjustments are only applied (i) where the relevant triviality rules have been satisfied or (ii) if the relevant triviality rules have not been satisfied where the net adjustments benefit customers.</p> <p>OR it has proposed an alternative adjustment methodology that does not clearly benefit customers.</p>

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Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
	<p>The aggregated points total for the tools is then compared to the following bands to determine the overall score for the criterion: 17 points or more = A; 13-16 points = B; 9-12 points = C; and 8 points or less = D.</p> <p>As a general guide, each tool has an equal weighting. However, the Accountable Lead for this test will use regulatory judgement to determine the criterion score where significant material concerns mean that equal weighting is inappropriate.</p>		<ul style="list-style-type: none"> The company has not comprehensively explained the basis of some of its adjustments. The company has not sufficiently demonstrated a consistent and appropriate approach for forecasting future performance measures and expenditure (appropriate to RCM, CIS and change protocol only). The company has not sufficiently demonstrated a consistent approach to capturing and reporting performance and expenditure throughout the 2010-13 period, or any changes to the processes have not convincingly been justified.
		D	<p>The company has provided little or no evidence that its proposed adjustments are either compliant with Ofwat's methodology and tools (or in the case of change protocol, compliant with Ofwat's policy guidance) for making all of the proposed adjustments. The adjustments are only applied (i) where the relevant trivality rules have been satisfied or (ii) if the relevant trivality rules have not been satisfied where the net adjustments benefit customers.</p> <p>OR it has proposed an alternative adjustment methodology that does not benefit customers.</p> <ul style="list-style-type: none"> The company has not explained the basis of some of its adjustments. The company has not followed a consistent and appropriate approach for forecasting future performance measures and expenditure (appropriate to RCM, CIS and change protocol only). The company has not applied a consistent approach to capturing and reporting performance and expenditure throughout the 2010-13 period, or any changes to the processes have not been justified.
Criterion 14.2 How fairly do the company's proposed adjustments to 2015-20 price controls reflect its performance in 2010-15?	Following review of the company proposed adjustments and Ofwat's review of potential counter claims, determine the 'fairness' of the company's proposed adjustments to 2015-20 price controls and whether these reflect its performance in 2010-15.	A	<p>The company has provided comprehensive and exceptional evidence that all proposed adjustments are fair and appropriate, having regard to the company's actual and forecast performance over the period 2010-15 taking into account and balancing the following factors.</p> <ul style="list-style-type: none"> The adjustments fairly and appropriately represent their actual performance in 2010-13, including comprehensive explanation for any changes in the data between previously submitted data (including the 13 August submission) and the final business plan. The company has made fair and appropriate assumptions for all forecast data (appropriate to RCM, CIS and change protocol only), including adopting central estimates (or has strongly justified any deviation from central estimates).

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Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
	<p>The review will ascertain the scale of difference between company and Ofwat views for each of the five relevant tools.</p> <p>As a general guide, the overall score for each criterion will be calculated based on a simple points system where, for each tool, A scores 4 points; B 3 points; C 2 points; and D 1 point.</p> <p>The aggregated points total is then compared to the following bands to determine the overall score for the criterion: 17 points or more = A; 13-16 points = B; 9-12 points = C; and 8 points or less = D.</p> <p>As a general guide, each tool has an equal weighting. However, the Accountable Lead for this test will use regulatory judgement to determine the criterion score where significant material concerns mean that equal weighting is inappropriate.</p>		<ul style="list-style-type: none"> The total value of adjustments (ie, as a tool total or for one and two sided adjustments to the CIS a sub-tool total) is within 5% of Ofwat's calculation, or if the difference is greater than 5% but in customers' favour. The proposed adjustments have been appropriately assured by the Board, including evidence that the Board has signed off a statement of the company's actual performance over 2010-15 and that the Board has assured itself (eg, obtaining third party assurance, challenge through the CCG's or feedback from the quality regulators) that the size of the proposed adjustments is appropriate.
		B	<p>The company has provided sufficient and convincing evidence that all proposed adjustments are fair and appropriate, having regard to the company's actual and forecast performance over the period 2010-15 taking into account and balancing the following factors.</p> <ul style="list-style-type: none"> The adjustments fairly and appropriately represent their actual performance in 2010-13, including comprehensive explanation for any changes in the data between previously submitted data (including the 13 August submission) and the final business plan. The company has made fair and appropriate assumptions for all forecast data (appropriate to RCM, CIS and change protocol only), including adopting central estimates (or has strongly justified any deviation from central estimates). The total value of adjustments (ie, as a tool total or for one and two sided adjustments to the CIS a sub-tool total) is within 5% of Ofwat's calculation, or if the difference is greater than 5% but in customers' favour. The proposed adjustments have been appropriately assured by the Board, including evidence that the Board has signed off a statement of the company's actual performance over 2010-15 and that the Board has assured itself (eg, obtaining third party assurance, challenge through the CCG's or feedback from the quality regulators) that the size of the proposed adjustments is appropriate.
		C	<p>The company has provided insufficient and/or unconvincing evidence that all proposed adjustments are fair and accurate, having regard to the company's actual and forecast performance over the period 2010-15 taking into account and balancing the following factors.</p> <ul style="list-style-type: none"> Some adjustments do not fairly and appropriately represent their actual performance in 2010-13, for

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Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
			<p>example there is insufficient explanation for any changes in the data between previously submitted data (including the 13 August submission) and the final business plan.</p> <ul style="list-style-type: none"> • The company has not convincingly demonstrated that it has made fair and appropriate assumptions for all forecast data (appropriate to RCM, CIS and change protocol only), for example by not adopting central estimates or otherwise justifying a deviation from central estimates. • For some adjustments, the total value of the proposed adjustment (as a tool total or for one and two sided adjustments to the CIS a sub-tool total) differs from Ofwat's calculation by more than 5%, and there is insufficient and/or unconvincing evidence that the difference is in customers' favour (ie, if the difference is greater than 5% and not in customers favour). • The proposed adjustments have not been sufficiently assured by the Board, for example the Board has not signed off a statement of the company's actual performance over 2010-15 and that the Board has assured itself (eg, obtaining third party assurance, challenge through the CCG's or feedback from the quality regulators) that the size of the proposed adjustments is appropriate.
		D	<p>The company has provided little or no evidence that its proposed adjustments are fair and appropriate, having regard to the company's actual and forecast performance over the period 2010-15 taking into account and balancing the following factors.</p> <ul style="list-style-type: none"> • There are significant apparent divergences from the company's actual performance in 2010-13 and there is little or no explanation of any changes in the data between previously submitted data (including the 13 August submission) and the final business plan. • The company has not demonstrated that it has made fair and appropriate assumptions for all forecast data (appropriate to RCM, CIS and change protocol only), for example by not adopting central estimates and providing little or no evidence to justify a deviation from central estimates. • The total value of the adjustments proposed (as a tool total or for one and two sided adjustments to the CIS a sub-tool total) differs from Ofwat's calculation by more than 5%, and there is little or no evidence that the difference is in customers' favour (ie, if the difference is greater than 5% and not in customers' favour). • The proposed adjustments have not been assured by the Board, for example the Board has not signed

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Element: wholesale water and wholesale wastewater		Test: adjustments to 2015-20 price controls	
Criterion	Interpretation of criterion	Guidelines	
			off a statement of the company's actual performance over 2010-15 and there is little or no evidence that the Board has assured itself (eg, obtaining third party assurance, challenge through the CCG's or feedback from the quality regulators) that the size of the proposed adjustments is appropriate.
Overall test		Guidelines	
Test 14: other considerations – adjustments to 2015-20 price controls		A	As a general guide, both criteria score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, both criteria score B or higher. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, at least one criterion scores C and neither criterion scores D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, at least one criterion scores D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).

Test 15: other considerations – Board assurance of a high-quality business plan

Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria	Interpretation of criteria	Guidelines	
15.1a	<p>To what extent has the company's Board provided assurance that the business plan is of high quality?</p>	<p>To what extent has the company's Board provided assurance that the business plan is high quality, including:</p> <ul style="list-style-type: none"> an explanation of the governance processes of the Board in relation to the business plan; and an explanation of the extent to which third parties have been involved in providing assurance? 	<p>A</p> <p>Our assessment will take into account and balance the following indicative and non-exhaustive factors.</p> <ul style="list-style-type: none"> The Board has signed off the entire plan (evidence such as signatures, Board minutes and a description of the Board decision-making process). The Board has considered different options, including considering that the plan and proposed price controls are sustainable now and in the future and how customers might benefit through any gain sharing. The Board has provided a comprehensive and exceptional evidence-based statement explaining why all elements of the business plan and underlying data are high quality (eg, using and taking account of independent third party assessments) and backed this up by a third party evaluation of its approach to assuring itself of the quality of business plan. The company has demonstrated a high standard of Board leadership and governance by either: <ul style="list-style-type: none"> demonstrating how it meets the requirements of the UK Corporate Governance Code and would meet the proposed principles in relation to Board leadership and governance, as set out in 'Board leadership, transparency and governance – principles' published in September 2013; or setting out the approach it is taking to developing a code that meets or exceeds the principles, as set out in 'Board leadership, transparency and governance – principles' published in September 2013, that we expect to apply to companies operating in this sector and complying with other relevant requirements of its licence; <p>and, in either case, there are a very small number of instances where it is or will be providing an explanation of non-compliance in lieu of full compliance. Particularly, if the company relies on the UK Code its use of 'comply or explain' must be proportionate and reasonable and not breach the main principles of the Code; if it is to rely on Ofwat's new principles then there is 'no comply or explain' option available.</p> <ul style="list-style-type: none"> The Board has engaged a third party to evaluate its approach to Board leadership and governance, and

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Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria	Interpretation of criteria	Guidelines	
			that evaluation resulted in a positive endorsement by the third party.
		B	<p>Our assessment will take into account and balance the following factors.</p> <ul style="list-style-type: none"> • The Board has signed off the entire plan (evidence such as signatures, Board minutes and a description of the Board’s decision-making process is provided). • The Board has provided a convincing evidence-based statement explaining why all elements of the business plan and underlying data are high quality (eg, using and taking account of independent third party assessments). • The company has demonstrated a high standard of Board leadership and governance by either: <ul style="list-style-type: none"> – demonstrating how it meets the requirements of the UK Corporate Governance Code and would meet the proposed principles in relation to Board leadership and governance, as set out in ‘Board leadership, transparency and governance – principles’ published in September 2013; or – setting out the approach it is taking to developing a code that meets or exceeds the principles, as set out in ‘Board leadership, transparency and governance – principles’ published in September 2013, that we expect to apply to companies operating in this sector and complying with other relevant requirements of its licence; <p>but in either case, there are several instances where it is or will be providing an explanation of non-compliance in lieu of full compliance.</p>
		C	<p>Our assessment will take into account and balance the following factors.</p> <ul style="list-style-type: none"> • There is insufficient and/or unconvincing evidence that the Board has fully signed off the plan (eg, Chief Executive signature) or not all elements of the plan have been signed off. • The Board has not provided a sufficiently convincing or sufficiently evidence-based statement explaining why all elements of the business plan and underlying data are high quality (eg, using and taking account of independent third party assessments). • The company has demonstrated a high standard of Board leadership and governance by either: <ul style="list-style-type: none"> – demonstrating how it meets the requirements of the UK Corporate Governance Code and

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Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria	Interpretation of criteria	Guidelines	
			<p>would meet the proposed principles in relation to Board leadership and governance, as set out in 'Board leadership, transparency and governance – principles' published in September 2013; or</p> <ul style="list-style-type: none"> – setting out the approach it is taking to developing a code that meets or exceeds the principles, as set out in 'Board leadership, transparency and governance – principles' published in September 2013, that we expect to apply to companies operating in this sector and complying with other relevant requirements of its licence. <p>but, in either case, there are many material areas where it is or will be providing an explanation of non-compliance in lieu of full compliance and those explanations do not credibly or reasonably explain why such a departure is appropriate or proportionate.</p>
		D	<p>Our assessment will take into account and balance the following factors.</p> <ul style="list-style-type: none"> • Very limited or no sign off of the plan by Board members. • The Board has not provided a convincing and evidence-based statement explaining why all elements of the business plan and underlying data are high quality (eg, using and taking account of independent third party assessments). • The company has not demonstrated a high standard of Board leadership and governance because it has not either: <ul style="list-style-type: none"> – demonstrated how it meets the requirements of the UK Corporate Governance Code and would meet the proposed principles in relation to Board leadership and governance, as set out in 'Board leadership, transparency and governance – principles' published in September 2013; or – set out the approach it is taking to developing a code that meets or exceeds the principles, 'Board leadership, transparency and governance – principles' published in September 2013, that we expect to apply to companies operating in this sector and complying with other relevant requirements of its licence.
15.1b	Is the assurance that	Is the assurance that the Board has given supported by data and	A There is comprehensive and exceptional evidence that the data and evidence supporting the plan is of high quality.

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Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria		Interpretation of criteria	
		Guidelines	
	the Board has given supported by data and evidence from elsewhere in the plan?	evidence from elsewhere in the plan?	<ul style="list-style-type: none"> Data and evidence supporting the plan meets the RBR expectations across all tests.
			<p>B</p> <p>There is sufficient and convincing evidence that the data and evidence supporting the plan is of high quality.</p> <ul style="list-style-type: none"> Data and evidence supporting the plan meets the RBR expectations across the majority of tests; and/or There are limited material areas where the quality of data and evidence is not high quality.
			<p>C</p> <p>There is insufficient and unconvincing evidence that the data and evidence supporting the plan is of high quality.</p> <ul style="list-style-type: none"> Data and evidence supporting the plan does not meet the RBR expectations across the majority of tests.
			<p>D</p> <p>There is little or no evidence to support statements that the plan is of high quality.</p> <ul style="list-style-type: none"> Data and evidence fails to meet the RBR expectations across all tests.
15.2	To what extent has the company's Board given adequate assurance that its outcomes are consistent with Defra's and/or Welsh Government's Statement of Obligations and relevant statutory	<p>Based on the information provided in the company's Board assurance statement, to what extent is there evidence that outcomes are consistent with statutory requirements?</p> <ul style="list-style-type: none"> To what extent has the company's Board provided assurance that it understands environmental and drinking water quality obligations and will meet them? To what extent has the company's Board 	<p>A</p> <p>There is comprehensive and exceptional evidence that the Board has:</p> <ul style="list-style-type: none"> Endorsed a statement that confirms that their company's performance commitments are consistent with relevant obligations and statutory requirements (eg, the Board assurance statement contains reference to explicit requirements and obligations, and is supported by evidence such as signatures, Board minutes or a description of the Board decision-making process). Sought appropriately focused assurance, including the use of third parties, to allow it to understand and endorse the statement confirming that performance commitments are consistent with relevant obligations and statutory requirements. <p>B</p> <p>There is sufficient and convincing evidence that the Board has:</p> <ul style="list-style-type: none"> Endorsed a statement that confirms that their company's performance commitments are consistent with relevant obligations and statutory requirements (eg, the Board assurance statement contains reference to explicit requirements and obligations, and is supported by evidence such as signatures, Board minutes or a description of the Board decision-making process). Sought appropriately focused assurance to allow it to understand and endorse the statement confirming

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Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria	Interpretation of criteria	Guidelines	
requirements?	<p>demonstrated that its proposed performance measures and commitments will enable them to demonstrate if their statutory obligations have been delivered, including evidence of the appropriate use of third party assurance?</p> <ul style="list-style-type: none"> To what extent has the company's Board provided assurance of the process it has used to develop and proposed outcomes? 		<p>that performance commitments are consistent with relevant obligations and statutory requirements.</p>
		C	<p>There is insufficient and/or unconvincing evidence that the Board has:</p> <ul style="list-style-type: none"> Endorsed a statement that confirms that their company's performance commitments are consistent with relevant obligations and statutory requirements (eg, the Board assurance statement does not contain reference to explicit requirements and obligations, or there is insufficient supporting evidence such as signatures, Board minutes or description of the Board decision-making process). Sought appropriately focused assurance to allow it to understand and endorse the statement confirming that performance commitments are consistent with relevant obligations and statutory requirements.
		D	<p>There is little or no evidence that the Board has:</p> <ul style="list-style-type: none"> Endorsed a statement that confirms that their company's performance commitments are consistent with relevant obligations and statutory requirements (eg, the Board assurance statement does not contain reference to explicit requirements and obligations, or there is little or no supporting evidence; or description of the Board decision-making process). Sought assurance to allow it to understand and endorse the statement confirming that performance commitments are consistent with relevant obligations and statutory requirements.
Overall test		Guidelines	
Board assurance of a high-quality business plan, taking into account the general assurance and specific assurances provided.		A	<p>Company has scored A for criteria 15.1a, 15.1 b and 15.2.</p> <p>The Accountable Lead will have discretion to determine whether the overall test score is A or B in marginal or exceptional cases, but ensuring that the scoring conditions are met.</p>
		B	<p>Company has scored a score of B or higher for criteria 15.1a, 15.1b and 15.2.</p> <p>The Accountable Lead will have discretion to determine whether the overall test score is A or B in marginal or exceptional cases, but ensuring that the scoring conditions are met.</p>
		C	<p>Company has scored a score of C or higher for criteria 15.1a, 15.1b or 15.2.</p>

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Element: Board assurance		Test: Board assurance of high-quality business plan	
Criteria	Interpretation of criteria	Guidelines	
			The Accountable Lead will have discretion to determine whether the overall test score is B or C in marginal or exceptional cases, but ensuring that the scoring conditions are met.
		D	Company has scored a score of D or higher for criterion 15.1a, 15.1b or 15.2 The Accountable Lead will have discretion to determine whether the overall test score is C or D in marginal or exceptional cases, but ensuring that the scoring conditions are met.

Appendix 3: Scoring guides – enhancement tests

This appendix sets out the scoring methodology for our (additional) assessment of pre-qualified companies' business plans. These tests are applied to updated business plans, as submitted by pre-qualified companies following their acceptance of our risk and reward guidance.

Enhancement tests

Test	Elements					Page reference
	H/hold retail	Non/h/hold retail	W/sale water	W/sale wastewater	Whole company	
Test 3: outcome delivery incentives	✓	✓ ¹	✓	✓		85
Test 8: risk analysis	✓	✓	✓	✓	✓	98
Test 10: rewards and returns			✓	✓	✓	102 (whole company level)/ 103 (element level)
Test 11: retail net margins	✓	✓				104
Test 12: financeability					✓	105
Test 13: affordability					✓	110
Test 15: other considerations – Board assurance of a high-quality business plan					✓	112

Note:

1. Applies only to companies operating wholly or mainly in Wales.

Test 3: outcome delivery incentives

Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
<p>Criterion 3.1 To what extent do the proposed incentives conform to the framework specified in our methodology?</p>	<p>Assess at element (first part) and PC level (second part, on a pass/fail basis), aggregate to element score.</p> <p>Based on the information in tables W/S/R2, the company's business plan and the CCG report, to what extent has the company demonstrated that the incentive type/structure for each outcome delivery incentive (ODI) is appropriate to the properties of the outcome or performance measure (as per figure 5, page 68 of methodology statement). Specifically, to what extent has the company:</p> <ul style="list-style-type: none"> • Demonstrated the evidence 	<p>A</p>	<p>Comprehensive and exceptional evidence in the company's plan demonstrating how it has followed the framework in our methodology for each of its ODIs.</p> <p>Comprehensive and exceptional evidence of engagement with customers, including input and challenge from the CCG, on the approach to determining incentive types. And evidence that this engagement has fed through into the company's approach for determining incentive types.</p> <p>AND for all high significance and at least 75% medium significance PCs the company has provided clear evidence that:</p> <ol style="list-style-type: none"> a) It has a financial penalty, or if it does not have a financial penalty it is either already sufficiently incentivised by other incentives or fully justified that it is not appropriate to have one (eg, due to the uncertainty over delivery or incentive rates). b) if it has a high or medium financial reward customers have expressed a willingness to pay for service improvement beyond the performance commitment, AND the company has justified that the 'reward' levels of service should not be included within the performance commitment (see criterion 2.5 – VfM of performance commitments), AND the majority of customers have not reasonably objected to there being a reward for the specific outcome or performance measure. c) if it is included within a bundle of PCs with trade-offs allowed between them there are either joint costs or benefits across the bundle, customers view them jointly or there is uncertainty over the incentive rates.

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
	<p>that it has fully engaged with customers, including the CCG, over the incentive types/structures?</p> <ul style="list-style-type: none"> • Fully justified the structure of individual ODIs, specifically those: <ul style="list-style-type: none"> – With no financial penalty. – Having financial rewards. – Being able to be traded-off with others. 	B	<p>Sufficient and convincing evidence of information in the company’s plan which explains how it has followed the framework in our methodology for each of its ODIs.</p> <p>There is sufficient and convincing evidence of engagement with customers, OR input and challenge from the CCG, on the approach to determining incentive types. And evidence that this engagement has fed through into the company’s approach for determining incentive types.</p> <p>AND for all high significance and at least 25% medium significance PCs the company has provided clear evidence that:</p> <ol style="list-style-type: none"> a) It has a financial penalty, or if it does not have a financial penalty it is either already sufficiently incentivised by other incentives or fully justified that it is not appropriate to have one (eg, due to the uncertainty over delivery or incentive rates). b) if it has a high or medium financial reward customers have expressed a willingness to pay for service improvement beyond the performance commitment, AND the company has justified that the ‘reward’ levels of service should not be included within the performance commitment (see criterion 2.5 – VfM of performance commitments), AND the majority of customers have not reasonably objected to there being a reward for the specific outcome or performance measure. c) If it is included within a bundle of PCs with trade-offs allowed between them there are either joint costs or benefits across the bundle, customers view them jointly or there is uncertainty over the incentive rates.
		C	<p>Insufficient and/or unconvincing evidence of information in the company’s plan which explains how it has followed the framework in our methodology for each of its ODIs.</p> <p>There is insufficient and/or unconvincing evidence of either engagement with customers NOR input and challenge from the CCG, on the approach to determining incentive types, OR there is evidence of engagement but insufficient and/or unconvincing evidence that this engagement has fed through into the company’s approach for determining incentive types.</p> <p>OR the company has only provided clear evidence for 50-99% high significance or less than 25% medium significance PCs that:</p>

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> a) It has a financial penalty, or if it does not have a financial penalty it is either already sufficiently incentivised by other incentives or fully justified that it is not appropriate to have one (eg, due to the uncertainty over delivery or incentive rates). b) If it has a high or medium financial reward customers have expressed a willingness to pay for service improvement beyond the performance commitment, AND the company has justified that the 'reward' levels of service should not be included within the performance commitment (see criterion 2.5 – VfM of performance commitments), AND the majority of customers have not reasonably objected to there being a reward for the specific outcome or performance measure. c) If it is included within a bundle of PCs with trade-offs allowed between them there are either joint costs or benefits across the bundle, customers view them jointly or there is uncertainty over the incentive rates
		D	<p>Little or no evidence of information in the company's plan which explains how it has followed the framework in our methodology for each of its ODIs.</p> <p>There is little or no evidence of either engagement with customers NOR input and challenge from the CCG, on the approach to determining incentive types.</p> <p>OR the company has only provided clear evidence for less than 50% high significance PCs that:</p> <ul style="list-style-type: none"> a) It has a financial penalty, or if it does not have a financial penalty it is either already sufficiently incentivised by other incentives or fully justified that it is not appropriate to have one (eg, due to the uncertainty over delivery or incentive rates). b) If it has a high or medium financial reward customers have expressed a willingness to pay for service improvement beyond the performance commitment, AND the company has justified that the 'reward' levels of service should not be included within the performance commitment (see criterion 2.5 – VfM of performance commitments), AND the majority of customers have not reasonably objected to there being a reward for the specific outcome or performance measure. c) If it is included within a bundle of PCs with trade-offs allowed between them there are either joint costs or benefits across the bundle, customers view them jointly or there is uncertainty over the incentive

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			rates.
<p>Criterion 3.2 How well do the proposed incentives represent an appropriate balance of risk between companies and customers?</p>	<p>Assess at element (first part) and PC level (second part, on a pass/fail basis), aggregate to element score.</p> <p>Based on the information in tables W/S/R2 and the company's business plan how well do the company's incentives balance risk and reward between the company and the customer.</p> <p>Specifically to what extent has the company demonstrated a balance of risk with respect to:</p> <ul style="list-style-type: none"> Protecting customers against an unacceptable overall bill impact where the company over-delivers. <p>And for specific ODIs:</p> <ul style="list-style-type: none"> Symmetry of risk and reward with respect to incentive rates, such that reward incentive rates do not exceed penalty incentive 	A	<p>The company has provided comprehensive and exceptional evidence that its incentives represent an appropriate balance of risk between itself and its customers.</p> <p>The company has provided comprehensive and exceptional evidence that customers are willing to pay the maximum total reward, based either on an overall cap on rewards, or sum of individual caps, and that the reward will be applied in a manner which avoids a sudden unacceptable increase in bills.</p> <p>AND for all high significance and at least 75% medium significance PCs the company has provided clear evidence that:</p> <ol style="list-style-type: none"> If it has high or medium financial rewards, reward incentive rates do not exceed penalty incentive rates OR the company has fully justified any circumstances where this is the case, such as demonstrating robust evidence that WTP increases beyond the performance commitment. For two-sided incentives, deadbands around the performance commitment are symmetric, or the deadband for rewards is greater than that for penalties, AND deadbands for penalty only incentives are consistent with those for two-sided incentives, OR the company fully justifies its size (eg, based on statistical analysis of uncertainty). If it has high or medium financial rewards, the company is already proposing a performance commitment that is at the economic level of service, OR is already proposing a 'stretch' delivery target (ie, the company can demonstrate it will be difficult to deliver beyond the target within the next price control period), OR it has clearly demonstrated that customers will not be worse off for it not being included in the totex baseline (eg, the reward incentive rate replicates the price review funding approach).
		B	<p>The company has provided sufficient and convincing evidence that its incentives represent an appropriate balance of risk between itself and its customers.</p> <p>The company has provided sufficient and convincing evidence that customers are willing to pay the maximum total reward, based either on an overall cap on rewards, or sum of individual caps, and that the</p>

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
	<p>rates, AND</p> <ul style="list-style-type: none"> • Deadbands, such that the company does not allow itself greater leeway for under-delivery without recourse to penalties than the equivalent for rewards. <p>And to what extent does the company appear able to earn significant reward for delivering an easily achievable level of service.</p>		<p>reward will be applied in a manner which avoids a sudden unacceptable increase in bills.</p> <p>AND for all high significance and at least 25% medium significance PCs the company has provided clear evidence that:</p> <ol style="list-style-type: none"> If it has high or medium financial rewards, reward incentive rates do not exceed penalty incentive rates OR the company has fully justified any circumstances where this is the case, such as demonstrating robust evidence that WTP increases beyond the performance commitment. For two-sided incentives, deadbands around the performance commitment are symmetric, or the deadband for rewards is greater than that for penalties, AND deadbands for penalty only incentives are consistent with those for two-sided incentives, OR the company fully justifies its size (eg, based on statistical analysis of uncertainty). If it has high or medium financial rewards, the company is already proposing a performance commitment that is at the economic level of service, OR is already proposing a 'stretch' delivery target (ie, the company can demonstrate it will be difficult to deliver beyond the target within the next price control period), OR it has clearly demonstrated that customers will not be worse off for it not being included in the totex baseline (eg, the reward incentive rate replicates the price review funding approach).
		C	<p>The company has provided insufficient and/or unconvincing evidence that its incentives represent an appropriate balance of risk between itself and its customers.</p> <p>The company has provided insufficient and/or unconvincing evidence that customers are willing to pay the maximum total reward, based either on an overall cap on rewards, or sum of individual caps, or that the reward will be applied in a manner that avoids a sudden unacceptable increase in bills.</p> <p>OR the company has only provided clear evidence for 50-99% of high significance or less than 25% medium significance PCs that:</p> <ol style="list-style-type: none"> If it has high or medium financial rewards, reward incentive rates do not exceed penalty incentive rates OR the company has fully justified any circumstances where this is the case, such as demonstrating robust evidence that WTP increases beyond the performance commitment.

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> b) For two-sided incentives, deadbands around the performance commitment are symmetric, or the deadband for rewards is greater than that for penalties, AND deadbands for penalty only incentives are consistent with those for two-sided incentives, OR the company fully justifies its size (eg., based on statistical analysis of uncertainty). c) If it has high or medium financial rewards, the company is already proposing a performance commitment that is at the economic level of service, OR is already proposing a 'stretch' delivery target (ie, the company can demonstrate it will be difficult to deliver beyond the target within the next price control period), OR it has clearly demonstrated that customers will not be worse off for it not being included in the totex baseline (eg, the reward incentive rate replicates the price review funding approach).
		D	<p>The company has provided little or no evidence that its incentives represent an appropriate balance of risk between itself and its customers.</p> <p>The company has provided little or no evidence that customers are willing to pay the maximum total reward, based either on an overall cap on rewards, or sum of individual caps, or that the reward will be applied in a manner that avoids a sudden unacceptable increase in bills.</p> <p>OR the company has only provided clear evidence for less than 50% of high significance PCs that:</p> <ul style="list-style-type: none"> a) If it has high or medium financial rewards, reward incentive rates do not exceed penalty incentive rates OR the company has fully justified any circumstances where this is the case, such as demonstrating robust evidence that WTP increases beyond the performance commitment. b) For two-sided incentives, deadbands around the performance commitment are symmetric, or the deadband for rewards is greater than that for penalties, AND deadbands for penalty only incentives are consistent with those for two-sided incentives, OR the company fully justifies its size (eg, based on statistical analysis of uncertainty). c) If it has high or medium financial rewards, the company is already proposing a performance commitment that is at the economic level of service, OR is already proposing a 'stretch' delivery target (ie, the company can demonstrate it will be difficult to deliver beyond the target within the next price control period), OR it has clearly demonstrated that customers will not be worse off for it not being

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			included in the totex baseline (eg, the reward incentive rate replicates the price review funding approach).
Criterion 3.3 How consistent are the company's proposed ODIs with consumers' interests and with customers being appropriately compensated for any under-delivery of performance commitments?	Assess at PC level (on a pass/fail basis), aggregate to element score. Based on the information provided in tables W/S/R2 and in the company's business plan, including specifically any sections relating to estimates of customer WTP, to what extent has the company provided evidence that the strength of the incentive and the source of the estimate is appropriate and in line with customer priorities? For each relevant ODI, has the company evidenced: <ul style="list-style-type: none"> Why the proposed incentive strength (ie, value-based, cost-based or service remediation) is the best way to secure delivery of the outcome or reward the company for over-delivery appropriately? 	A	The company has provided comprehensive and exceptional evidence that its ODIs are consistent with customers' interests and that customers will be appropriately compensated for its performance. For all high significance and at least 75% medium significance PCs the company has provided clear evidence that: <ol style="list-style-type: none"> Incentive rates are based on the value of over- or under-delivery, OR it has provided clear evidence to justify any other approaches, such as proposing compensatory service improvements or cost-based incentives, that it has used. Clearly demonstrated how the incentive rate has been estimated, including the source of the estimate, and that it is appropriate to the PC. Any adjustments to the 'raw' estimate – eg, in order to align a WTP estimate with a performance measure or to account for uncertainty, are appropriate. It has proposed different incentive rates where marginal WTP varies (eg, willingness to avoid versus willingness to pay) or, for cost-based incentives, significant changes in incremental costs OR the company has provided clear evidence to support its approach for averaging or merging different WTP rates, such that customers are not adversely impacted (eg, using the lower of two WTP rates for rewards). The frequency of assessment and approach for incentive payback – ie, within-period adjustments versus revenue adjustments at next price control are both appropriate.
		B	The company has provided sufficient and convincing evidence that its ODIs are consistent with customers' interests and that customers will be appropriately compensated for its performance. For all high significance and at least 25% medium significance PCs the company has provided clear evidence that: <ol style="list-style-type: none"> Incentive rates are based on the value of over- or under-delivery, OR it has provided clear evidence to justify any other approaches, such as proposing compensatory service improvements or cost-based

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
	<ul style="list-style-type: none"> That the incentive rate is appropriate (and used only within an appropriate range) and whether any adjustments (excluding those to account for other incentives) made to the rate are appropriate? That its approach to accounting for variations in marginal WTP is appropriate? That its approach to frequency of assessment and application of the incentive is appropriate? 		<p>incentives, that it has used.</p> <ul style="list-style-type: none"> b) Clearly demonstrated how the incentive rate has been estimated, including the source of the estimate, and that it is appropriate to the PC. Any adjustments to the 'raw' estimate – eg, in order to align a WTP estimate with a performance measure or to account for uncertainty, are appropriate. c) It has proposed different incentive rates where marginal WTP varies (eg, willingness to avoid versus willingness to pay) or, for cost-based incentives, significant changes in incremental costs OR the company has provided clear evidence to support its approach for averaging or merging different WTP rates, such that customers are not adversely impacted (eg, using the lower of two WTP rates for rewards). d) The frequency of assessment and approach for incentive payback – ie, within-period adjustments versus revenue adjustments at next price control are both appropriate.
		C	<p>The company has provided insufficient and/or unconvincing evidence that its ODIs are consistent with customers' interests and that customers will be appropriately compensated for its performance.</p> <p>The company has only provided clear evidence for 50-99% of high significance or less than 25% medium significance PCs that:</p> <ul style="list-style-type: none"> a) Incentive rates are based on the value of over- or under-delivery, OR it has provided clear evidence to justify any other approaches, such as proposing compensatory service improvements or cost-based incentives, that it has used. b) Clearly demonstrated how the incentive rate has been estimated, including the source of the estimate, and that it is appropriate to the PC. Any adjustments to the 'raw' estimate – eg, in order to align a WTP estimate with a performance measure or to account for uncertainty, are appropriate. c) It has proposed different incentive rates where marginal WTP varies (eg, willingness to avoid versus willingness to pay) or, for cost-based incentives, significant changes in incremental costs OR the company has provided clear evidence to support its approach for averaging or merging different WTP rates, such that customers are not adversely impacted (eg, using the lower of two WTP rates for rewards).

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			<p>d) The frequency of assessment and approach for incentive payback – ie, within-period adjustments versus revenue adjustments at next price control are both appropriate.</p>
		D	<p>The company has provided little or no evidence that its ODIs are consistent with customers' interests and that customers will be appropriately compensated for its performance.</p> <p>The company has only provided clear evidence for less than 50% of high significance PCs that:</p> <p>a) Incentive rates are based on the value of over- or under-delivery, OR it has provided clear evidence to justify any other approaches, such as proposing compensatory service improvements or cost-based incentives, that it has used.</p> <p>b) Clearly demonstrated how the incentive rate has been estimated, including the source of the estimate, and that it is appropriate to the PC. Any adjustments to the 'raw' estimate – eg, in order to align a WTP estimate with a performance measure or to account for uncertainty, are appropriate.</p> <p>c) It has proposed different incentive rates where marginal WTP varies (eg, willingness to avoid versus willingness to pay) or, for cost-based incentives, significant changes in incremental costs OR the company has provided clear evidence to support its approach for averaging or merging different WTP rates, such that customers are not adversely impacted (eg, using the lower of two WTP rates for rewards).</p> <p>d) The frequency of assessment and approach for incentive payback – ie, within-period adjustments versus revenue adjustments at next price control are both appropriate.</p>
<p>Criterion 3.4</p> <p>To what extent do the company's ODIs take properly into account its assumptions on other regulatory incentives, including totex efficiency</p>	<p>Assess at PC level (on a pass/fail basis), aggregate to element score.</p> <p>To what extent has the company clearly evidenced how it has accounted for other incentives, proposed by the company, Ofwat or other regulators, in</p>	A	<p>Taking a balanced view of the following factors, the company has provided comprehensive and exceptional evidence that its account for assumptions on other regulatory incentives, totex efficiency-sharing, and wider statutory framework incentives.</p> <p>1. The company provides evidence that it has accounted for totex efficiency-sharing and either follows the approach set out in appendix 1 of the final methodology statement, OR uses an approach which specifically makes adjustments in favour of customers (eg, reducing rewards by a percentage greater than the totex efficiency sharing rate so that customers are guaranteed a greater net benefit). AND clear and robust evidence is provided to explain and justify any departures from the approach, such that all</p>

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
sharing and any incentives or penalties it proposes associated with the wider statutory frameworks within which it operates?	setting its outcome delivery incentive rates, including demonstrating an appropriate approach that offers protection to customers? Specifically, for each relevant ODI: <ul style="list-style-type: none"> • Has the company considered totex efficiency sharing in its ODIs? • Has the company taken into account incentives put in place by other regulators when calibrating its ODIs? • Has the company accounted for rewards and penalties associated with the wider statutory framework? • Has the company accounted for its proposed risk mitigation strategy? 		high significance and at least 75% medium significance performance commitments either follow the approach or follow another approach that is fully justified. AND 2. For all high significance and at least 75% medium significance PCs the company has provided clear evidence that: <ol style="list-style-type: none"> a) If not already assessed under criterion 3.1, any adjustments to penalties based on incentives from aspects of the PR14 framework concerned with other regulators (eg, fines or environmental remediation associated with the DWI or EA) are appropriate, especially where the company is proposing no financial penalty based on other incentives already being in place, AND b) It has considered the impact of other incentives (rewards and penalties) from aspects of the PR14 framework (including, for retail, SIM) and, if relevant, demonstration that any adjustments are appropriate, AND c) It has considered its proposed risk mitigation strategy (eg, accounting for any change protocol proposals) and, if relevant, demonstration that any adjustments are appropriate.
		B	The company has provided sufficient and convincing evidence that its ODIs with high or medium rewards account for assumptions on totex efficiency-sharing, other regulatory incentives and wider statutory framework incentives: <ol style="list-style-type: none"> 1. The company provides evidence that it has accounted for totex efficiency-sharing and uses an approach which does not adversely impact on customers, for example it uses the approach set out in appendix 1 of the final methodology statement for rewards and a symmetrical approach for penalties, AND clear and robust evidence is provided to explain and justify any departures from the approach, such that all high significance and at least 25% medium significance performance commitments either follow the approach or follow another approach that is fully justified. AND 2. For all high significance and at least 25% medium significance PCs the company has provided clear evidence that:

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> a) If not already assessed under criterion 3.1, any adjustments to penalties based on incentives from aspects of the PR14 framework concerned with other regulators (eg, fines or environmental remediation associated with the DWI or EA) are appropriate, especially where the company is proposing no financial penalty based on other incentives already being in place, AND b) It has considered the impact of other incentives (rewards and penalties) from aspects of the PR14 framework (including, for retail, SIM) and, if relevant, demonstration that any adjustments are appropriate, AND c) It has considered its proposed risk mitigation strategy (eg, accounting for any change protocol proposals) and, if relevant, demonstration that any adjustments are appropriate.
		C	<p>The company has provided insufficient and/or unconvincing evidence that its ODIs with high or medium rewards account for assumptions on totex efficiency-sharing, other regulatory incentives and wider statutory framework incentives:</p> <ol style="list-style-type: none"> 1. The company provides evidence that it has accounted for totex efficiency-sharing but it provides insufficient and/or unconvincing evidence that it has used an approach which does not adversely impact on customers OR it justifies its approach but it only provides clear and robust evidence to explain and justify some departures from the approach, such that only 50-99% of high significance or less than 25% of medium significance performance commitments either follow the approach or follow another approach that is fully justified. <p style="text-align: center;">OR</p> <ol style="list-style-type: none"> 2. The company has only provided clear evidence for 50-99% of high significance or less than 25% medium significance PCs that: <ul style="list-style-type: none"> a) If not already assessed under criterion 3.1, any adjustments to penalties based on incentives from aspects of the PR14 framework concerned with other regulators (eg, fines or environmental remediation associated with the DWI or EA) are appropriate, especially where the company is proposing no financial penalty based on other incentives already being in place, AND b) It has considered the impact of other incentives (rewards and penalties) from aspects of the PR14

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
			<p>framework (including, for retail, SIM) and, if relevant, demonstration that any adjustments are appropriate, AND</p> <p>c) It has considered its proposed risk mitigation strategy (eg, accounting for any change protocol proposals) and, if relevant, demonstration that any adjustments are appropriate.</p>
		D	<p>The company has provided little or no evidence that its ODIs with high or medium rewards account for assumptions on totex efficiency-sharing, other regulatory incentives and wider statutory framework incentives:</p> <ul style="list-style-type: none"> • The company provides little or no evidence that it has accounted for totex efficiency-sharing OR, it has accounted for it but provided little or no evidence that it has used an approach which does not adversely impact on customers, OR it justifies its approach but does not provide clear and robust evidence to explain and justify departures from the approach, such that less than 50% of high significance performance commitments either follow the approach or follow another approach that is fully justified. <p>OR</p> <ul style="list-style-type: none"> • The company has only provided clear evidence for less than 50% of high significance PCs that: <ul style="list-style-type: none"> a) If not already assessed under criterion 3.1, any adjustments to penalties based on incentives from aspects of the PR14 framework concerned with other regulators (eg, fines or environmental remediation associated with the DWI or EA) are appropriate, especially where the company is proposing no financial penalty based on other incentives already being in place, AND b) It has considered the impact of other incentives (rewards and penalties) from aspects of the PR14 framework (including, for retail, SIM) and, if relevant, demonstration that any adjustments are appropriate, AND c) It has considered its proposed risk mitigation strategy (eg, accounting for any change protocol proposals) and, if relevant, demonstration that any adjustments are appropriate.
Overall test		Guidelines	

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Element: all elements, except non-household retail for companies operating wholly or mainly in England		Test: outcome delivery incentives (ODIs)	
Criterion	Interpretation of criterion	Guidelines	
Test 3: outcome delivery incentives	A	As a general guide, all criteria must score A or B and at least 2 criteria must score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	
	B	As a general guide, all criteria must score A or B and less than 2 criteria score A. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	
	C	As a general guide, at least 1 criterion score C or D and less than 2 criteria score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	
	D	As a general guide, at least 2 criteria score D. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 8: risk

Element: all elements		Test: risk analysis	
Criterion	Interpretation of criterion	Guidelines	
Criterion 8.1 How far has the company provided sufficient information – including on company-specific risks – for us to analyse the impact of risks on consumers and companies?	Has the company provided sufficient information for us to assess the risks to consumers and the company in its business plan? In addition to providing the information, has the company: <ul style="list-style-type: none"> Identified the sources of the information? Provided evidence that the information has been quality assured and is the best available? 	A	Taking a balanced view of the following factors, the company has provided comprehensive and exceptional evidence to allow analysis of the impact of risks on consumers and companies. <ul style="list-style-type: none"> The company has provided all mandatory information that we have requested in our guidance on risk and reward, The company has provided comprehensive and exceptional information to support any changes made to its risk analysis in comparison with December 2013 submissions. The company has provided comprehensive and exceptional information about any areas where it has deviated from our January guidance. Collectively, the information is sufficient to support the business plan assumptions. There is no evidence that the company has excluded material risks.
		B	Taking a balanced view of the following factors, the company has provided sufficient and convincing evidence to allow analysis of the impact of risks on consumers and companies. <ul style="list-style-type: none"> The company has provided all mandatory information that we have requested in our guidance on risk and reward. The company has provided sufficient information to support any changes made to its risk analysis in comparison with December 2013 submissions. The company has provided sufficient information about any areas where it has deviated from our January guidance. Collectively, the information is sufficient to support the business plan assumptions. There is no evidence that the company has excluded material risks.
		C	Taking a balanced view of the following factors, the company has provided insufficient evidence to allow analysis of the impact of risks on consumers and companies. <ul style="list-style-type: none"> The company has provided insufficient information to support its business plan consistent with BP table guidance, our guidance on risk and reward and our methodology statement.

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Element: all elements		Test: risk analysis	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> The company has provided insufficient or unconvincing information to support any changes made to its risk analysis in comparison with December 2013 submissions. The company has provided insufficient or unconvincing information about any areas where it has deviated from our January guidance. There is evidence that the company has excluded material risks.
		D	<p>Taking a balanced view of the following factors, the company has provided little or no evidence to allow analysis of the impact of risks on consumers and companies.</p> <ul style="list-style-type: none"> The company has provided little or no mandatory information that we have requested in our guidance on risk and reward. The company has provided information to support any changes made to its risk analysis in comparison with December 2013 submissions that is seriously incomplete and/or severely unconvincing. The company has provided information about any areas where it has deviated from our January guidance that is seriously incomplete and/or severely unconvincing. Collectively the information is insufficient to support the business plan assumptions. There is evidence that the company has excluded a significant number of material risks.
<p>Criterion 8.2 To what degree are the companies' proposed risk impacts plausible and acceptable?</p>	<p>Are the impacts on revenues and costs under different scenarios in line with our expectations? Has the company properly balanced risks between investors and customers and has it taken on the right amount of risk?</p>	A	<ul style="list-style-type: none"> The company has presented a business plan that is in line with our guidance on risk and rewards, including our guidance on the expected RORE range, OR The company has presented a business plan that deviates from our guidance, but does so with comprehensive and exceptional justification, AND For scenario I the company's proposed impacts on revenues, costs, and incentive payments have a comprehensive and exceptional evidence-based justification, AND The company has presented an evidenced based approach to deciding the degree of different risks to allocate to customers for those risks which are not within management control – ie, the company has proposed uncertainty mechanisms only where: <ul style="list-style-type: none"> it has no significant control over these risks or its impact; AND it was justified by a net benefit to customers.

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Element: all elements		Test: risk analysis	
Criterion	Interpretation of criterion	Guidelines	
		B	<ul style="list-style-type: none"> • The company has presented a business plan that is in line with our guidance on risk and rewards, including our guidance on the expected RORE range, OR • The company has presented a business plan that deviates from our guidance, but does so with sufficient justification, AND • For scenario I the company's proposed impacts on revenues, costs, and incentive payments have a sufficient and convincing evidence-based justification, AND • The company has presented an evidenced based approach to deciding the degree of different risks to allocate to customers for those risks which are not within management control – ie, the company has proposed uncertainty mechanisms only where: <ul style="list-style-type: none"> – it has no significant control over these risks or its impact; AND – where it was justified by a net benefit to customers.
		C	<ul style="list-style-type: none"> • The company has presented a business plan that deviates from our guidance on risk and rewards, and does so with insufficient justification, OR • For scenario I the company's proposed impacts on revenues, costs, and incentive payments have an insufficient and/or unconvincing justification, OR • The company has presented an insufficiently evidenced based or unconvincing approach to deciding the degree of different risks to allocate to customers for those risks which are not within management control – ie, the company has proposed uncertainty mechanisms where: <ul style="list-style-type: none"> – it has at least some control over these risks or their impact, OR – where it was not justified by a net benefit to customers.
		D	<ul style="list-style-type: none"> • The company has presented a business plan that deviates from our guidance on risk and rewards, and does so with little or no justification, AND • For scenario I the company's proposed impacts on revenues, costs, and incentive payments: <ul style="list-style-type: none"> • have little or no justification, AND • The company has presented an little or no evidenced for its approach to deciding the degree of different risks to allocate to customers for those risks which are not within management control – ie, the company

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Element: all elements		Test: risk analysis	
Criterion	Interpretation of criterion	Guidelines	
			has proposed uncertainty mechanisms where: <ul style="list-style-type: none"> – it has significant control over these risks or its impact, AND – where it was not justified by a net benefit to customers.
Overall test		Guidelines	
Test 8: risk analysis		A	As a general guide, both criteria score A. However, the test score will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, both criteria score B or one A and one B. However, the test score will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, either criteria scores C. However, the test score will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, either criteria scores D. However, the test score will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).

Test 10: rewards and returns (whole company)

Element: whole company		Test: rewards and returns	
Criterion	Interpretation of criterion	Guidelines	
Criterion 10.1 How well do the returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is bearing for each element of its plan?	How well do the appointee-level returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is taking on?	A	Not applicable.
		B	<ul style="list-style-type: none"> The proposed WACC is in line with our guidance on risk and reward for appointee level returns, OR There is sufficient and convincing evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on, AND There is no evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
		C	<ul style="list-style-type: none"> The proposed WACC is not in line with our guidance on risk and reward for appointee level returns, AND There is insufficient or unconvincing evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on, OR There is evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
		D	<ul style="list-style-type: none"> The proposed WACC is not in line with our guidance on risk and reward for appointee level returns, AND There is little or no evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on and, AND There is significant evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
Overall test		Guidelines	
Test 10: rewards and returns (whole company)		As a general guide, the test score will be the criterion score. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 10: rewards and returns (wholesale water and wholesale wastewater)

Element: wholesale water and wholesale wastewater		Test: rewards and returns	
Criterion	Interpretation of criterion	Guidelines	
Criterion 10.1 How well do the returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is bearing for each element of its plan?	How well do the returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is bearing for each element of its plan?	A	Not applicable.
		B	<ul style="list-style-type: none"> The proposed WACC is equal to our risk and reward guidance for wholesale returns (ie, 3.7%), OR There is sufficient and convincing evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on, AND There is no evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
		C	<ul style="list-style-type: none"> The proposed WACC is different from our risk and reward guidance for wholesale returns (ie, 3.7%), AND There is insufficient or unconvincing evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on, OR There is evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
		D	<ul style="list-style-type: none"> The proposed WACC is significantly different from our risk and reward guidance for wholesale returns (ie, 3.7%), AND There is little or no evidence that the proposed WACC is appropriate to the relevant risks the company is proposing to take on and, AND There is significant evidence that the company failed to take account of the retail margins in accordance with our risk and reward guidance.
Overall test		Guidelines	
Test 10: rewards and returns (element level)		As a general guide, the test score will be the criterion score. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 11: retail net margins

Element: household retail & non-household retail		Test: retail net margins	
Criterion	Interpretation of criterion	Guidelines	
Criterion 11.1 Has the company proposed a reasonable household and non-household retail net margin?	Has the company adopted the retail net margins set out in our risk and reward guidance? Is the proposed level of that retail margin appropriate to the risks the company is proposing to take on?	A	Not applicable.
		B	<ul style="list-style-type: none"> The proposed household and non-household retail net margins are equal to the relevant margins stated in our risk and reward guidance, OR There is sufficient and convincing evidence that the proposed retail net margin is appropriate to the relevant risks the company is proposing to take on.
		C	<ul style="list-style-type: none"> The proposed household and non-household retail net margins are not equal to the relevant margins stated in our risk and reward guidance, AND There is insufficient or unconvincing evidence that the proposed retail net margin is appropriate to the relevant risks the company is proposing to take on.
		D	Not applicable.
Overall test		Guidelines	
Test 11: retail net margins		As a general guide, the test score will be the criterion score. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	

Test 12: financeability

Element: whole company		Test: financeability	
Criterion	Interpretation of criterion	Guidelines	
Criterion 12.1 Taking account of assumptions on costs, revenues, risks and capital structures, how clear is it that the company, if efficient, will be able to finance its functions?	Taking account of cost, revenue, risk and capital structure, how clear is it that the company will be able to finance its functions? <ul style="list-style-type: none"> Does the target credit rating represent a reasonable balance for the investment needs of the company? Has the company provided a complete suite of financial ratios for its capital structure and set out its view that the plan is financeable by reference to target credit rating? Are the ratios consistent with the notional gearing range published in the methodology statement? Has the company provided ratios and explained how its plan is financeable within the notional gearing range set by Ofwat? 	A	<ul style="list-style-type: none"> The company has provided a complete suite of financial ratios including, but not necessarily limited to, those set out in the final methodology statement, and explained (including supporting evidence – eg, from its bond covenants and/or its Security Trust Inter-creditor Deed – STID – and/or rating agency reports) why those ratios are critical to assessment of its credit quality under its actual capital structure, AND The company has clearly demonstrated that it has targeted a credit rating under its actual capital structure that is investment grade (compliant with F6A.6), AND The company has comprehensively demonstrated that all the expected values (and the trend/profile) of those financial ratios are consistent with its target credit rating and that they provide headroom within that credit rating under its actual capital structure, AND The company has comprehensively demonstrated how the expected value (and the trend/profile) of the financial ratios specified in our methodology statement over the PR14 period are broadly consistent with those required to achieve the company view of the an appropriate credit rating (or other evidence consistent with maintaining investment grade credit rating) under their assumption of a notional capital structure, AND The company has comprehensively explained its choice of PAYG/RCV ratio and RCV run-off rates (pre- and post-2015) and their consistency with financeability under both its actual capital structure and its view of a notional capital structure beyond AMP6 and historic evidence of these ratios or their equivalent.
		B	<ul style="list-style-type: none"> The company has provided a complete suite of financial ratios including, but not necessarily limited to, those set out in the Methodology (or has provided sufficient and convincing explanation why it has not used this suite of ratios), and explained (including supporting evidence – eg, from its bond covenants and/or its Security Trust Inter-creditor Deed – STID – and/or rating agency reports) why those ratios are critical to assessment of its credit quality under its actual capital structure, AND The target rating under its actual capital structure is investment grade (compliant with F6A.6), AND The company has explained how the expected values (and the trend/profile) of those financial ratios are

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Element: whole company		Test: financeability	
Criterion	Interpretation of criterion	Guidelines	
	<ul style="list-style-type: none"> Is the RCV run off rate proposed by the company reasonable if it continued to apply in future reviews? 		<p>broadly consistent with its target credit rating under its actual capital structure, AND</p> <ul style="list-style-type: none"> The company has provided sufficient and convincing explanation of how the expected value (and the trend/profile) of the financial ratios over the PR14 period are broadly consistent with those required to achieve the company view of the appropriate target credit rating (or other evidence consistent with maintaining investment grade credit rating) under its assumption of a notional capital structure AND The company choice of PAYG/RCV ratio and RCV run off rates are consistent with financeability under both its actual capital structure and its view of a notional capital structure beyond AMP6, and historic evidence of these ratios or any departure is sufficiently explained by company.
		C	<ul style="list-style-type: none"> The company has provided a materially incomplete suite of financial ratios and has not sufficiently explained (including supporting evidence – for example, from its bond covenants and/or its Security Trust Inter-creditor Deed – STID – and/or rating agency reports) why those ratios are critical to assessment of its credit quality under its actual capital structure, OR The company has not demonstrated that it has targeted a credit rating under its actual capital structure that is investment grade (compliant with F6A.6), OR The expected values (and the trend/profile) of the financial ratios are not broadly consistent with its target credit rating under its actual capital structure, OR The company has not provided sufficient and convincing explanation of how the expected value (and the trend/profile) of the financial ratios over the PR14 period are broadly consistent with those required to achieve the company view of the appropriate target credit rating (or other evidence consistent with maintaining investment grade credit rating) under their assumption of a notional capital structure, OR The company choice of PAYG/RCV ratio and RCV run off rates are not consistent with financeability under either its actual capital structure or its view of a notional capital structure beyond AMP6, or departs from historic rates without sufficient explanation.
		D	<ul style="list-style-type: none"> The company has provide a few or no relevant financial ratios or has poorly explained (including provide little or no supporting evidence – eg, from its bond covenants and/or its Security Trust Inter-creditor Deed – STID – and/or rating agency reports) why those ratios are critical to assessment of its credit quality under its actual capital structure, AND

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Element: whole company		Test: financeability	
Criterion	Interpretation of criterion	Guidelines	
			<ul style="list-style-type: none"> The company has not demonstrated that it has targeted a credit rating under its actual capital structure that is investment grade (compliant with F6A.6), AND/OR The expected values (and the trend/profile) of the financial ratios are significantly less than would be broadly consistent with its target credit rating under its actual structure, AND The financial ratios over the PR14 period are significantly less than would be required to be broadly consistent with those required to achieve the company view of the appropriate target credit rating when they apply their view of the WACC under their assumption of a notional capital structure, AND/OR The company choice of PAYG/RCV ratio and RCV run off rates are not consistent with financeability beyond AMP6 under either its actual capital structure or its view of a notional capital structure, or departs from historic rates without sufficient explanation.
Criterion 12.2 How clearly do the company's proposals for each control allow sufficient returns to be self-financing, if it is efficient, over the longer term?	How clearly do the company's proposals for each control allow sufficient returns to be self-financing, if it is efficient, over the longer term? <ul style="list-style-type: none"> Has the company applied an appropriate wholesale WACC to water and wastewater businesses? Has the company applied an appropriate margin to HH and NHH business? 	A	Not applicable.
		B	<ul style="list-style-type: none"> The company has demonstrated that it has applied the an appropriate WACC to the water and wastewater wholesale controls and any departure from the guidance issued on 27 January 2014 has been sufficiently justified, AND The company has demonstrated that it has applied an appropriate retail margin to both the household and non-household controls and any departure from the guidance issued on 27 January 2014 has been sufficiently justified.
		C	<ul style="list-style-type: none"> The company has not applied an appropriate WACC to the water and wastewater wholesale controls and/or an appropriate retail margin to household and non-household controls and such a departure from the guidance issued on 27 January 2014 is not sufficiently justified.
		D	<ul style="list-style-type: none"> The company has not demonstrated that it has applied an appropriate WACC to the water and wastewater wholesale controls with little or no justification, AND The company has not demonstrated that it has applied appropriate retail margins to both the household and non-household controls with little or no justification.
Criterion 12.3	To what degree to the company's proposals represent	A	<ul style="list-style-type: none"> The company has provided comprehensive and exceptional evidence that it is financeable without any specific adjustments – ie, it has not needed to solve any financeability constraints by the use of PAYG

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Element: whole company		Test: financeability	
Criterion	Interpretation of criterion	Guidelines	
To what degree do the company's proposals represent a fair balance between the company and customers?	a fair balance between the company and customers?		<p>and run of rates, assuming an equity injection or assuming an increase in revenue purely to support financial ratios, OR</p> <ul style="list-style-type: none"> The company has comprehensively identified and justified the drivers of the financeability constraint – eg, a large incremental expenditure programme with appropriate cost recovery (PAYG versus RCV), AND The company has provided comprehensive evidence that specific adjustments are based on solutions (eg, PAYG/RCV ratio, RCV run-off rates, non-statutory outcomes, low dividend yield and or equity injections) that minimise costs to customers, AND The company has provided a comprehensive explanation of how the adjustments are of a size commensurate with the financeability constraint –ie, the extent to which the company would otherwise fail to achieve its target credit rating.
	<ul style="list-style-type: none"> Has the company proposed any specific adjustments to address a finance ability constraint? Has the company set out why the specific adjustments are necessary to achieve the target credit rating? 	B	<ul style="list-style-type: none"> The company has provided sufficient evidence that it is financeable without any specific adjustments – ie, it has not needed to solve any financeability constraints by the use of PAYG and run-off rates, assuming an equity injection or assuming an increase in revenue purely to support financial ratios, OR The company has provided sufficient and convincing evidence that any adjustments required to solve financeability are from solutions (eg, changes to cost recovery, non-statutory outcomes, low dividend yield and or equity injections) that minimise costs to customers, AND The company has provided a sufficient and convincing explanation and justification of the drivers of the financeability constraint, AND/OR The company has provided a sufficient and convincing explanation of how the adjustments are of a size commensurate with the financeability constraint.
	Is there evidence that the specific adjustments balance the cost impact on customers?	C	<ul style="list-style-type: none"> The company has provided insufficient and unconvincing evidence that adjustments are from solutions (eg, PAYG/RCV ratio, RCV runoff rates, non-statutory outcomes, low dividend yield and or equity injections) that minimise costs to customers, OR The company has provided an insufficient and/or unconvincing explanation and/or justification of the drivers of the financeability constraint, OR The company has provided an insufficient and/or unconvincing explanation of how the adjustments are of a size commensurate with the financeability constraint.

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Element: whole company		Test: financeability	
Criterion	Interpretation of criterion	Guidelines	
		D	<ul style="list-style-type: none"> The company has explicitly proposed a 'revenue uplift', or implicitly proposed one via assuming returns in excess of an appropriate WACC without first considering other levers such as fast and slow money rates adjustments the are from market solutions The company has provided little or no explanation and justification of the drivers of the financeability constraint.
Overall test		Guidelines	
Test 12: financeability		A	As a general guide, criterion 12.1 scores A, 12.2 scores B and 12.3 scores C. However, the test will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		B	As a general guide, none of the three criteria score below a B. However, the test will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, none of the criteria scores below a C. However, the test will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).
		D	As a general guide, any criteria scores D. However, the test will be decided on balance of evidence AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).

Test 13: affordability

Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
Criterion 13.1 How well has the company demonstrated that its proposals are affordable over 2015-20 and that it has used appropriate means to secure the affordability of bills for customers?	Does the company's proposal remain affordable to its customers? At the highest level this will be an assessment of whether bills are no higher than the level proposed in the December 2013 submission. However, it will also include an assessment of whether the company's proposals include any deterioration in service to customers in terms of measures available to assist customers identified as having affordability problems. 'Proposals' means a company's whole package of price and service. 'Customers' means all customers and sub-groups of customers (such as different socio-economic groups).	A	Not applicable.
		B	Taking a balanced view of the following factors, the company's plan remains affordable in line with our original assessment. <ul style="list-style-type: none"> The average household bills for 2015-20 are no higher than the levels in the company's original submission that the company demonstrated were affordable to its customers. The additional measures to ensure affordability for customers identified as having affordability problems are maintained in terms of their scope and scale. If average household bills for 2015-20 are now proposed to be higher than the levels in the company's original submission, the company has demonstrated that: <ul style="list-style-type: none"> these levels remain affordable to the majority of its customers; customers who cannot afford these (higher) levels are clearly identified; and measures to support customers with affordability problems are appropriate.
		C	Taking a balanced view of the following factors, the company's plan does NOT remain affordable in line with our original assessment. <ul style="list-style-type: none"> The average household bills for 2015-20 are now proposed to be higher than the levels in the company's original submission, and the company has not demonstrated that: <ul style="list-style-type: none"> this remains affordable to the majority of its customers; customers who cannot afford this are clearly identified; and measures to support customers with affordability problems are appropriate. The average household bills for 2015-20 are no higher than the levels in the company's original submission that the company demonstrated were affordable to its customers, but have reduced proposals in the scope and scale of additional measures to ensure affordability for customers identified as having affordability problems.

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Element: whole company		Test: affordability	
Criterion	Interpretation of criterion	Guidelines	
		D	Not applicable.
Criterion 13.2 How clear is it that the company's proposals are affordable in the longer term? How far has the company demonstrated that it has explored all possible options to ensure that this is the case – eg, by the way it has set out its cost recovery proposals?	Do the company's proposals remain affordable to its customers over the longer term – ie, beyond 2015-20? Specifically, has the company made any changes to its use of cost recovery tools that will affect longer term affordability?	A	Not applicable.
		B	Taking a balanced view of the following factors, the company's plan remains affordable to its customers in the longer term in line with our original assessment. <ul style="list-style-type: none"> The company has proposed cost recovery profiles for 2015-20 and 2020-25 (PAYG/RCV and RCV run-off rates for both pre and post 2015 RCV) that align the profile of bills with customer preferences and/or there is evidence that the levels of affordability beyond 2020 will not deteriorate as a result. Changes to outcome delivery incentives do not have an unacceptable cumulative impact on affordability levels post-2020.
		C	Taking a balanced view of the following factors, the company's plan does NOT remain affordable to its customers in the longer term in line with our original assessment. <ul style="list-style-type: none"> The company has proposed cost recovery profiles for 2015-20 and 2020-25 (PAYG/RCV and RCV run off rates for both pre- and post-2015 RCV) that does not align the profile of bills with customer preferences and/or there is evidence that the levels of affordability beyond 2020 will deteriorate as a result. Changes to outcome delivery incentives have an unacceptable cumulative impact on affordability levels post-2020.
		D	Not applicable.
Overall test		Guidelines	
Test 13: affordability		A	Not applicable.
		B	As a general guide, both criteria score B, or 13.1 scores B and 13.2 scores C. However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the Test score in exceptional or marginal cases (as defined in this document).
		C	As a general guide, both criteria score C. However, the test will be decided on balance of evidence, AND the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or

Element: whole company		Test: affordability
Criterion	Interpretation of criterion	Guidelines
		marginal cases (as defined in this document).
		D Not applicable.

Test 15: Board assurance

Element: Whole company		Test: Board assurance
Criteria	Interpretation of criteria	Guidelines
Has the Board provided assurance that its revised business plan is high quality?	To what extent has the company's Board provided assurance that the revised business plan is high quality, including: <ul style="list-style-type: none"> a statement of Board assurance of the revised business plan; that the plan is financeable; and a statement of how the Board has addressed the areas identified by Ofwat to enable it to be enhanced? 	A Not applicable.
		B Our assessment will take into account and balance the following factors. <ul style="list-style-type: none"> The Board has demonstrably signed off the revised business plan (evidence such as an overall Board statement, a signed statement, or a description of the Board decision-making process). The Board has demonstrated how it has addressed the actions identified by Ofwat in its pre-qualification documents. The Board has demonstrably led and directed considerations of how the company meets the risk and reward guidance. The Board states how it has assured itself that the revised information it has submitted is high quality (including any use it has made of independent third party assessments).
		C Our assessment will take into account and balance the following factors. <ul style="list-style-type: none"> The Board has not demonstrably signed off the revised business plan. The Board has not demonstrated how it has addressed the actions identified by Ofwat in its pre-qualification documents. No evidence is provided to demonstrate that the Board has led and directed considerations of how the

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Element: Whole company		Test: Board assurance	
			company meets the risk and reward guidance. <ul style="list-style-type: none"> The Board has not provided any confirmation that it has assured itself that the revised information, tables and underlying data it has submitted are high quality.
		D	Not applicable.
Overall test		Guidelines	
Test 15: Board assurance		As a general guide, the test score will be the criterion score. However, the Accountable Lead for this test will use regulatory judgement to determine the test score in exceptional or marginal cases (as defined in this document).	



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