

Anglian Water: Test area assessment

All company test area grades								
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	Securing confidence and assurance
A	B	B	C	B	D	C	B	D

Anglian Water - test area results		Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	A		<p>Anglian Water's business plan provides a wide range of convincing evidence to demonstrate an overall high quality, ambitious and innovative approach to customer engagement and participation. It also provides convincing evidence of how customer engagement has been reflected in the business plan and in ongoing business operations.</p> <p>The company provides sufficient evidence of a high quality, innovative and ambitious approach in the following areas:</p> <ul style="list-style-type: none"> • The effective use of a wide range of customer engagement techniques, (both on triangulation and segmentation) including innovative multi-stage willingness to pay research for which assurance was provided. • The approaches to customer participation and adopting the four areas of action in the Tapped In report including involvement of customers in situations of vulnerability and future bill payers. • The approach to engagement with its customers on longer-term issues and its on-going operations. This includes acceptability and valuation research as well as specific research on resilience and intergenerational fairness. • The company shows how it has taken into account the needs and requirements of future customers in its business plan, such as conducting extensive in-school research with secondary school children on the longer term issues facing the company. <p>The company provides sufficient evidence of a high quality approach in the following areas:</p> <ul style="list-style-type: none"> • Demonstration of a clear line of sight from the results of its customer engagement to the outcomes its business plan will deliver for customers. Its package of performance commitments has been developed on the basis of robust customer valuation research which has been appropriately triangulated to set incentives that reflect customer preferences and priorities across its package of outcome delivery incentives (ODIs). • Demonstration of on-going engagement with customers via its tracking research, 'the My Account' portal and a customer panel. • Segmentation which allowed it to meet the needs of a range of customers. <p>The company provides insufficient explanation of the reasons for selection of particular groups of vulnerable customers for participation in research and why use of focus groups was the appropriate method of engagement.</p>	EC1	A
Addressing affordability and vulnerability	B		<p>Overall Anglian Water's business plan demonstrates high quality with convincing evidence that covers the company's approach to affordability and vulnerability because it:</p> <ul style="list-style-type: none"> • While it proposes a 1% bill increase, its evidence suggests that its customers were willing to accept a higher increase. The company had high quality engagement on overall affordability; • undertook high quality engagement on long-term bills, including testing bill profiles for the 2025 to 2030 period with customers, and proposed marginally falling bills for the 2025 to 2030 period; 	AV1	B
				AV2	B

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		<ul style="list-style-type: none"> • displays a holistic approach to improving affordability for customers who struggle to pay, including increasing its capacity to the extent it could help 500,000 customers; and • has a high quality approach to vulnerability, suggesting a performance commitment with frontier performance of 15% for the proportion of customers on its Priority Services Register (PSR) and a stretching commitment on third parties rating the quality of its vulnerability schemes. <p>The business plan falls short of high quality in one area because:</p> <ul style="list-style-type: none"> • The company's approach to performance commitments is not consistent with our PR19 methodology as it proposes two outperformance payment only performance commitments (PCs) for vulnerability. In addition, the company does not have a performance commitment on affordability. 	AV3	B	
			AV4		
Delivering outcomes for customers	B	<p>Overall, across the delivering outcomes for customers test area, a generally high quality plan, with evidence that is generally sufficient and convincing, but not sufficiently ambitious and innovative to be exceptional.</p> <p>Anglian Water's plan provides evidence of a balanced package of PCs that overall reflects customer views and a high quality approach to its PCs and appropriately stretching levels, particularly that its forecast performance levels are upper quartile for leakage and internal sewer flooding by 2025.</p> <p>The company's plan provides evidence of a high quality package of standard ODIs that follows the PR19 methodology principles. In particular, it uses the Ofwat formula to calculate standard ODI rates as a default approach and appropriate triangulation based on customer valuations. The plan demonstrates clear consideration of how it will protect customers from ODI payments being higher than expected.</p> <p>However, the business plan was not deemed high quality in the following areas:</p> <ul style="list-style-type: none"> • The company proposed a large number of caps, collars and deadbands, but it has not convincingly explained why its specific proposals are appropriate and in customers' interests.. • The company provides insufficient explantion how its ODI package incentivises it through better aligning the interests of management and shareholders with customers. The balance of incentives is skewed towards areas where the company already does well (for example leakage) rathe than areas where service improvement is required. The company's overall ODI package is outside our indicative RoRE range of ±1% to 3% on the upside. • The company provides insufficient details of the plans it has to be able to report all common PCs in line with the guidance, particularly for unplanned outages 	OC1	B	
			OC2		
			OC3		
Securing long-term resilience	C	<p>Overall, the plan falls short of high quality and the company does not provide sufficient and convincing evidence of securing long term resilience in certain areas.</p> <p>Anglian Water provides a high quality plan in some areas of operational, corporate and financial resilience. The plan presents a comprehensive and well-structured baseline resilience assessment, providing a maturity profile of corporate and operational resilience. The company presents how the maturity of resilience evolves in the future. The rationale behind the maturity scores is well evidenced. The company provides sufficient evidence that it has an effective approach to asset health and incident management, with some links to resilience. The company demonstrates collaboration and initiatives to identify risks to resilience in its plan, such as the publication of a Water Recycling Long Term Plan which supports the company's long-term strategy parallel to that of the Water Resources Management Plan.</p> <p>The company considers a wide range of options to ensure resilience in the delivery of water and wastewater services, including nature-based solutions (e.g. SuDS and catchment management schemes) as well as initiatives to change customer behaviours (e.g. reduce sewer blockages, SuDS awareness). The plan also provides evidence of ambition to deliver efficient options through: collaborative approaches to develop nature-based partnerships, adaptable solutions that account for uncertainty and consideration of integrated water resource planning.</p>	LR1	C	

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		However, we consider that the plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas: <ul style="list-style-type: none"> • There is limited evidence that the company has undertaken a systems-based approach to resilience that considers system interdependencies and prioritises risks appropriately. • The company provides limited evidence of the quantitative methods used in the assessment of risks as well as limited evidence that the company has employed environmental valuation techniques to assess risks to resilience. • The plan is not sufficiently convincing in linking the proposed options to the identification of risks and mitigations within the resilience framework. However, the company outlines a number of mitigation approaches in respect of financial risks that build on the long term viability statement in its annual performance report. • Whilst Anglian Water shows impacts from financial risk scenario modelling on its adjusted interest cover, there is insufficient evidence to explain why impacts on its FFO/net debt ratio have not been considered, particularly in the context of its highly geared structure. In addition, there is insufficient evidence that risks associated with a possible reduction to its credit rating are considered in the context of requirements to refinance subordinated debt. The company has not considered possible impacts on financial resilience of the mechanism for sharing financing outperformance for companies with actual gearing levels of 70% and above. 	LR2	C	
Targeted controls, markets and Innovation	B	Overall, Anglian Water provides sufficient and convincing evidence across most areas of Targeted Controls, Markets and Innovation. However, it is not sufficiently ambitious and innovative to be exceptional.	CMI1	B	
		The company convincingly demonstrates a commitment to using market led solutions for most aspects of its plan. The company provides an ambitious and innovative plan for the use of markets for both water and wastewater network-plus. For example, the Slug It Out scheme, which engages farmers to help reduce pollution, uses sector leading techniques when engaging with the market. On water resources, Anglian Water has a strong approach to using markets and engaging with third parties, with some evidence of an ambitious and innovative approach. For RCV Allocation, the evidence is complete. The company's plan includes strong evidence across most areas of innovation, with some ambitious ideas for some of the drivers.	CMI2	B	
			CMI3	B	
			CMI4	C	
			CMI5	B	
			CMI6	C	
			CMI7	C	
Securing cost efficiency	D	Overall, Anglian Water's plan falls significantly short of required quality in this area. We do not consider the company's projected costs for 2020 to 2025 to be efficient. Its projected costs are 32% above our view of efficient costs in wholesale water and 19% above in wastewater, even though its retail costs are close to our view of efficient costs.	CE1	D	
		The company's enhancement programme does not appear efficient in both water and wastewater. The company is proposing to reduce leakage beyond upper quartile performance levels and we make an associated cost allowance for the proportion of it that is above upper quartile.	CE2	C	
			CE3	B	
		The company scores highly in relation to the use of cost adjustment claims because it only proposes two claims, even though one was not of high quality and we reject the basis of the claim. We assess the other (frontier leakage reduction) as a partial pass and make a partial allowance for it in our view of costs. The low number of claims and reasonable quality of one of them means the company grade for this test is an A.	CE4	A	
Aligning risk and return	C	Despite some aspects of Anglian Water's plan which are high quality, shortcomings in two aspects mean that it overall falls short of providing convincing and high quality evidence to support its approach in the area of aligning risk and return.	RR1	B	
		The following areas of the plan are high quality: <ul style="list-style-type: none"> • It is based on our Final Methodology 'early view' cost of capital and retail margins. • There is convincing evidence to support the board's statement that the company is financeable on the notional structure. • There is convincing evidence to support the company's choice of PAYG and RCV run-off rates. 	RR2	C	
		There are two main areas where the plan falls short of high quality. It does not provide sufficient and convincing evidence in the following respects:	RR3	C	

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		<ul style="list-style-type: none"> Further assurance is required that the company is financeable on its actual structure given the FFO/Net debt financial ratio and the stated investment requirement. While the plan contains some high quality elements in its RoRE analysis, there is insufficient evidence presented on its risk management and risk mitigation measures in its RoRE analysis. 	RR4	B
Accounting for past delivery	B	<p>Overall, Anglian Water's business plan demonstrates high quality accounting for past delivery, with sufficient and convincing evidence both in support of PR14 reconciliations and on deliverability of the 2020-25 plan given past performance.</p> <p>In the round we do not have concerns with the evidence for deliverability for the 2020-25 plan.</p> <p>The plan is high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> The company has delivered or is forecast to deliver 91% of its performance commitments with financial ODIs in 2015-20. The company provides sufficient evidence that it understands the drivers of its performance, and the plan includes appropriate measures to deliver the planned outcomes. We therefore have no concerns with the evidence for deliverability of outcomes. The company is forecast to underspend against its cost allowance for 2015-20. We calculate that the company is proposing to increase base costs over the 2020-25 period. The company provides insufficient evidence that it understands the drivers of its performance and that it has learnt lessons from its performance. However, taking into account the level of stretch in the plan, we have no concerns with the evidence for deliverability of the planned costs. The company is already meeting CCWater's 2020 household customer complaints target of resolving 95% of customer complaints at stage one and has falling total household customer complaints. We therefore have no concerns with the evidence for deliverability of customer complaints handling performance. <p>The plan falls short of high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> The company had two major pollution incidents in 2015-18 and had a high number of category one and two pollution incidents per 10,000 kilometres of sewer. It provided insufficient evidence on measures to address this performance. We therefore have some concerns with the evidence for deliverability of improved performance for major incidents. <p>There is sufficient and convincing evidence for seven out of eight PR14 reconciliation areas and insufficient evidence for residential retail. There is only a marginal difference (within 0.05% of 2019-20 revenue) between expected and proposed reconciliations. In the round we consider that this supports the accounting for past delivery test area score.</p>	PD1	B
Securing confidence and assurance	D	<p>Overall, Anglian Water's business plan falls significantly short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area.</p> <p>The company's business plan provides some evidence of high quality since it provides sufficient and convincing evidence that overall, the company's business plan tables are consistent, accurate and assured. However the company's plan falls short of high quality in the following areas:</p> <p>On demonstrating a fair balance between customers and investors:</p> <ul style="list-style-type: none"> The company is highly geared and accepts our gearing mechanism and proposes base dividend yield below 5%. On dividend policy, there is insufficient evidence of the company's intention to meet the expectations set out in the "Putting the sector in balance" position statement. Whilst the dividend policy refers to all of the required elements, the company provides no detail on the customer measures that will be considered when it reviews performance, and there is no specific commitment to publish information on dividend policy annually or signal changes to stakeholders. On executive pay, the company demonstrates insufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is little evidence of how the targets would be stretching and weighted towards the delivery of service for customers. Also there is no reference as to how the policy will be applied and monitored during the period, or a clear commitment to publish the policy when finalised and evidence of how changes would be signalled to customers. 	CA1 CA2 CA3	D D C

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		<ul style="list-style-type: none"> The company's Board does not provide assurance that its plan will enable customers' trust and confidence through high levels of transparency and engagement and there is little or no evidence of transparency on its corporate and financial structures and how these relate to its financial resilience. The company does not put forward proposals for a bespoke voluntary benefits sharing mechanism but proposes donations to social tariffs and hardship funds which we assess could have a value of £1.0m per year. The scale of the proposals for voluntary benefits sharing are very modest in the context of the company's size. However, voluntary sharing is not a requirement of the PR19 methodology, so the proposed sharing does not impact our assessment of this test area. <p>In our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company exceeds expectations in 1 area and meets expectations in 5 areas, it has minor concerns in 4 areas.</p> <p>The company's plan falls significantly short of high quality in the following areas:</p> <ul style="list-style-type: none"> The company's Board provides a small minority of the Board assurance statements requested to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable and that it has challenged management to ensure this is the case. The Board only signs a sub-set of assurance statements and there is insufficient evidence that the Board itself provides the other requested statements. This substantially reduces our overall confidence in the assurance in the plan and raises concerns over Board ownership. The company's Board provides a non-compliant statement of assurance within the signed Board statement to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term. The company's Board provides a non-compliant statement of assurance within the signed Board statement to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes. 	CA4	D	
			CA5		
			CA6	B	