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Trust in water

Delivering Water 2020: Our methodology for the 2019 price review Appendix 13: Initial assessment of business plans

Appendix to Chapter 13: The initial assessment of business plans: securing high quality, ambition and innovation

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Contents

1. Summary

Applicability to England and Wales

Our PR19 final methodology for the initial assessment of business plans **applies to both** companies whose areas are wholly or mainly in England and companies whose areas are wholly or mainly in Wales.

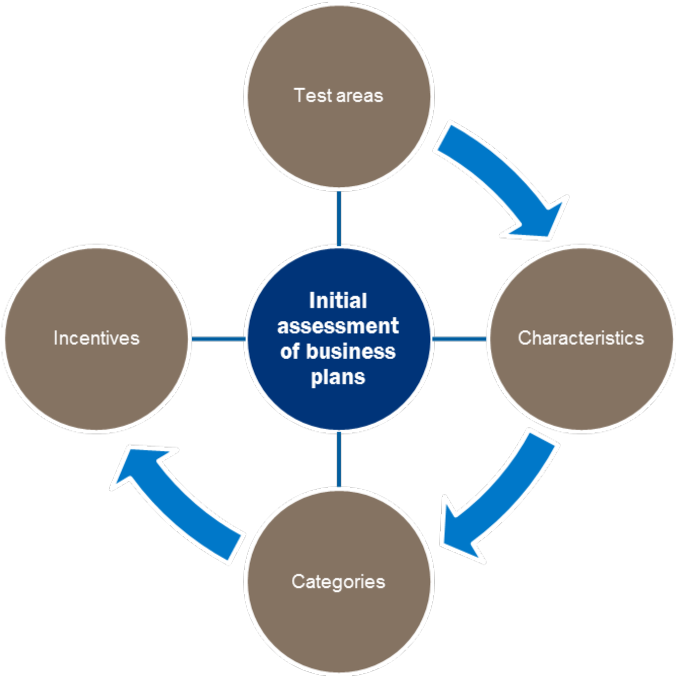
Our approach to the initial assessment of business plans is designed to deliver on our PR19 themes, and reflects the UK Government's and Welsh Government's strategic policy statements. We recognise that there are differences in the statutory obligations, legal and policy frameworks including on the extent of markets, the strategic policy statements of the UK Government and Welsh Government, and the social, economic and environmental characteristics across nations. We also recognise that within nations, there are differences between regions. We expect companies to submit plans which clearly evidence and account for differentiation; and we will take relevant differences into consideration when making our assessment of business plans.

We want companies to produce **high-quality, ambitious and innovative** business plans that are well-evidenced and grounded in excellent customer engagement, are right the first time, push forward the performance of the sector as a whole and stretch the boundaries for delivery and efficiency. This will lead to benefits for all customers, the environment and wider society.

The initial assessment of business plans is our process for assessing companies' business plans, and for incentivising all companies to produce well-evidenced and efficient plans, and the best companies to push the frontier for all companies. In chapter 13 of our PR19 final methodology we set out our final approach and framework for the initial assessment of business plans. This appendix sets out in more detail the reasons for our policy decisions. It includes details of our proposals as they appeared in the draft methodology proposals, the responses submitted by stakeholders, our consideration of those responses, and an explanation of any changes to the methodology.

In our draft methodology proposals, we proposed an overarching framework for the initial assessment of business plans composed of four key elements, as illustrated in figure 1.

Figure 1 – Key elements of our initial assessment of business plans



We also proposed making the initial assessment of business plans, and the associated categorisation of companies, a ‘one-shot’ process for water companies.

There was **broad support** for our overall approach to the initial assessment of business plans.

Some respondents **disagreed with the balance of incentives** for the initial assessment of business plans. Several argued that the financial incentives for the top two categories (exceptional and fast-track) were too weak. On the other hand, one respondent considered that there should be no financial payments to the top companies through the initial assessment of business plans. Some companies also disagreed with our proposal not to include a ‘do no harm’ procedural incentive.

Several companies **requested more details** about our methodology for assessing plans. Some respondents suggested that it would be **challenging to assess companies’ ability to innovate**.

We have considered all stakeholder responses and, where appropriate, amended our approach in light of the comments received. Our final decisions are summarised in table 1.

Table 1 – Main decisions relating to implementation of the initial assessment of business plans

<table>
<tr><th colspan="2">Topic</th><th>Our decision</th></tr>
<tr><td rowspan="3">Overall approach to the initial assessment of business plans</td><td>Test areas</td><td>We will test companies' business plans in nine areas:

• engaging customers;
• addressing affordability and vulnerability;
• delivering outcomes for customers;
• securing long-term resilience;
• targeted controls, markets and innovation;
• securing cost efficiency;
• aligning risk and return;
• accounting for past delivery; and
• securing confidence and assurance.</td></tr>
<tr><td>Characteristics</td><td>We will assess business plans against three key characteristics:

• high quality;
• ambition; and
• innovation.

We provide further information on each of the test areas. This includes the main test questions and potential features on high quality, ambitious and innovative.</td></tr>
<tr><td>Categories</td><td>We will categorise companies into four categories:

• exceptional;
• fast-track;
• slow-track; and
• significant scrutiny.

Our starting assumption will be that all plans require significant scrutiny. It is up to companies to demonstrate that they should be in a higher category.</td></tr>
</table>

	Incentives	We will incentivise companies through a range of incentives, which can be: • financial; • procedural; and • reputational. For business plans categorised as exceptional we will provide an amount equivalent to a 20 basis points (bp) to 35bp addition to the return on regulated equity (RoRE), recognising that truly stretching performance benefits all customers. For business plans categorised as fast track we will provide an amount equivalent to a 10bp addition to the return on regulated equity (RoRE). Both exceptional and fast-track business plans will benefit from procedural incentives through an early draft determination with early certainty on specified components of costs and outcomes. Business plans categorised as significant scrutiny will receive reduced cost sharing rates and potentially capped ODI outperformance payments.
Assessing companies' capacity and readiness to innovate		We will assess companies' capacity and readiness to innovate, as demonstrated through their business plans.
Timelines		Companies will be required to submit business plans by 3 September 2018. We intend to publish: • our categorisation decisions in late January 2019; • the draft determinations for exceptional and fast-track companies in March/April 2019; • the draft determinations for slow-track and significant scrutiny companies in July 2019; and • the final determinations for all companies in December 2019. We expect companies to get it right first time and put forward the best business plan for their customers at the point of submission by 3 September 2018.

1.1. Structure of this appendix

In this appendix, we consider stakeholders' responses corresponding to each of the key areas of the initial assessment of business plans, and set out our reasoning for our final position. This appendix is structured as follows:

- test areas (section A2);
- characteristics (section A3);
- categories (section A4);
- incentives (section A5); and
- timelines (section A6).

This aligns with the structure of chapter 14 (the initial assessment of business plans) of the PR19 final methodology (the timelines are covered in chapter 15 – 'Next steps'). Each section includes sub-sections on:

- our proposed position as set out in our draft methodology;
- stakeholders' responses to our draft methodology proposals; and
- our final position.

We have also published a pro forma alongside the PR19 final methodology. We expect companies to submit this with their business plans to highlight where information relevant to each question can be found in the plan. A high-quality business plan should be easy to navigate and this pro forma will aid the assessment process.

Section 13 of appendix 15 outlines respondents' views to the six questions we posed about the initial assessment of business plans in our draft methodology proposals. In appendix 15, we provide or reference our response to the issues raised by respondents.

2. Test areas

2.1. What we proposed in our draft methodology proposals

We proposed that the initial assessment would cover all areas of a company's business plan, and that we would use the following nine test areas:

- engaging customers;
- addressing affordability and vulnerability;
- delivering outcomes for customers;
- securing long-term resilience;
- targeted controls, markets and innovation;
- securing cost efficiency;
- aligning risk and return;
- accounting for past delivery; and
- securing confidence and assurance.

2.2. Stakeholders' responses

There was broad support from stakeholders, and none of the respondents disagreed with the test areas we proposed. Several respondents asked us to clarify the relative positioning of the test areas in categorising business plans overall. In this context, some respondents asked for clarity on how individual test scores would be aggregated, the relative weightings of the tests, and whether any tests would act as 'gates' in terms of the final categorisation decision.

Some respondents also suggested that we should focus on material issues and not place undue weight on some tests versus others. In some cases, respondents proposed how test areas could be weighted. The views on this differed between respondents. One respondent suggested that that the process needs to include a final check to ensure that the assessment is appropriate in the round.

Some respondents commented that it is not feasible for a company to be stretching in all areas, and that this makes it unlikely that a company will perform well in the initial assessment of business plans. Some respondents also suggested that the proposed tests are not mutually exclusive, using the example of how stretching companies' outcomes will be, both in the context of previous business plans and performance in 2015-20. There was also a request for us to confirm whether the tests apply at appointee or control level.

2.3. Our final position

Setting out a framework of test areas gives a clear indication of our expectations and priorities for company business plans. This structured approach also allows us to carry out the initial assessment of business plans effectively and efficiently.

We will maintain our widely supported approach in terms of the nine test areas for our initial assessment of business plans. Our framework, including on the test areas, sets clear expectations to companies without becoming overly prescriptive or detracting from company ownership of their business plans. It will help deliver on the PR19 themes and reflects the strategic policy statements of the UK Government and Welsh Government.

We are taking an in-the-round approach to the assessment. Companies own their business plans, which need to be well evidenced and grounded in excellent customer engagement, and deliver for customers and the environment. We do not want to drive a one-size-fits-all approach by setting out relative positions for the individual test areas. This means we are not setting out any weightings or 'gates' for individual test areas. This allows us to apply our regulatory judgement in an objective, proportionate and consistent way, and reduces the risk of driving an outcome inconsistent with company ownership of business plans.

Our in-the-round approach applies equally to the question of control versus appointee-level assessments. We will assess at the level of controls where appropriate, but as an input into the overall business plan categorisation at the level of the appointee.

There are clear conceptual relationships between the test areas. For example, both the 'addressing affordability and vulnerability' and 'securing cost efficiency' areas of companies' business plans will contribute to our PR19 theme of affordability. In terms of the initial assessment of business plans, our tests will be applied so that this does not translate into inappropriate 'double-counting' across test areas.

The level of detail we are providing on our assessment methodology for PR19 exceeds what we provided at the equivalent stage of the risk-based review at PR14. We want companies to own their plans while setting out expectations designed to help companies put forward strong business plans, and we reserve the right to consider other relevant factors if appropriate. In doing this, we have sought to avoid an overly prescriptive methodology that would risk turning the development of business plans into a tick-box exercise in the context of the initial assessment of those plans.

3. Characteristics

3.1. What we proposed in our draft methodology proposals

We proposed looking to companies to demonstrate how their business plans meet three overarching characteristics:

- high quality;
- ambition; and
- innovation.

We set out that in a **high-quality** plan, the company's proposals will not only be efficient, resilient and affordable, but also include stretching performance commitments that really deliver for customers. We also noted that we expect to have a high degree of confidence that the business plan will be delivered. A high-quality business plan will also provide a focused and persuasive vision of the future, with clear evidence appropriately used and with well set out, robust reasoning to support the company's proposals.

We set out that an **ambitious** business plan will push forward the efficiency and delivery frontier for the sector, setting a new standard for the future. We expect companies to be ambitious and innovative in their business plans and to aim to deliver value for their customers.

Meaningful **innovation** leads to new benefits for customers, companies and the environment, and to better management of risks and opportunities. For a plan to be ambitious, it must be innovative – the two must go hand in hand. To expand the boundaries of efficiency and delivery in the sector, companies will need to work in more innovative ways.

We therefore proposed that to be classed as exceptional, a business plan must both be ambitious and show how innovative approaches will be used to make costs more efficient and/or to provide an exceptional level of service.

We also proposed assessing companies' capacity and readiness to innovate as part of our initial assessment of business plans. We noted that as part of this assessment, we can also consider how well companies have developed and delivered innovations in the past, where they can demonstrate that their proposals take account of and build on this experience (both where innovations have been successful and less successful). We proposed using the following question to assess this:

> 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?

We provided extensive further detail on these characteristics. This included a set of test questions and high-level criteria of what we may look for in terms of high-quality, ambition and innovation.

3.2. Stakeholders' responses

There was broad support from stakeholders for the three characteristics we proposed.

Several respondents commented that it will be challenging for us to assess innovation, and especially companies' capacity and readiness to innovate – for example, because of the differences between companies' structures, systems and processes.

One company, while noting their support for our objective to promote innovation, disagreed about assessing innovation through the initial assessment of business plans. It suggested that the desired outcomes could be more effectively achieved through incentives, as opposed to specific innovation tests, and that promoting radical innovation requires incentives to be calibrated to create meaningful opportunities for outperformance. The response suggested that our current approach runs the risk of inviting companies to describe a lot of things as being innovative without necessarily delivering the outcomes that matter to customers.

Some respondents suggested that ambition and/or innovation should not be ends in themselves, but should be evaluated on the basis of how well companies are delivering against customers' expectations and priorities.

There was a range of comments about the test questions for individual test areas. These have been addressed in the relevant chapters of our PR19 final methodology, and details can be found in appendix 15.

3.3. Our final position

We will maintain our approach and look for companies to demonstrate how their business plans meet three overarching characteristics:

- high quality;
- ambition; and
- innovation.

In chapter 14 of the PR19 final methodology we provide an indication of what we might look for in terms of these characteristics; further detail is provided in table 2 below. This will inform our assessment of company business plans. While our intention is to provide helpful and sufficient clarity for companies to work to produce high quality, ambitious and innovative plans, companies own their business plans and we reserve the right to consider other relevant factors if appropriate.

We consider that given the challenges the sector faces, and the relative immaturity of the sector's culture on innovation, it is important for the regulatory framework to explicitly incentivise innovation as a means to important ends such as affordability, better customer service and long-term resilience[1]. This is why we are incorporating a strong focus on innovation into the initial assessment of business plans.

We agree that what matters most is delivery and results, which is why our initial assessment of business plans – as part of the overall PR19 methodology framework – works in conjunction with the delivery incentives. We want to incentivise companies to provide better services at lower cost, and to explore and implement innovative solutions that can help to deliver this.

Companies will need to innovate to do so. We will consider innovation when we assess companies' business plans against the test questions in the initial assessment of business plans. This will provide us with evidence on how well companies plan to use innovation to deliver across their business plans.

We consider it important to also consider the alignment between a company's capacity and readiness to innovate, and its concrete plans for delivering innovation. This should give us greater confidence that a company will be able to deliver on its plans. How well a company is set up to innovate indicates how well equipped it is to address challenges and deliver results in innovative ways in the future. Assessing

[1] We expand on our overall approach to innovation in our separate publication: 'Driving innovation in water' (or PDF version)

companies' capacity and readiness to innovate will bring a level of challenge, but we consider this can be addressed and existing theory, frameworks and good practice will allow us to robustly assess this important capability perspective, which complements the focus on delivery.

We consider that a company's capacity and readiness will manifest itself through its culture which will need to embed innovation throughout the business. An organisation's culture will affect norms, values and behaviours, and for innovation can be manifested through its systems, processes and people. We will therefore use the following question for our initial assessment test:

Initial assessment test on innovation ability and readiness

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

Table 2. Focus, test questions and potential features of high quality, ambition and innovation (against each test area)

This list of potential features is not a check-list. It needs to be considered alongside the content and the context provided in relevant chapters of the PR19 final methodology, including the initial assessment of business plan chapter.

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
Engaging customers	The quality of the company's customer engagement, including its approach to customer participation; How well the company's customer engagement has been reflected across its business plan	1. What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	**In a high-quality plan:** The company will demonstrate real leadership on customer engagement and customer participation. It will provide strong evidence that it has effectively applied the principles of good customer engagement, including taking forward customer participation. The company's evidence on its approach to customer engagement will be supported by high-quality, independent challenge, scrutiny and assurance of its customer engagement from the customer challenge group. **In an ambitious and innovative plan:** The company will demonstrate sector-leading approaches to customer participation in the creation of its business plans and in its delivery.	Engaging customers: chapter 2
Addressing affordability and vulnerability	Whether a company's plan is affordable and offers value for money, both for PR19 and over the longer term, including for those who are struggling or are at risk of struggling to pay.	1. How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period? 2. How well has the company demonstrated that its bills will be	**In a high-quality plan:** The company's approach to affordability will be based on strong evidence and customer engagement. The company will demonstrate it understands what affordability looks like for its customers now and in the future and that this is	Addressing affordability and vulnerability: chapter 3

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
	How the company is supporting customers in circumstances that make them vulnerable by providing sensitive, well-designed and flexible support and services.	affordable and value for money beyond 2025? 3. To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay? 4. To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	reflected in its plan, alongside a high level of customer support for the affordability of the plan. The company's approach to affordability for those struggling to pay will be highly effective and efficient. This is supported by strong evidence, for example, a net customer benefit analysis of a company's social tariff, demonstrating that the company has taken the most cost efficient approach, or strong evidence that customers are supportive of social tariffs that go beyond the revenue-neutral level, and that this assistance is provided in the most efficient way. The company will take a targeted, efficient and effective approach to supporting customers in circumstances which might make them vulnerable. This approach will bring about a step change in the identification, accessibility and support for these customers. The company will adopt a high-quality bespoke performance commitment on its approach to supporting customers in circumstances which might make them vulnerable. The company's approach for affordability and vulnerability should be supported with evidence of high-quality, independent challenge, scrutiny and assurance from the Customer Challenge Group and evidence from other expert organisations. **In an ambitious and innovative plan:** The company will innovate to deliver a plan which leads the sector in delivering affordability for all customers as well as for customers struggling to pay. The company will be innovative and sector leading in	Securing cost efficiency: chapter 9 Engaging customers: chapter 2

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
			its strategy for identifying and supporting customers in circumstances which might make them vulnerable.	
Delivering outcomes for customers	How appropriate, stretching and well-evidenced the company's performance commitments and outcomes delivery incentives (ODIs) are. Whether the company's business plan demonstrates an appropriate focus on service performance.	1. How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels? 2. How appropriate and well-evidenced is the company's package of outcome delivery incentives? 3. How appropriate is the company's focus on service performance in its risk/return package?	**In a high-quality plan:** All the company's performance commitments will be set at stretching levels, including for leakage and water efficiency. These should be supported by high-quality evidence that the performance commitments are stretching. There will be strong independent CCG assurance on the quality of the company's customer engagement and how it is reflected in the plan. The company will propose a robust package of ODIs to incentivise delivery on its performance commitments to customers. The company's overall risk and return package will show a strong focus on service delivery. **In an ambitious and innovative plan:** The company will propose innovative and sector-leading performance commitments with stretching levels of performance. The company will also propose and an ODI incentive package which supports outstanding achievement and innovation as well as protecting customers against the risk of delivery failure and the potential for very high outperformance payments that exceed expectations.	Delivering outcomes for customers: chapter 4
Securing long-term resilience	Whether the company's business plan demonstrates how it will ensure resilience in the round, including	1. How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its	**In a high-quality plan:** The company has assessed long-term resilience in the round in accordance with the resilience planning principles.	Securing long-term resilience: chapter 5

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
	operational, financial and corporate resilience. Whether the company's proposed intervention/ outcomes are consistent with the principles of good resilience planning as set out in chapter 5.	systems and services, and engaged effectively with customers on its assessment of these risks and consequences? 2. How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?	The company will take an organisation-wide, integrated approach to identifying and appraising all the diverse risks to the resilience of services and interdependencies across different areas. The company will provide clear evidence that they have objectively considered and assessed the full range of resilience management options. The company's proposals will reflect customer preferences and will be supported by commitments made to customers. The company will develop a plan that delivers long-term resilience in the round, which provides the best long-term value for money for customers. The company provides robust evidence that customers are not paying twice for resilience given the funding provided in previous price controls. **In an ambitious and innovative plan:** The company will present strong evidence that it has used robust, ambitious and innovative approaches to assess and mitigate risks to long-term resilience in the round. These proposals will be supported by stretching commitments to customers.	
Targeted controls, markets and innovation	Whether and how the company will use innovation to deliver more efficient costs and/or improved service levels Whether the company is making the best use of	1. How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	**NOTE: any test focusing on the use of markets would not be applied to a company wholly or largely based in Wales which doesn't operate in that market.**	Targeted controls, markets and innovation: wholesale controls: chapter 6

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
	markets to deliver resilient and affordable services in the interest of customers	2. How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term? 3. To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term? 4. To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the	**In a high-quality plan:** The company will show it is capable and effective at embedding innovation into its business to deliver for customers and the environment. The company has integrated its WRMP processes into its mainstream business planning and reflected as far as possible its WRMP into its business plan. The company will actively and effectively consider markets and third-party delivery options for water resources and bioresources for both this review period and the longer term. Strong evidence to support this should include details of third party engagement, a strategy for maximising the use of third party resources where it is economic to do so, and to demonstrate an understanding of how the future bilateral market for water resources will affect future supply requirements. The company will show a long-term strategy for managing drainage and wastewater in an integrated and sustainable way. The company will set out the bioresources volumes it expects to treat on behalf of other wastewater companies. Strong evidence to support this should include information about how costs vary with volumes and how the company will determine the appropriate share of benefit between the appointed and non-appointed businesses. The company should include transparent, well evidenced and acceptable proposals on pre-2020 RCV allocation.	Targeted controls, markets and innovation: direct procurement for customers: chapter 7 Targeted controls, markets and innovation: retail controls: chapter 8 The initial assessment of business plans: chapter 14

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
		2020-25 period and over the longer term? 5. How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus – and, if relevant, between bioresources and wastewater network plus – taking into account the guidance and/or feedback we have provided? 6. To what extent has the company produced a company bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations? 7. To what extent has the company clearly demonstrated that it has considered whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more such projects, to what extent has the company provided a well-reasoned and well-evidenced value for	The company will make efficient and effective use of ecoservice markets. The company will explain their level of voids; and their plan will make proposals to identify and manage voids and gap sites. The company bid assessment framework for water resources, demand management and leakage services that provides clarity and confidence to third party bidders about the procurement process and that their bid will be assessed fairly against the company's own in-house solution. The company will take a high-quality approach to direct procurement. It will consider whether relevant projects are suitable for DPC, assessing against our technical guidance, and supporting its conclusions with strong evidence. For each suitable project, to support its decision whether or not take it forward by DPC, it will use a best practice business case assessment framework to undertake a well-reasoned and well-evidenced value for money assessment **In an ambitious and innovative plan:** In its appraisal of the options, the company will demonstrate innovative and sector leading strategies for delivering water resource and bioresources services, aligned with the use of third party options. The company will have a sector leading strategy and plan (supported by strong evidence) for delivering qualifying projects through direct procurement for customers, where value for money assessment	

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
		money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	indicates a direct procurement approach will provide value for customers. The company will lead the sector in terms of its culture for and approach to innovation, demonstrating how this is embedded within systems, process and people – within the company and beyond. The company will demonstrate how it looks for lessons learned and innovation adopted from the business retail market and how it plans to adopt a similar approach to their non-contestable retail activities.	
Securing cost efficiency	Cost efficiencies across the different controls (wholesale and retail) Whether the company raises well evidenced and efficient cost adjustment claims and only where appropriate	1. How well evidenced, efficient and challenging are the company's forecasts of wholesale water expenditure, including water resources costs? 2. How well evidenced, efficient and challenging are the company's forecasts of wholesale wastewater expenditure, including bioresources costs? 3. How well evidenced, efficient and challenging are the company's forecasts of retail expenditure, including bad debt costs? 4. To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost	**In a high-quality plan:** The company will submit strong evidence of efficient and challenging cost forecasts in each price control, with evidence of comparative efficiency within the sector and, where appropriate, against other sectors. The company will have an effective approach to managing and reducing bad debt. The company will submit strong evidence to support any cost adjustment claim. Where possible, the company will avoid raising cost adjustment claims, including by taking account of offsetting favourable circumstances. The company will have effectively use markets and market testing to reveal information and improve efficiency.	Securing cost efficiency: chapter 9

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
		adjustments well evidenced, efficient and challenging?	**In an ambitious and innovative plan:** The company business plan presents cost forecasts which shift the efficiency frontier of the sector, with evidence of comparative efficiency against other sectors.	
Aligning risk and return	The company's costs of capital and retail margins The company's assessment and management of risk and uncertainty Whether the plan is financeable on both an actual and a notional basis Whether the proposed cost recovery rates are well justified[2]	1. Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-25? 2. To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it	**In a high-quality plan:** Where business plans are underpinned by a different costs of capital and/or retail net margin(s) to our early view, we expect to see strong evidence to justify why it/they should be different within the context of expected market conditions for 2020-25. The company will demonstrate they have a clear understanding of the risks that could affect delivery of the plan, including through RoRE scenario analysis, and that they have appropriate risk management practices in place. The company will demonstrate and provide assurance that it is financeable under both the notional and actual capital structure. The company will clearly explain the PAYG and run-off levers it has used. Where used to address financeability it will demonstrate these are for maintaining the	Aligning risk and return: chapter 10 Aligning risk and return: financeability: chapter 11

[2] Costs are recovered through allowed revenue, in one of two ways. Allowed expenditure (totex) can be recovered in the year it is incurred through pay-as-you-go (PAYG), or, it can be added to the RCV and recovered over a longer period through RCV run-off (depreciation of the RCV)

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
		will have in place, across each of the price controls? 3. Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence? 4. How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations, both now and in the longer term?	financeability of the notional rather than actual structure. The company will provide strong evidence to support its PAYG and RCV run-off rates, including whether they are consistent with customers' preferences, both now and in the longer term.	
Accounting for past delivery	How well evidenced the proposed reconciliations for the 2015-20 period are How achievable and deliverable the plans are, taking into account levels of past performance	1. How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology? 2. How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?	**In a high-quality plan:** The company will present strong evidence that it has derived its proposed reconciliation adjustments following the PR14 reconciliation rulebook methodology and that its proposals for applying the adjustments in the 2020-25 price controls follow the PR19 final methodology. The company will present strong evidence that it has a robust approach to delivering its PR19 business plan. This should demonstrate that the company has delivered and is forecast to deliver its promises to customers over the 2015-20 period. Or where it has or will not, its understanding of the drivers of its performance over the 2015-20 period, the lessons it has learnt and the additional measures it has put in	Accounting for past delivery: chapter 12

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
			place to ensure that it can maintain confidence that it can successfully deliver its 2020-25 plan.	
Securing confidence and assurance	Whether the company's full Board has provided comprehensive assurance of its business plan and its accompanying data.	1. To what extent has the company's full Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case? 2. To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term? 3. To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?	**In a high-quality plan:** The company's full Board will own the overall strategy and direction of the plan in the long term and take collective responsibility for assuring its business plan. The Board will provide us with a statement of why it considers all the elements (including supporting data) add up to a business plan that is high quality and deliverable, providing strong evidence of where and how it has challenged company management. The Board assurance statement will include assurance that the business plan will, over the next control period and in the long term, enable the company to meet its statutory and licence obligations, take account of the UK and Welsh Government's strategic policy statements and deliver operational, financial and corporate resilience. The Board will also provide assurance that it will enable its customers' trust and confidence through high levels of transparency and engagement with customers.	Securing long-term resilience: chapter 5 Aligning risk and return: financeability: chapter 11 Securing confidence and assurance: chapter 13

Test area	Focus	Questions	Potential features of high quality, ambition and innovation	Link to associated chapters
		4. To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)? 5. To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework? 6. How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?		

4. Categories

4.1. What we proposed in our draft methodology proposals

Companies' performance against the characteristics will drive how their business plans are categorised. We proposed four categories for PR19, which will reflect the quality, ambition and innovation of the plan. We proposed in our draft methodology proposals that:

Exceptional status will be awarded to plans that are high quality with significant ambition and innovation for customers.

Fast-track status will be given to plans that are high quality and do not require material intervention to protect customer interests, but which are not ambitious and innovative enough to attain exceptional status.

Slow-track status will be given to plans where material interventions are required in some areas to protect the interests of customers.

Significant scrutiny status will be given to plans which fall well short of the required quality and where material interventions are required to protect the interest of customers.

We noted that using four categories would give the best balance between incentivising companies to improve their plans and running an effective price review process.

4.2. Stakeholders' responses

There was broad support from stakeholders about our approach in terms of the categories proposed and several respondents explicitly noted the categories were clear.

Two respondents disagreed with assuming 'significant scrutiny' as the default starting point and looking to companies to prove their way up. This included a suggestion that the default should be 'slow track', which could also be renamed 'standard'. One respondent suggested that our approach could signal a lack of trust which is unmerited; and that this could damage customers' perceptions of the sector unnecessarily – which would not be in our or the companies' interests. The Consumer Council for Water (CCWater) explicitly agreed to our proposal on starting companies in significant scrutiny as default.

One respondent suggested that it is reasonably clear what Ofwat's expectations are for a company that is judged to have an exceptional plan, but considered that there is some substantial uncertainty regarding the boundary between the other categories.

4.3. Our final position

We will maintain our overall approach in terms of the initial assessment of business plan categories.

We will also maintain our starting assumption that all plans require significant scrutiny until shown otherwise. The companies are largely monopoly businesses. We face asymmetry of information when assessing business plans – we know less about companies' businesses than they do. This asymmetry underpins our starting assumption. It is up to companies to demonstrate, through their business plans, that they should be in a higher category.

This is a procedural point in our assessment process. It is not a reflection of trust or lack of trust. We expect companies to submit plans of such quality that we do not need to assign any to the significant scrutiny category at the end of our initial assessment of business plans. However, if we do see a plan that does not meet the quality necessary to achieve a higher category, then we will use this category. If a company is assigned to the significant scrutiny category at the end of our assessment process, this will reflect a lack of confidence and trust in the plan at that point in time. Such companies may then be expected to substantially rework these plans, and they will require increased ongoing regulatory scrutiny and assurance. We may also put extra measures in place to protect customers from risks associated with poor business planning.

We consider that there is a clear distinction between the categories, and have made some further points of clarification. For example, we set out that that extensive material intervention is required for business plans assigned to the significant scrutiny category.

Exceptional status will be awarded to plans that are high quality with significant ambition and innovation for customers and that push the boundaries of the industry and set an example for others.

Fast-track status will be given to plans that are high quality and where limited, minor or no intervention is required to protect customers' interests, but which are not ambitious or innovative enough to attain exceptional status. The threshold to be placed in the fast-track category is high. It is an in-the-round assessment and we might make limited or minor interventions to the business plan.

Slow-track status will be given to plans where a level of material intervention is required to protect the interests of customers. Companies may be required to resubmit parts of their business plans or to provide additional evidence.

Significant scrutiny status will be given to plans that fall well short of the required quality and where extensive material intervention is required to protect the interests of customers. Our assessment will take into account both the number of areas of concern and the extent of the concerns. This may include expecting companies to substantially rework these plans.

5. Incentives

5.1. What we proposed in our draft methodology proposals

Through our initial assessment of business plans, we want to give companies clear **financial**, **procedural** and **reputational** incentives to produce high-quality business plans for their customers. The main incentives we proposed are set out in table 3.

Table 3 – Summary of the main incentives originally proposed in our consultation for the initial assessment of business plans

Category	Reputational incentives	Procedural incentives	Financial incentives	
		Draft determination	Financial reward	Cost sharing rates
Exceptional	Published performance relative to peers + communication opportunities	Early (March or April 2019)	Allowance calculated as +0.2% return on regulatory equity (RoRE)	Standard
Fast track	Published performance relative to peers	Early (March or 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

We also proposed that we would not adopt a 'do no harm' rule (as we did at PR14) for companies with exceptional plans, since we will provide early guidance on the cost of capital and retail margins alongside our PR19 final methodology, which companies can use to prepare their business plans.

As set out in section A4, we also proposed that companies with plans assigned to slow-track status may be required to resubmit parts of their business plans or to provide additional evidence. We also proposed that companies with plans assigned to significant scrutiny status might be expected to substantially rework these plans. Companies whose plans fall into this category will require increased ongoing regulatory scrutiny and assurance. We may put extra measures in place to protect customers from risks associated with poor business planning. These companies may also be subject to strengthened reporting requirements.

5.2. Stakeholders' responses

A number of companies and investors argued that the rewards we proposed would not be sufficient to incentivise companies to aim for the fast-track and exceptional categories. They argued that these incentives would not be commensurate with the levels of effort and risk required, given the strengthening of the delivery incentives on costs and outcomes. It was also suggested that the incentives for achieving the top categories were weak in relation to the disincentives attached to the significant scrutiny category. A number of respondents also argued that our proposal not to adopt a 'do no harm' rule further weakened the incentives for achieving the top categorisation.

Some stakeholders suggested this perversely skewed the balance of incentives towards avoiding the significant scrutiny category rather than achieving the fast-track or exceptional categories. For some, this was compounded by a view that it would be difficult to achieve fast-track or exceptional status, and that these categories would only be attained by a few companies.

These stakeholders suggested that the incentives for fast-track and exceptional companies should be strengthened.

CCWater responded that it does not want to see companies being financially rewarded up front on the promise of future delivery, as this is not in customers' best interests. It noted that during the current control period, it has observed companies with PR14 'enhanced status' struggling to deliver on their promises in some areas; and that these companies may therefore receive a bonus based on promises they may not fulfil. CCWater indicated that if up-front financial incentives are included in the package for exceptional companies, it would like to see a claw-back mechanism to refund customers, and that such a mechanism could be built into strong ODI penalties for underperformance.

5.3. Our final position

We want companies to produce **high-quality, ambitious and innovative** business plans, pushing forward the performance of the sector as a whole, stretching the boundaries for delivery and efficiency, and allowing customers, companies and their investors to share in the value created. The incentives associated with the initial assessment of business plans form part of the wider balance of incentives within the PR19 methodology framework.

The strongest incentives within the PR19 methodology framework are associated with the delivery of business plans. The initial assessment of business plans works in conjunction with these delivery incentives, further encouraging companies to really stretch themselves and set ambitious targets for what they can deliver for their customers and the environment.

We have closely considered all stakeholder responses on the balance of incentives associated with the initial assessment of business plans, and have amended our approach accordingly.

We have decided to strengthen the financial incentives for fast-track and exceptional companies. In coming to this decision, we recognise that the sharpened delivery incentives in terms of costs and outcomes – for example, the PR19 cost-sharing rates and the increased outperformance payments and underperformance penalties associated with performance commitments and ODIs – bring a level of risk which companies will bear. We also consider that a perverse incentive could be created if companies consider there are greater benefits in avoiding the downside penalties than in outperformance.

All customers will benefit from more stretching business plans, as this allows us to benchmark accordingly and challenge aspects of different companies' plans, and use this information to push all companies to provide better services at lower cost. Companies who submit truly stretching plans will have taken additional effort and risk to do so. So it is important for us to appropriately balance the incentives and to make sure that the interests of companies and their investors are aligned with the interests of customers. This is why we are focusing on further incentivising the submission of higher quality, more ambitious and more innovative plans, and are not weakening the strong disincentives associated with the submission of poor business plans. We maintain, for example, that companies in significant scrutiny will receive reduced cost sharing rates and potentially capped ODI outperformance payments. We will consider capping, including down to zero, the ODI outperformance payments on bespoke performance commitments for a company categorised as being under significant scrutiny in the initial assessment of business plans. This is because, for bespoke performance commitments, data quality will depend on information provided in the significant scrutiny company's business plan, in which we are likely to have identified significant issues. We will also consider capping the ODI outperformance payments for the common performance commitments for a company categorised as being under significant scrutiny. However, a cap is less likely to be appropriate for these ODIs, given our ability to test the degree of stretch in the performance commitment levels across companies' plans.

The financial reward we proposed for exceptional companies in our draft methodology proposals was equivalent to the one we awarded to the 'enhanced' (top) category at PR14 (a financial reward calculated as 20 basis points of return on regulated equity).

At PR19, we will assign business plans to four categories – more than at PR14. We also want companies to deliver more of what matters for customers through effective engagement, lower costs and better service. In this context, we recognise that the exceptional category is a step change in expectations from PR14, and that the fast-track category is still a high bar and may include companies that only just fall short of the ambition and innovation expected from an exceptional business plan.

We have therefore decided that an exceptional business plan will receive an amount equivalent to a 20 basis points (bp) to 35bp addition to the return on regulated equity (RoRE) over the whole price review period, based on the notional gearing of 60%. We will decide on the final percentage based on such factors as the level of ambition and innovation, to the benefit of customers. We have also decided to apply a financial incentive to the fast-track category in terms of an amount equivalent to a 10 basis points (bp) addition to the return on regulated equity (RoRE) over the whole price review period, based on the notional gearing of 60%. It will be up to companies to decide whether to take this incentive payment as additional revenue or as an uplift to the RCV. In either case, companies will need to decide how to split this reward between the water network plus, water resources and, where relevant, wastewater network plus. To avoid distorting competition in the bioresources market, we will not allocate any of this incentive payment to bioresources RCV or revenue.

Any up-front rewards associated with the business plan categorisation would quickly be eroded were a company to underperform against its business plan. This already applied at PR14 and will apply even more at PR19, as we have sharpened the delivery incentives. This means that the design of our overall incentives package has the effect advocated by CCWater, who suggested in its response to our draft methodology proposals that strong ODI penalties for underperformance could compensate for an up-front reward where necessary.

We also note that our initial assessment of business plans framework includes a test area on 'accounting for past delivery' and will include an assessment on how well the company has performed, and is forecast to perform, over the 2015-20 period. While we maintain an in-the-round approach to the assessment across the nine test areas, this means a company's actual performance during this control period informs the initial assessment of business plans.

In our draft methodology proposals we proposed not to adopt a 'do no harm' rule (as we did at PR14[3]) for companies with exceptional plans, because alongside our PR19 final methodology for PR19 we will provide early guidance about the cost of capital and retail margins which companies can use to prepare their business plans. We consider that neither customers nor companies should bear the risk of the cost of capital or the retail margins being finalised based on anything but the latest information available (at the time of the final determination, when the values will be fixed for the 2020-2025 control period).

We also recognise, however, that an early determination will be stronger as a procedural incentive if it provides a level of certainty that certain components of that early determination will remain fixed after the draft determination. This would allow the company to benefit by getting a head start on executing its business plan, benefiting both customers and the company.

We consider it most appropriate for the early determination to provide a level of certainty about those business plan components which are largely within the remit and control of the company, and less reliant on comparative assessments. This provides companies with a level of procedural benefit while making sure customers do not lose out on adjustments driven – for example – by the comparative information on important common performance commitments. With this in mind, we will provide certainty on specified components of costs and outcomes. We refer to this as the early certainty principle. Table 4 below sets out those specified components which will not be adjusted after the early determination for companies with exceptional and fast-track business plans (subject to the exceptions discussed below).

Table 4 – Specified components of the early certainty principle

	Costs	
1	Cost adjustment claims	We will not apply any change to our draft determination decision related to the company's own cost claims.

[3] At PR14, we applied a 'do no harm' principle to enhanced companies as a procedural incentive. We offered a range of commitments to ensure enhanced companies would not be any worse off for being categorised as enhanced and receiving an earlier draft determination

	Outcomes	
2	Bespoke performance commitment (PC) levels	We will not apply any changes to bespoke performance commitment levels
3	ODI outperformance or underperformance payment rates	We will not apply any changes to ODI outperformance and underperformance payment rates. However, to protect customers, the early certainty principle will not apply if a company's outperformance payment or underperformance penalty rate was the highest or lowest, respectively, of all the companies. This is to protect customers against a company which has proposed outlier ODI rates.
4	Financial ODIs	We will not make any changes to the number of financial ODIs.
5	ODI deadbands, caps and collars[4]	We will not make any changes to the design of ODIs in terms of deadbands, caps and collars.

We will retain the flexibility to make changes to the above specified components of outcomes and costs, in exceptional circumstances, such as where there have been:

- errors (by us or the company), including any misreporting to Ofwat;
- changes to legal obligations; or
- new information about the actions required to meet current legal obligations.

We will retain this flexibility in order to maintain the integrity of the regulatory framework, but if such exceptional circumstances arise we will take a proportionate approach when deciding to make any changes.

Other components will remain subject to change between the draft determination and final determination. These will include, for example, reconciliations based on 2018-2019 actuals, which we will receive between the draft determination and final determination.

[4] Deadbands are a specified range of performance levels where the ODI payment or penalty is zero. Caps and collars are the limits on payments and penalties for an ODI, respectively. For more details, see chapter 4 on delivering outcomes for customers.

The early certainty principle does not apply to the weighted average cost of capital (WACC) or to retail margins. This allows us to make sure the cost of capital is set at the efficient level for all companies in the final determinations.

The early certainty principle will provide symmetrical certainty. In other words, we will not make any upward or downward adjustments to those components specified as covered by the early certainty principle. We consider that the certainly provided by the principle gives companies a real procedural benefit, and that this approach aligns the interests of the companies with those of their customers.

Companies will have the option to opt out of the early certainty principle if they want any adjustments to the specified components to be applied after their draft determinations. Companies would need to clearly indicate this opt-out in their business plan submissions.

This opt-out would cover all specified components. It will not be possible to opt out of some components of early certainty but not others. Because an opt-out would expose companies to all adjustments, upward as well as downward, we consider that this approach aligns the interests of the companies with those of their customers.

We consider that this final package of incentives for the initial assessment of business plans, in conjunction with the wider delivery incentives, aligns the interests of companies and their investors with those of customers. It comprises clear financial, procedural and reputational incentives, which will provide all customers with strong benefits by encouraging companies to put forward more stretching business plans. This will lead to better services being provided at lower cost for all customers; including customers of companies assigned to the fast-track or exceptional categories.

Figure 2 summarises the incentives associated with the initial assessment of business plans categories.

Figure 2 – Summary of incentives for the initial assessment of business plans

Reputational	Procedural incentives	Financial incentives
Exceptional		
Published performance relative to peers and public recognition	Early draft determination (March or April 2019) with early certainty principle applied to specified component of costs and outcomes. Companies can opt out of the early certainty principle.	An amount equivalent to a 20 basis points (bp) to 35bp addition to the return on regulated equity (RoRE) over the whole price review period, based on the notional gearing of 60%. Standard cost sharing rates.
Fast track		
Published performance relative to peers	Early draft determination (March or April 2019) with early certainty principle applied to specified component of costs and outcomes. Companies can opt out of the early certainty principle.	An amount equivalent to a 10 basis points (bps) addition to the return on regulated equity (RoRE) over the whole price review period, based on the notional gearing of 60%. Standard cost sharing rates.
Slow track		
Published performance relative to peers	Draft determination in July 2019. Business plans will require a level of material intervention to protect the interests of customers. These companies may be required to resubmit some of their business plans or to provide additional evidence.	Standard cost sharing rates.
Significant scrutiny		
Published performance relative to peers	Draft determination in July 2019. Business plans will require extensive material intervention to protect the interests of customers. These companies may need to substantially rework their plans. Companies whose plans fall into this category will require increased ongoing regulatory scrutiny and assurance. We may put extra measures in place to protect customers from risks associated with poor business planning. These companies may also be subject to strengthened reporting requirements.	Reduced cost sharing rates. Companies will share only 25% of cost outperformance and bear 75% of cost underperformance Potential cap on ODI outperformance payments.

6. Timelines

6.1. What we proposed in our draft methodology proposals

In our draft methodology proposals we proposed making the initial assessment of business plans and the associated categorisation a 'one-shot' process for water companies. We also set out the following timelines:

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

6.2. Stakeholders' responses

There was broad support from stakeholders for our proposed timelines.

Two respondents indicated that it would be helpful to have more specific dates, to facilitate companies' customer challenge group (CCG) and Board planning processes.

One respondent suggested that the proposed submission date of September 2018 does not give companies enough time to reflect on their actual performance in 2017-18 and its potential impact on their plans. The respondent suggested that a submission date later in 2018 would give companies time to reflect and also to update our data tables and models accordingly.

Another respondent suggested that it should be possible to reach final determinations sooner than December 2019, and that the timing of final determinations could make it difficult to set tariffs for the first year of the next control period. One company suggested that it would be helpful if the methodology decision confirmed exactly when in January 2019 the initial assessment will be published.

In an overarching comment on the initial assessment of business plans, one company noted that our Board, as the ultimate decision maker, must be able to engage with companies' plans and proposals in a meaningful way and to understand the visions that underpin them. This company suggested that we require companies to provide short Board-level summaries of their plans, including how they meet our expectations, and that we share these summaries directly with our Board.

One company suggested that we remain somewhat more open to:

- the impact of new information coming to light between business plan submission and final determination; and
- new evidence presented by companies after business plan submission, if this was not known when they submitted their business plans.

One respondent expressed concern over the interaction of the special cost factor cases, the cost assessment models and the initial assessment of business plans tests.

6.3. Our final position

We will maintain the timelines which we set out in our draft methodology proposals.

Our July 2015 publication, 'Towards Water 2020 – meeting the challenges for water and wastewater services in England and Wales', provided early visibility on the proposed timescales for implementing the next price control, including:

- bringing business plan submissions forward by around four months; and
- a 17-18 month period for the business plan review process.

This reflected our experience of the 2014 price review process, feedback on that process, comparison with earlier price controls and other sectors, and the common suggestion that more time would have been helpful to complete the process more effectively.

Our December 2015 consultation noted that there was broad support for our views but identified a risk that misalignment between the timetables for PR19, river basin management plans (RBMPs) and water resources management plans (WRMPs) could create uncertainty for the sector, resulting in higher costs for customers. To counter this risk, we worked with the UK Government and Welsh Government to better align these timelines, including revising the timeline for review to 15 months (from business plan submission to final determinations).

Given this extensive prior consultation and consideration, we do not consider it appropriate to further adjust the review timelines at this point in time.

To give companies and stakeholders early visibility, we set out the revised timeline in a letter to companies[5] and in Water 2020: our regulatory approach for water and wastewater services in England and Wales (May 2016). We consider there to be enough time between the end of the 2017-18 financial year and the submission of business plans on 3 September 2018 to take into account the previous year's performance. We have also given companies two extra weeks to submit their proposed PR14 reconciliations for 2015-20, to allow them to more fully reflect on their 2017-18 performance. We therefore do not consider that we should change the pre-established date for the submission of business plans.

We are not able to provide exact dates for the publication of either the initial assessment categorisation or the draft and final determinations. These dates will depend on the nature of the business plan submissions. We expect that our publication of the outcome of initial assessment of business plans will be late January 2019.

Companies will be required to submit business plans by 3 September 2018. We want companies to get it right first time and put forward the best plan for their customers at the point of submission, thereby also increasing the efficiency of the price review process.

After we have received the business plans, we will carry out an initial review and submit clarification queries to companies. After this short period, we will limit the interaction between Ofwat and water companies about business plans until we have

[5] Ofwat, 'Letter to English water companies about business plan submission date for PR19' and 'Letter to Welsh water companies about business plan submission date for PR19', May 2016

reached our decision about the initial assessment of business plans. This will allow us to meet the tight timelines of the process.

Other than on points of clarification, the business plans submitted will be considered to be the final version for the purposes of the initial assessment of plans and the associated categorisation only. Plans may require revisions or rework after this in order for us to set our draft determination, as described in Section 14.5 above for slow-track and significant scrutiny categories in particular.

As necessary and appropriate, we will take into account any new information that comes to light before the draft and final determinations. We do offer companies with fast-track and exceptional business plans early certainty on specified components of their draft determination. You can find more details about this in section A5 above and in chapter 14 of our PR19 final methodology.

The point raised about the interaction of the special cost factor cases, the cost assessment models and the initial assessment of business plans tests is addressed in chapter 9, section 9.4.5 of our PR19 final methodology.

We invite companies to present their business plans after submitting them. These presentations will offer an opportunity for the company to set out its business plan. We would expect at least one company Non-Executive Director to be present as well. Ofwat, including Ofwat Board members, would be represented at a senior level in every meeting.

In early 2018, we will publish a pro forma for companies to complete, which draws together high level information and key metrics from the business plan and which explains the drivers behind the business plan, the key benefits for customers and the impact on customer bills. This information will also be made available to all Ofwat Board members ahead of the company presentations.

Companies are also welcome to submit a single video (no more than 5 minutes long) when they submit their business plans, which could be used as part of the company's presentation (although the video should not substitute the presentation). Any slides presented on the day, and any videos submitted, will be made available to all Ofwat Board members. We will also publish these after all company presentations have been held.

We expect any presentations to take place shortly after the submission of business plans. The sessions would be limited to one hour: a presentation of no more than 15 minutes followed by up to 45 minutes for Ofwat to ask questions. We will write to companies in 2018 to finalise these details.

Company presentations and any videos submitted will not form part of the initial assessment of business plans process.

In late January 2019 we intend to announce the outcome of our assessment, including the category to which we have assigned each business plan.

Companies who submit high quality business plans (and are assessed as exceptional or fast-track) will receive the procedural benefit of an early draft determination in March/April 2019. We will announce, in January 2019, whether these companies' draft determinations will be published in March or in April 2019; this decision will depend on the number of exceptional and fast-track business plans.

Companies whose business plans are assessed as slow-track or significant scrutiny will receive their draft determinations in July 2019.