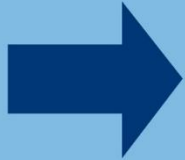


PR19 methodology consultation webinar
Initial assessment of business plans

July 2017



Aim

To explain draft methodology to assist your response

To take clarification questions – not for views on methodology (this is for your response)

We will provide stops in the presentation to allow questions

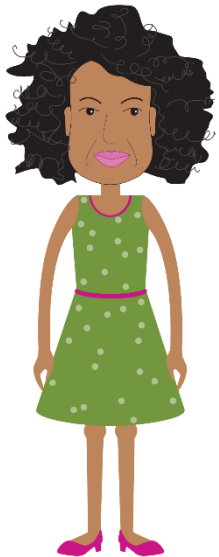
Structure

Objectives

Key dimensions to the initial assessment of business plans

Assessing companies' ability to innovate

Timetable



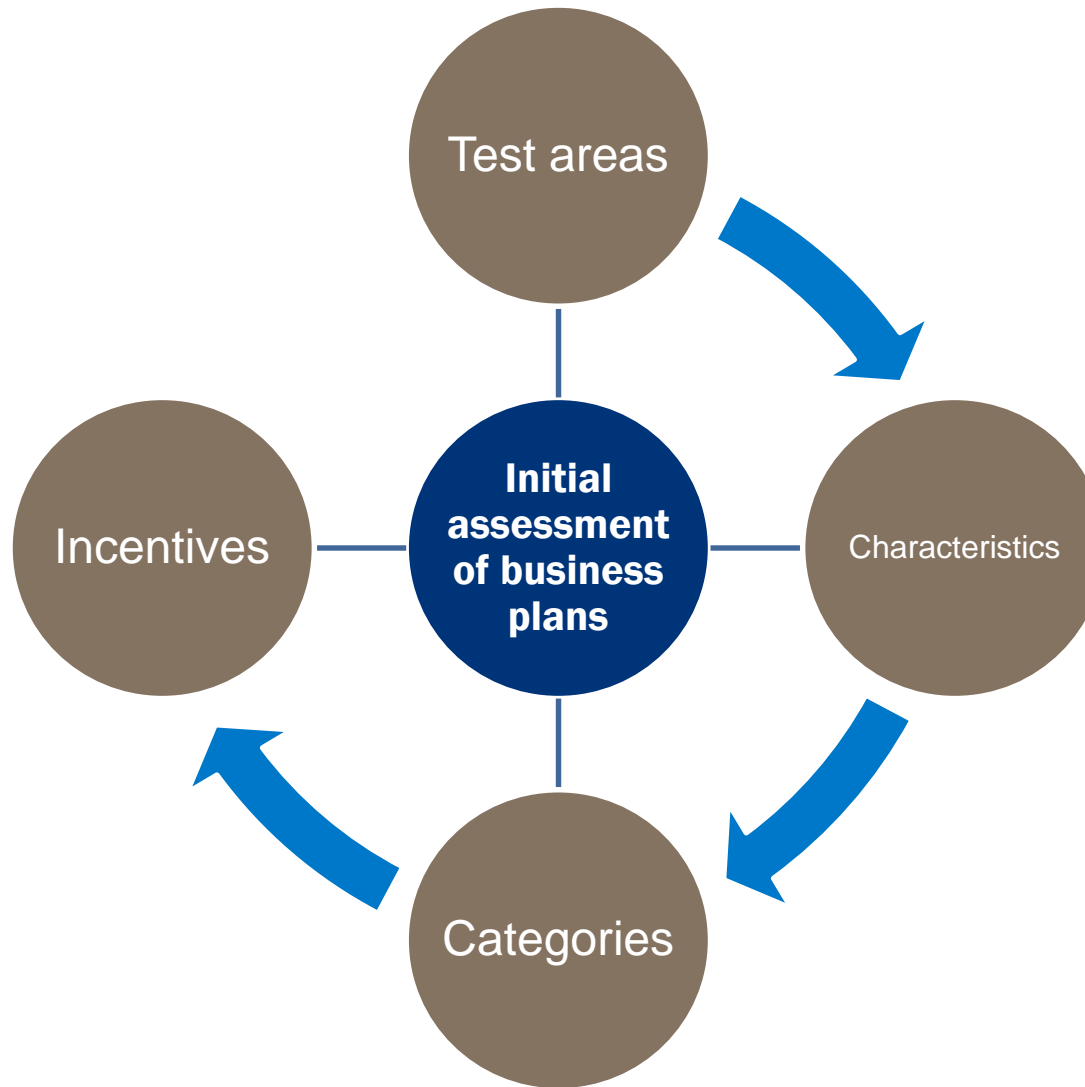
We want **companies to produce high quality, ambitious and innovative** business plans, pushing forward the performance of the industry as a whole and stretching the boundaries for delivery and efficiency.

Our initial assessment of business plans will allow us to test the quality of the plan, the level of ambition and innovation, and the extent to which it requires intervention from us to protect customers.

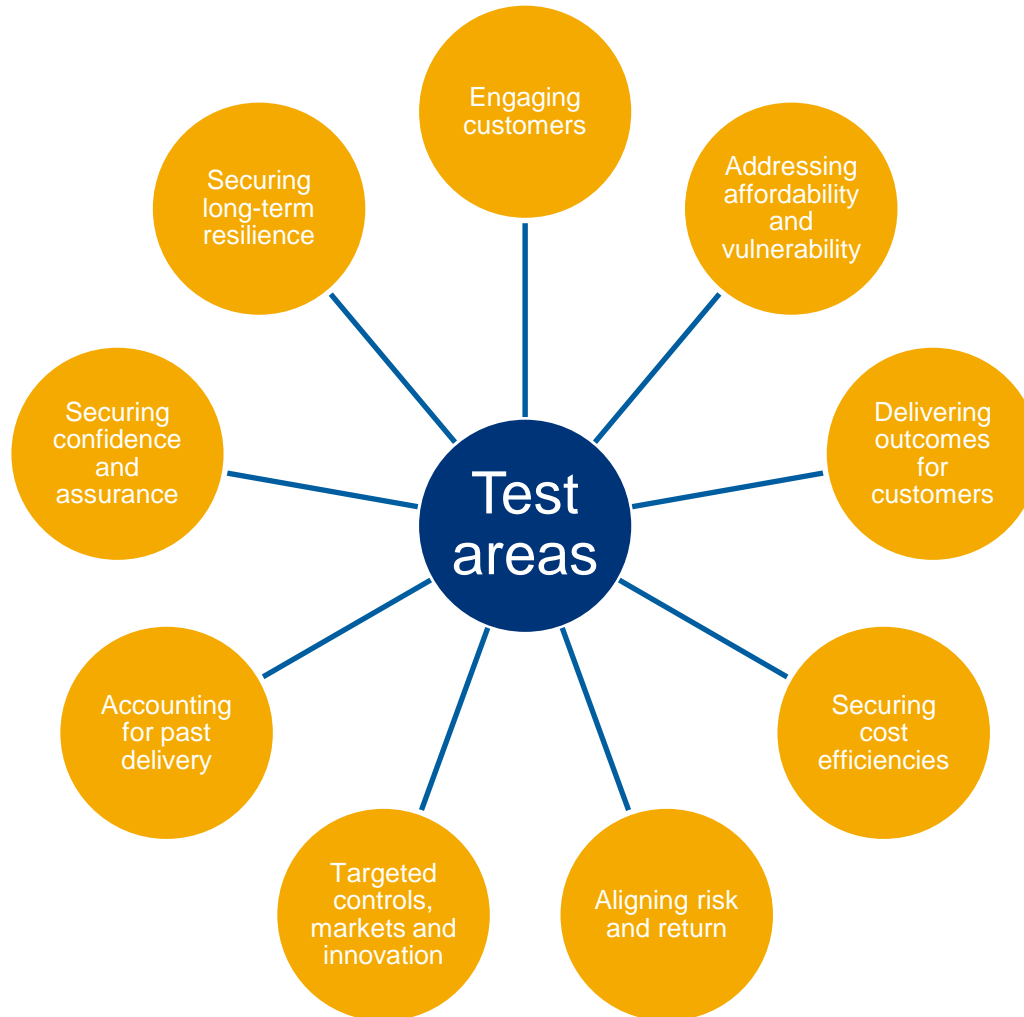
The initial assessment builds on and goes beyond the risk based review approach used in PR14.

In PR19, we want companies to **really stretch themselves and deliver a step change**.

We will use this assessment to give all companies **strong incentives** to produce **high quality business plans** that are **right first time**, and to demonstrate that their plans will benefit customers, the environment and wider society.



We propose to use **nine test areas**



We propose to use **four categories**, which will **reflect the quality, ambition and innovation** of the plan.

Significant scrutiny

Well short of required quality – material intervention required across the plan

Slow-track

Material interventions are required in some areas to protect the interests of customers

Fast-track

High quality, but not ambitious and innovative enough to attain exceptional status

Exceptional

High quality with significant ambition and innovation

Quality, ambition and innovation



We want to give companies clear **financial, procedural and reputational** incentives to produce high-quality business plans for their customers.

Category	Reputational incentives	Procedural incentives	Financial incentives	
		Draft determination	Financial reward	Cost sharing rates
Exceptional	Published performance relative to peers + communication opportunities	Early (March/ April 2019)	Allowance calculated as +0.2% return on regulatory equity (RoRE)	Standard
Fast track	Published performance relative to peers	Early (March/ April 2019)	None	Standard
Slow track	Published performance relative to peers	July 2019	None	Standard
Significant scrutiny	Published performance relative to peers	July 2019	None. Potential cap on outcome delivery incentive (ODI) rewards	Reduced

Innovation is one of our four key themes for PR19, and our proposed approach to the initial assessment of business plans supports this.

- Overall methodology framework strongly incentivises innovation, including through Totex and ODI approach with a focus on payment by results.
- Approach to initial assessment of business plans further supports this: to be classed as exceptional, in addition to being ambitious, a business plan must show how innovative approaches will be used to make costs more efficient and/or to give an exceptional level of service.
- We also propose to explicitly assess a company's ability to innovate as part of the initial assessment of business plans

Proposed question for the initial assessment of business plans:

How well does the company's business plan demonstrate that it is able, through its systems, processes and people, to deliver results for customers and the environment from innovation?

2017	
11 July	PR19 draft methodology consultation published
July-August	Continued engagement through consultation period
30 August	PR19 draft methodology consultation closes
Mid December	Final PR19 methodology published
2018	
3 September	Companies submit business plans to Ofwat
2019	
January	Initial assessment of business plans published
March/April	Draft determinations (exceptional and fast track plans)
April	Companies submit revisions to business plans (significant scrutiny and slow track)
July	Draft determinations (Slow track and significant scrutiny)
December	Final determinations published

Any questions?

Appendix – consultation questions

C14Q1. Do you agree with our proposed approach to the initial assessment of business plans?

- C14Q1a: In terms of the nine test areas?
- C14Q1b: In terms of the business plan characteristics we want to see? (high quality, ambition and innovation)
- C14Q1c: In terms of the business plan categories we propose to assign companies to? (significant scrutiny, slow track, fast track, exceptional)
- C14Q1d: In terms of the financial, procedural and reputational incentives we propose to put in place?

C14Q2. Do you agree with our proposed approach to assessing a company's ability to deliver results for customers and the environment from innovation?

A12Q1. Do you agree with the key questions under each of the test areas?

A12Q2. Do you agree with what we will look for in terms of high quality, ambition and innovation under each of the test areas?

A12Q3. Do you agree with our high-level approach for scoring business plans into the four categories (significant scrutiny, slow track, fast track, exceptional)?

A12Q4. Do you agree with our proposed schedule for the initial assessment of business plans?