

## Anglian Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	A	EC1	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?	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 convincing evidence of 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 business plan provides convincing evidence to demonstrate the very detailed triangulation process it has undertaken as part of its valuation research and that the triangulation approach was mapped to CCWater guidance. External assurance of the triangulation process found no major shortcomings. The company provides convincing evidence to demonstrate on-going engagement via its tracking research, 'the My Account' portal and a customer panel. The CCG report states that it is satisfied that the company has "understood the needs and requirements of a range of customers" and commends the company's approach to engaging with vulnerable and hard to reach customers. The company conducted a segmentation which allowed it to meet the needs of a range of customers. The business plan 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. The CCG sets out that the company "has placed customers at the heart of the way the company does business and develops its plans" and an independent audit of the company's customer engagement explains that "the Synthesis Report had informed the company's business planning".</p> <p>The company demonstrates 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. The company provides convincing evidence of high quality and innovative approaches to customer participation and adopting the four areas of action in the Tapped In report (i.e. increasing customer participation to improve the current and future sustainability of water, encouraging customer behaviour change actions, increasing community ownership of particular aspects of water as an essential resource, and increasing customer control of water in their home or of the customer service experience). This includes: engaging with customers on future facing issues across numerous projects as well as specific large scale engagement with future bill-payers; introducing the Smarter Drop campaign; behavioural nudging techniques being employed to help with debt management; significant community engagement to help regenerate the Wisbech community; introduction of community ambassadors and the community board; and the enhancement of the "In Your Area" tool and the introduction of the My Account online account management tool. There is also convincing evidence of customer participation techniques used with a range of customers including customers in situations of vulnerability and future bill payers.</p> <p>Finally, the company demonstrates a high quality, innovative and ambitious 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 CCG considers that the company has comprehensively engaged with its customers on longer term issues and has explained the impact of investment on future bills and long term affordability. 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>

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Addressing affordability and vulnerability	B	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	B	<p>Anglian Water provides sufficient and convincing evidence that bills will be affordable and value for money from 2020-25.</p> <p>It provides sufficient and convincing evidence of its customer engagement approach and a high level (80%) of customer support for its AMP7 bill profile, which includes an increase in real bills of 1% (£2.43) over AMP7. It demonstrates that it has a deep understanding of affordability challenges in the Anglian and Hartlepool regions. It also has a highly efficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.</p> <p>The company has not directly tested its final bill profile for AMP7, however as the proposed bill increase is lower than the bill profile customers supported, this is sufficient support for the plan. There is also no evidence provided that demonstrates it has undertaken innovative or sector leading customer engagement on affordability.</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	B	<p>Anglian Water provides sufficient and convincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing to slightly decrease bills over AMP8 (by around 0.6%). We are satisfied with how the company has used financial levers. While there is some evidence that the company has tested general long-term payment preferences, particularly in relation to the balance between payments made by current and future customers there is insufficient evidence of testing a specific bill/bill profile for AMP8 with its customers.</p>
		AV3	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?	B	<p>Anglian Water provides sufficient and convincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, it has demonstrated high-quality and in-depth engagement with customers who struggle to pay.</p> <p>Moreover, the number of customers receiving its social tariff is proposed to increase by over 50% in AMP7 and it has provided evidence of working with third parties to actively promote affordability assistance. In terms of accessibility, there is also evidence of the company targeting customers with unclaimed benefits to improve their financial situation.</p> <p>In the round, we consider its social tariff growth, alongside its high-quality approach to engagement with customers who struggle to pay and improved accessibility of support to demonstrate an effective overall approach.</p>
		AV4	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?	B	<p>Anglian Water provides sufficient and convincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, it is proposing to increase the reach of its priority services register to 15% by 2024/25, which is frontier performance.</p> <p>In addition, it has proposed two stretching performance commitments to drive improvements in the quality of the services that vulnerable customers receive. However, we consider that there are elements of its approach to vulnerability which are not sufficiently high-quality. For example, there is insufficient evidence to demonstrate that the company has an effective approach to using data to understand and support customers beyond financial vulnerability.</p> <p>In the round, we consider that its ambitious proposals for increasing the reach of the priority services register, coupled with stretching performance commitments to increase the quality of service demonstrate a high-quality overall approach to vulnerability.</p>

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Delivering outcomes for customers	B	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	<p>Overall, the evidence, the company provides demonstrates that its performance commitments (PCs) are appropriate, well-evidenced and stretching, which makes for a high-quality plan, although not sufficiently ambitious or innovative to be considered exceptional. There is one area of concern.</p> <p>The company's PCs are ambitious and stretching within the industry:</p> <ul style="list-style-type: none"> <li>• The company has responded to the challenge and has set stretching levels for a range of PCs.</li> <li>• Nearly all the common PCs have been assessed as stretching or sufficiently demanding.</li> <li>• The company is forecasting to maintain its frontier leakage position and it proposes a high level of stretch (17%).</li> <li>• The company proposes ambitious per capita consumption (PCC) service levels, supported by customer engagement results.</li> <li>• The company proposes service levels at or close to upper quartile (UQ) for pollution incidents, internal sewer flooding. The proposed level for supply interruptions is worse than UQ but represents a 50% improvement from 2019-20. Long term projections are to bring it down to 3 minutes.</li> <li>• For external sewer flooding, the company is beyond UQ and stretching for the industry, although the targets may not be stretching for the company.</li> </ul> <p>We have confidence in the evidence that the company's performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> <li>• it provides sufficient and convincing evidence that it will report performance accurately;</li> <li>• there is evidence of sharing performance with other companies, in the context of best practice;</li> <li>• performance is reported on a monthly basis to the company's Customer Challenge Group (CCG) and the performance portal allows customers to explore outcomes; and</li> <li>• the company's performance portal is innovative and customer friendly.</li> </ul> <p>The area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology as it does not set out clear action plans to be ready to comply with all reporting methodologies for common PCs:</p> <ul style="list-style-type: none"> <li>• For PCC and unplanned outage, the company has a high number of components identified with issues in the 2017-18 shadow reported data and does not provide evidence that it will address these issues and comply with these definitions when reporting data for 2019-20.</li> </ul> <p>We have identified no significant material issues with the definitions used for the company's bespoke PC package.</p>

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	B	<p>Overall, the evidence that Anglian Water provides demonstrates it has a high quality and well evidenced approach to its package of outcome delivery incentives (ODIs). In particular, the company puts forward well justified ODI types and a well-evidenced and justified approach to setting ODI rates. However, we have some concerns over its use of deadbands.</p> <p>In general, the use of ODIs is justified appropriately with financial incentives set against the majority of common PCs, two justifiable exceptions are:</p> <ul style="list-style-type: none"> <li>• The company has chosen reputational incentives for Compliance Risk Index (CRI) and mains bursts but has financial ODIs for sub-measures on both of these.</li> <li>• The company has chosen reputational ODIs for its two resilience measures, which is appropriate given that these are new measures.</li> </ul> <p>The company provides sufficient and convincing evidence supporting its ODI rates:</p> <ul style="list-style-type: none"> <li>• The company demonstrates that it is using the standard formula in the methodology to calculate standard ODI rates as a default approach.</li> <li>• It demonstrates a high-quality approach to customer research and triangulation to support robust estimation of marginal benefits.</li> <li>• It sufficiently evidences its approach to marginal costs.</li> </ul> <p>We have identified a small number of exceptions across the company's package of ODI rates and in the round, this does not prevent the assessment that the overall package is supported by sufficient evidence:</p> <ul style="list-style-type: none"> <li>• The company provides insufficient evidence to justify the approaches used to apportion outperformance payments and underperformance payments to support vulnerable customers and non-household (NHH) retailer satisfaction ODIs.</li> <li>• Its proposed P90 (The level of outperformance payment that it expects there is a 10% chance of meeting or exceeding each year) is high for external sewer flooding both relative to the company's own package and across the sector.</li> </ul> <p>The company's approach to setting caps, collars and deadbands falls significantly short of required quality, with insufficient evidence provided to support its proposed ODI features. We have identified that:</p> <ul style="list-style-type: none"> <li>• The company proposes a large number of caps, collars and deadbands across its ODI package. We have found that a large number of the proposed deadbands are not convincingly justified, despite many of these applying to major common PCs (including leakage, mains bursts and sewer collapses). The company highlights that some of its customers support the concept of deadbands in principle, but it does not convincingly explain why its specific proposals are appropriate and in customers' interests, nor does it provide ODI-specific evidence of customer support for any deadbands.</li> <li>• At a package level, we have concerns that the large number of proposed deadbands will nullify the company's incentives to exceed its PCs.</li> <li>• A large number of the company's proposed caps and collars are not adequately justified.</li> </ul> <p>The company has an insufficient approach to the enhanced outperformance and underperformance payments it proposes. It has a single enhanced ODI relating to leakage, citing evidence that customers consider this important and an area where the company is already a leading company. However, we consider that:</p> <ul style="list-style-type: none"> <li>• Its proposed target is not sufficiently challenging in the later years of AMP7, and would not represent frontier performance if other companies meet their standard PC levels.</li> <li>• Its proposed outperformance reward exceeds its own customers' willingness to pay.</li> <li>• The absence of standard ODI underperformance payments means that customer protection associated with underperformance payments only applies if the company falls back considerably from its current performance level.</li> </ul>

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	B	<p>Overall, the company applies an appropriate and high-quality approach to its focus on service performance in its risk/reward package, including bringing payments closer in time, demonstrating a well-evidenced asset health ODI package and offering appropriate protection to customers in the case that ODI payments turn out to be significantly greater than expected. However, we have some concerns over the balance of its overall ODI package.</p> <p>The company's overall approach to bring payments closer in time is broadly in line with our expectations, it has applied most of its financial ODIs as in-period incentives although there is one performance commitment (bathing water status) with an end of period ODI which is not supported by sufficient evidence.</p> <p>The company meets our expectations for ODIs for asset health PCs because:</p> <ul style="list-style-type: none"> <li>• it demonstrates that it understands its asset health challenges;</li> <li>• it provides high quality evidence of engagement with customers on asset health issues;</li> <li>• the CCG challenged the company's approach to asset health and was satisfied with the responses;</li> <li>• we consider that the nature and magnitude of the overall package of asset health ODIs, in terms of RoRE exposure (in absolute terms and as a proportion of total RoRE exposure), is sufficient to incentivise the company to meet its asset health challenges and protect customers; and</li> <li>• it demonstrates customer support for its outperformance payments.</li> </ul> <p>The company provides sufficient evidence that the company is protecting customers against higher than expected ODI payments because it:</p> <ul style="list-style-type: none"> <li>• proposes an outperformance cap of £292m at AMP7, which compares well to its P90;</li> <li>• proposes caps for 13 out of 17 ODIs, with the intention of reducing bill volatility; and</li> <li>• states it will monitor the annual impact of ODI incentives. Where an in-period ODI and other factors result in a bill change of more than 5%, it will obtain board assurance that the impact on customers is considered and may provide mitigation strategies, for example, deferral.</li> </ul> <p>The company provides insufficient evidence that the overall ODI package is appropriate because:</p> <ul style="list-style-type: none"> <li>• the company's ODI package is outside our indicative RORE range of ±1% to ±3% on the upside using the P10/P90 range of probabilities;</li> <li>• there are concerns regarding the balance of incentives, with the leakage metric attracting a relatively large P90 reward. This is an area where the company already performs well, and customers support only a slightly larger focus; and</li> <li>• the company provides insufficient explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers.</li> </ul>

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Securing long-term resilience	C	LR1	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 systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	C	<p>Anglian Water's business plan falls short of high quality with insufficient or unconvincing evidence of how the company has assessed risks and consequences to its long term financial resilience.</p> <p>The company provides sufficient and convincing evidence that it has developed a resilience framework that includes elements of operational, financial and corporate resilience. The plan also demonstrates that systems and processes are in place to deal with risks to resilience and to escalate these so that decisions are effectively made, although it does not provide evidence that it has considered risks to the delivery of the business plan. The company provides sufficient evidence that it has an effective approach to asset health and incident management, with some links to resilience.</p> <p>Moreover, 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 (i.e. drainage and wastewater management plan) which supports the company's long-term strategy parallel to that of the Water Resources Management Plan.</p> <p>However, the plan provides little evidence that the company has undertaken a systems-based approach to resilience and that it considers system interdependencies and clearly prioritises risks; these are attributes expected in a high quality plan. In this sense, the resilience framework presented in the annex is not integrated in the development of the plan narrative, but summarised as a standalone chapter. The assessment of risks presented in the plan is mainly based on qualitative analysis and descriptions, with little evidence of quantitative methods being used. While the company provides evidence that customers have been engaged in a variety of topics around resilience (including uncertainty) and that the environment is seriously considered (e.g. commitment to natural capital and carbon reduction), the plan provides insufficient evidence that the environment is a crucial element of the company's formal resilience framework.</p> <p>The company's business plan demonstrates elements of high quality in assessing its financial resilience, but there is insufficient evidence that it has assessed all relevant factors to its financial resilience. In particular, it has not assessed the risks to its financial resilience in the context of a negative outlook on its current credit rating, a high ongoing level of gearing, and the statement in its plan that the company will not be able to meet its FFO/net debt target for S&amp;P. It is not clear that the company has taken account of our illustrative mechanism for sharing financing outperformance for companies with actual gearing levels of 70% and above in its financial risk analysis.</p> <p>The Board assurance statement confirms that the Board expects the company will be able to continue to operate and meet its liabilities as they fall due over the period to March 2025 and beyond, provided Ofwat fulfils its statutory duties. The business plan is accompanied by a third party report on the company's targeted credit ratings and a third party consultancy report which assesses the company's financial resilience.</p> <p>The company's assessment of financial resilience has been supported by review against a third party framework, and there is evidence that the assessment builds on the long term viability statement included in the company's annual performance report. However, there is insufficient evidence to show that the company has considered risks beyond 2025.</p>

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	B	LR2	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?	C	<p>Anglian Water's business plan falls short of high quality with insufficient or unconvincing evidence in some of the necessary areas. In particular, elements of its financial resilience raise concern, such as high levels of gearing and risks around maintaining its current credit rating.</p> <p>The company provides sufficient and convincing evidence that it has considered 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. Moreover, we welcome the company's plans to introduce natural capital valuation as part of its options appraisal process and bespoke commitments. The company also provides evidence that the mitigation of risks to resilience is embedded in the oversight and decision-making of the organisation.</p> <p>However, we consider that the plan's proposals and the assessment of solutions do not seem to be completely informed by the risks identified in the plan within the resilience framework, which appears to be disconnected from the plan narrative and mainly driven by the Strategic Direction Statement. While the company provides good evidence of customer engagement on Water Resources Management Plan options (including games with investment scenarios), it provides limited evidence of engagement regarding Water Recycling Long Term Plan options.</p> <p>Whilst the company's plan contains elements of high quality, there is insufficient evidence that the company has demonstrated long term financial resilience in some areas. The company expects to remain highly geared through 2020-25 and together with the context of a negative outlook on one of its credit ratings, there is insufficient evidence that the company has sufficiently considered the risks to its long term resilience, should it be downgraded. This includes the risks in the context of its requirement to refinance subordinated debt, which is a feature of its highly geared structure, and also the company's expression of doubt that its plan will allow it to meet its target requirement for FFO: net debt for Standard &amp; Poor's.</p> <p>The target adjusted interest cover is not met in some of the modelled financial stress scenarios and so the company sets out mitigation actions that include reference to equity support that was provided by investors in the financial crisis at short notice in 2009 as evidence equity investors would provide support in extreme circumstances.</p> <p>The business plan refers to the company's management of its pension deficit.</p>
Targeted controls, markets, and innovation	B	CMI1	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?	B	<p>Overall Anglian Water's business plan is high quality with convincing evidence in many areas to 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. It evidences sector leading and ambitious approaches in many of its outward facing areas such as its Water Innovation Network (WIN) to address business challenges where anyone can participate in generating innovative solutions as well as start discussions and raise new challenges. The WIN enables a community of innovative champions to engage with a variety of internal and external stakeholders. Furthermore, the Innovation Shop Window in Newmarket has brought many organisations together to deliver a wide range of projects focused on its greatest challenges. While it is sector-leading when working with third parties and external stakeholders, as the focus of most of the evidence provided in the plan is outward/external facing it has limited details about its employees or internal processes. In order to be considered exceptional further evidence would need to be provided to demonstrate how it develops and train employees to tackle challenges, that it has an appetite for risk, how it manages risks and how it learns from innovation failures. The company also provides insufficient evidence in a number of areas surrounding team supportiveness, supervisor support and leader support. While the company empowers its employees to deliver leading experiences, there is little evidence to demonstrate that it relates specifically to innovation and that supervisors encourage individuals within the organisation to challenge the status quo on a daily basis. However, the strength of the examples and evidence for many areas outweigh the lack of evidence in others although not sufficiently to be able to grade it as exceptional.</p>

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		CMI2	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?	B	<p>Overall, Anglian Water has a high quality plan in relation to this test question.</p> <p>The company provides an ambitious and innovative plan for the use of markets, catchment management and partnership working for delivery services related to water and wastewater network-plus. For both water and wastewater network-plus, the company provides a clear strategy, supported by clear and convincing evidence.</p> <p>The company provides sufficient evidence it will identify and manage residential and business void properties, and business gap sites, well. They use, where appropriate, financial incentives or an in-house approach to achieve this. However, the company provides insufficient evidence in relation to residential gap sites.</p> <p>The company does not provide significant evidence related to looking for lessons learned and innovation adopted from the business retail market and how they plan to adopt a similar approach in non-contestable markets.</p>
		CMI3	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?	B	<p>Anglian Water provides a high quality plan on its long-term strategy for water resources incorporating the use of markets to this aim.</p> <p>The company provides sufficient and high quality evidence to using markets and engaging with third parties, with some evidence of an ambitious and innovative approach. On supply-side, the company has reached out neighbouring companies such as Affinity water and Cambridge water to explore regional solutions, with an export to Affinity water likely to begin in 2025-2030. Demand options, include their work with equipment manufacturers for enhancing leakage detection and developers for use of grey water and rainwater harvesting technology. The company also demonstrates ambition in exploring solutions that go beyond what is required of the WRMP process, by setting up a goal oriented innovation shop window which has already produced actionable solutions on leakage management. On the future deployment of bilateral markets the company does not go beyond providing the required business tables WR6 and WR7.</p> <p>The company also provides high quality evidence for its long-term strategy on water resource management. A minor issue related to limited information around variance between the 'least cost' and 'best value' plan. The concerns are mitigated by the customers expressing support for the overall business plan.</p>
		CMI4	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 2020-25 period and over the longer term?	C	<p>Anglian Water has an insufficiently well-evidenced long-term strategy for delivering bioresources services, and falls short of a high quality approach in certain key areas. The company's plan provides a long term strategy that is in line with business as usual operation with targeted cost efficiencies. The plan shows areas of innovation but does not demonstrate ambition. It lacks evidence in several areas and statements of intent are not always followed up with evidence, particularly around engagement with third parties. This may be a result of agreements with third parties, such as the anticipated agreements with neighbouring WaSCs, not being complete. However, we would have expected to have seen further evidence of third party options considered during the decision-making process for the PR19 strategy.</p>
		CMI5	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 plus - taking into account the guidance and/or feedback we have provided?	B	<p>We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals for bioresources in September 2017 and for water resources in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocations appear appropriate.</p>



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		CMI6	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?	C	<p>Anglian Water provides a bid assessment framework that is transparent and proportionate. There is sufficient evidence for each of the three steps described (pre-qualification, fine screening and final assessment), templates are provided showing the information parties may have to provide and what the assessment forms will look like. It has a commitment to provide feedback and, where possible, allow parties to re-submit. The appeals process is also described. The framework also has regard to the principle of non-discrimination (a separate team, subject to non-disclosure agreements will assess bids, and the process for assessing third party bids initially seems similar to that for in-house bids). There is a concern that the two-stage assessment at the end requiring third-party bids to be first least cost and, then, best value is discriminatory in that an in-house solution could be chosen even though it is not least cost. The company provides sufficient evidence to meet a number of the best practice recommendations, except the absence of a statement committing to adopt a proportionate approach.</p> <p>The following areas are where more convincing evidence would be needed for the plan to be graded high quality:</p> <ul style="list-style-type: none"> <li>• The final assessment requires third party bids to be first the least cost option and, then, best value.</li> <li>• There is no explicit statement confirming that it will commit to a proportionate bidding process, even though the framework itself seems to satisfy this.</li> </ul>
		CMI7	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 technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	C	<p>Anglian Water provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold, carried out a technical analysis on the relevant schemes and for 2 projects that passed the technical analysis carried out a Value for Money (VfM) assessment. In the appraisal of the Anglian Water DPC plan we took into account the following:</p> <ul style="list-style-type: none"> <li>• The company clearly identifies that it had considered DPC in its business plans. It provides evidence of a process to identify schemes and reviewed 22 projects. However the company does not provide evidence of a review of wastewater schemes or why they would be unsuitable for DPC.</li> <li>• The company carried out a technical assessment of the four schemes that passed threshold test using a process that aligned with the guidance and included the main elements of the criteria. The framework is high quality but the evidence lacked the depth that would have provided convincing support to ANH's decisions. This is particularly true for the Elsham transfer scheme which the company rejected as it was deemed 'less suitable' in a number of areas without convincing evidence. From the lack of evidence in some areas and unconvincing decision with regard to the Elsham transfer, the overall assessment is not considered to be sufficient to be high quality.</li> <li>• The company carried out a VfM assessment based upon the Five Case Model structure. It carried out an economic assessment for the South Lincs Reservoir and North Fenland transfer that progressed beyond the technical assessment for DPC. It provides justifications for the majority of its assumptions for the NPV analysis but not for contract length or significantly different depreciation assumptions for in-house vs DPC. North Fenland was unconvincingly rejected at the NPV stage with no further development of the Five Case Model. A more expansive business case was developed for the South Lincs Reservoir although critically the strategic case was not supported by its dWRMP.</li> </ul> <p>The company provides good quality processes that followed the guidance in regard to the threshold, technical and VFM assessments. On the individual projects there is not enough evidence overall to be a high quality and well-evidenced assessment. In addition, the decisions on both schemes are not supported by sufficient evidence in some areas to be convincing.</p> <p>In summary there were some high quality aspects of the assessment but these are not supported by sufficiently convincing decisions and evidence in some areas for the overall assessment to be categorised as high quality.</p>
Securing cost efficiency	D	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	D	<p>Anglian Water's wholesale water costs are 32% above our view of efficient costs. Its base costs are about 21% higher than our view of efficient base costs. Its costs in a number of enhancement areas where we have benchmark models, such as lead reduction, growth and metering are less efficient than its peers. The company's leakage supply-demand balance unit costs are less efficient than the industry benchmark and the company's non-leakage unit costs are marginally less efficient. The company provides limited evidence to explain the significant expenditure associated with both supply-side options and interconnections. The company's leakage supply-demand balance unit costs are less efficient than the industry benchmark. However we make an allowance for leakage reduction because the company forecasts leakage reduction beyond upper quartile performance levels.</p>

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		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	Anglian Water's wholesale wastewater costs are 19% above our view of efficient costs. Its base costs are around 20% higher than our view of efficient base costs. Its costs in a number of enhancement areas where we have benchmark models, such as first time sewerage, growth, and increasing storm tank capacity are less efficient than its peers.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	B	Anglian Water's residential retail costs are close to our view of efficient costs.
		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?	A	Anglian Water performs well in relation to the use of cost adjustment claims because it only proposes two claims, even though one is 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.
Aligning risk and return	C	RR1	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 2020-2025?	B	The company has provided sufficient and convincing evidence that it has based its business plan for 2020-25 on the cost of capital and retail margin caps set out as our PR19 Final Methodology 'early view'.
		RR2	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 will have in place, across each of the price controls?	C	Overall, Anglian Water's business plan falls short of high quality. The company has assessed the prescribed scenarios that are relevant to its circumstances and clearly set out the assumptions that underpin its P10/P90 testing levels and the underlying economic assumptions. Although the company references risk management and risk mitigation measures, this is not detailed within the RoRE analysis. The company does not propose any bespoke uncertainty mechanisms.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		RR3	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?	C	<p>Despite some aspects of Anglian Water's business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support the Board's statement that the company is financeable on the notional and its actual company structure.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> <li>The company has set out the steps taken to make the financeability assessment and to provide assurance over the assessment, supported by third party assurance of the financial forecasts that support financeability.</li> <li>The business plan provides sufficient evidence to support the target credit rating of Baa1(Moody's) for the notional company and that the plan is consistent with maintaining the target credit ratings for the notional structure. The company has set out that the notional company would not be financeable before applying reconciliation adjustments from the current period. The company has provided sufficient and convincing evidence that, in the round, applying out-performance reconciliation adjustments to address the financeability constraint protects the interests of customers from bills that would otherwise be higher in 2020-25.</li> </ul> <p>There is one main area where the plan falls short of high quality.</p> <ul style="list-style-type: none"> <li>There is insufficient evidence that the company is financeable on its actual structure. The company has targeted a credit rating of Baa1 (Moody's). However, there is insufficient evidence that the level of the financial ratios are consistent with the target credit rating, in particular funds from operations as a proportion of net debt appears weak and is below its stated target.</li> </ul>
		RR4	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	B	<p>Overall, Anglian Water's business plan contains sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The following areas of the plan are high quality:</p> <ul style="list-style-type: none"> <li>The company's PAYG rates are supported by sufficient and convincing evidence. No adjustment to PAYG rates has been proposed.</li> <li>The company's starting points for RCV run-off rates are supported by sufficient and convincing evidence.</li> <li>Whilst, the company plans to make no adjustment to the starting point for RCV run-off rates in the future, this is a change of approach to PR14 where a reduction was applied. As such, the company has proposed a smaller reduction for 2020-25 to assist affordability for customers with no adjustment proposed at PR24 and has provided sufficient and convincing evidence for the adjustment including evidence this is in line with customer preferences.</li> <li>Overall, there is sufficient and convincing evidence that the resulting bill profile, which includes the impact of the transition to CPIH, is supported by customer preferences and there is evidence that bills are consistent with customers' preferences both now and in the future.</li> </ul> <p>The company has not demonstrated how the bill profile differs from one which assumes no transition to CPIH. However, this is not material to the overall assessment.</p>
Accounting for past delivery	B	PD1	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?	B	<p>Anglian Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal within 0.05% of the 2019-20 PR14 allowed revenue.</p> <p>The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments.</p> <p>We have not found major data consistency issues between the submitted tables and populated reconciliation models.</p> <p>Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and our independent checks of the reported outcome delivery incentive underperformance and outperformance payments are identical to those reported by the company for all performance commitments.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for nine of the 21 performance commitments, land sales, residential retail, totex and wholesale revenue forecasting incentive mechanism there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		PD2	<p>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?</p>	B	<p>In the round we have no deliverability concerns for the 2020-25 plan despite some concerns for incidents.</p> <p>There is good outcomes performance as the company has delivered or is forecast to deliver 91% of its performance commitments with financial outcome delivery incentives in 2015-20. The company provides sufficient evidence that it understands the drivers of its performance and learnt lessons from that performance, although it could have provided more evidence of understanding on per capita consumption. The company is proposing stretching performance commitments for per capita consumption. The plan provides sufficient evidence that it includes appropriate measures to improve its performance. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of outcomes.</p> <p>There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20 for wholesale water and wastewater. The company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. For example, the company analyses results from external research papers but provides insufficient evidence of how these lessons link to its own performance. We calculate that the company is proposing to increase base costs over the 2020-25 period. The company places a significant focus on improving productivity but provides insufficient evidence of how it is planning to deliver that improvement. However, taking into account the proposed level of stretch in the plan, we do not have concerns with the evidence for deliverability of the planned costs.</p> <p>The company has poor performance on major incidents. It had two major incidents, above average number of category one and two pollution incidents per 10,000km of sewers, although it has an EA performance rating of three stars. It had no prosecutions but 17 undertakings and/or formal cautions. The company provides insufficient evidence it understands the drivers of its performance and has learnt lessons on major incidents. For example, the company does not provide sufficient evidence it has assessed the causes and its handling of its major pollution incidents. The plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents. For example, it does not outline any measures to improve operational performance as a result of its major incidents and provides insufficient evidence of measures to improve customer engagement during major incidents. We therefore have some concerns with the evidence for deliverability of improved performance in relation to major incidents.</p> <p>The company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one. It has an above average number of complaints per 10,000 connections in 2017-18 but this is declining. The company provides insufficient evidence it understands the drivers of its performance and learned lessons. For example, it fails to acknowledge its performance on complaints in sufficient detail and mainly attributes its performance to the broad concept of 'customer care champions'. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example, the company is only aiming to maintain rather than improve its complaints performance, despite its above-average number of customer complaints. However, the company's current performance on resolving complaints at stage one provides sufficient confidence that customer complaints performance will be maintained in 2020-25. We therefore do not have concerns with the evidence for the deliverability of customer complaints handling performance.</p>

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Securing confidence and assurance	D	CA1	To what extent does the company's business plan contain evidence that its full Board has 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?	D	<p>Anglian Water's business plan provides little or no convincing evidence that its full Board provides comprehensive assurance 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.</p> <p>High quality Board assurance statements include compliant statements as set out in the PR19 Final Methodology which, in general are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. The company's Board provides three compliant statements, and two of these have supporting evidence, three statements are partially compliant and ten are non-compliant. The company includes the non-compliant statements in an annex to the Board Assurance Statement called 'Supporting Information.' It is therefore not clear that the statements are from the Board and not the company.</p> <p>On the topic of business planning, the Board provides two compliant assurance statements from the four set out in the PR19 Final Methodology. The Board's statements are non-compliant regarding whether the overall strategy for data assurance and governance processes delivers high-quality data; and whether the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements.</p> <p>For statements on the remaining topics, the Board provides one compliant statement i.e. that the company's business plan has been informed by customer engagement. The Board's statements are partially compliant on affordability; outcomes; and financeability. The Board's statements are non-compliant on whether the company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and how this has been incorporated into its plan; resilience; cost assessment; and risk and return.</p> <p>For assurance statements on business planning, we ask in the PR19 Final Methodology that Boards demonstrate how they challenged management and satisfied themselves prior to making their statements. There is insufficient evidence that the Board has challenged and satisfied itself for the compliant statements provided.</p> <p>For statements on the remaining topics, Boards are asked to demonstrate how they satisfied themselves. The Board assurance statement contains 'Supporting Information' which advises that the Board attended customer engagement events. This is sufficient to demonstrate how the Board satisfied itself prior to making its statement on customer engagement.</p>
		CA2	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?	D	<p>Anglian Water's business plan provides no convincing evidence that its full Board has 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.</p> <p>High quality assurance means that the Board provides a compliant statement, supported by suitable supporting evidence.</p> <p>The plan falls significantly short of high quality as the company's Board does not provide a statement on this topic in the signed section of its Board assurance statement. The company includes a statement in a section of the Board assurance document titled 'Supporting Information.' However there is insufficient evidence that the Board itself provides the statements included within this section.</p>

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		CA3	<p>To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and 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)?</p>	C	<p>Overall we consider there to be insufficient evidence in some areas that Anglian Water's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of engagement and transparency on corporate and financial structures and how they relate to financial resilience.</p> <p>The company's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> <li>• The company forecasts gearing to remain above 70% for 2020-25 but states that it will apply our gearing benefit sharing mechanism; and</li> <li>• The company proposes a base dividend yield lower than 5%.</li> </ul> <p>The company did 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> <p>We also have concerns in four areas:</p> <p>On dividend policy, the company's plan falls short of high quality with insufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. There are, however, elements of high quality. The company clearly sets out its proposed dividend policy and states a base dividend yield for the period 2020-25 of &lt; 5%. The proposed dividend policy refers to all of the required elements and the company provides sufficient and convincing evidence in some areas, on how the elements will be taken into account when determining dividends. The proposed policy states that the company will review the performance against obligations for customers but provides no detail on the customer measures considered as part of this review. The company refers to transparency around dividends but there is no specific reference to a commitment to publish information on dividend policy annually or signal changes in dividend policy to stakeholders.</p> <p>On executive pay, the plan falls short of high quality with insufficient evidence that the company has taken full account of all of the required elements in respect of its performance related executive pay policy for 2020-25. There are, however, some elements of high quality. The company explains its current approach to the setting of executive performance related pay, including that for the annual bonus, 65% relates to delivering stretching performance against outcome delivery incentives, but provides no further detail. This is reported annually with full visibility of both the base and stretch performance. The company states that it sees this as business as usual and commits to carrying this forward into AMP7. The company states its long term incentives are currently in a transitional arrangement as they contain no reference to outcome delivery incentives. The company states that once the final determination has been received, it will design a policy that reflects a number of principles such as sustained performance for the benefits of customers. However, as the policy has yet to be designed there is no evidence as weightings towards delivery for customers. While the company states that it will report annually, there is no reference as to how it will apply the policy and monitor during the period. In addition there is no reference as to how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports.</p> <p>The plan falls significantly short of high quality with little or no evidence that the company's full Board provides assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement on corporate and financial structures and how this relates to financial resilience. The Board does not provide a clear assurance statement.</p> <p>Although the company's plan contains comments on changes to its corporate and financial structures, the plan falls significantly short of high quality with no evidence that the company has been transparent with its customers about its corporate and financial structures and how they relate to its long-term resilience, through clear and accessible published information.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA4	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)?	D	<p>Anglian Water's business plan provides no convincing evidence that its full Board provides comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes.</p> <p>The plan falls significantly short of high quality as the Board does not clearly provide a statement of assurance that it will monitor delivery of its outcomes and performance commitments.</p> <p>The Board has a statement on monitoring delivery of outcomes and performance commitments but this statement is non-compliant, as it is included in an annex to the Board Assurance Statement called 'Supporting Information' which is not clearly part of the Board statement.</p>
		CA5	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?	C	<p>Anglian Water falls short of sufficiently demonstrating 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 assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>While the company sufficiently describes its data assurance, governance and audit processes within its business plan, overall it falls short of high quality:</p> <ul style="list-style-type: none"> <li>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.</li> <li>We identify inconsistencies between the data submitted in the company's Annual Performance Report and its business plan tables in the area of cost assessment and outcomes. In cost assessment one business plan table was materially different requiring a balancing adjustment although the overall impact is minor as totex is unaffected. In outcomes, we identify minor inconsistencies where CCWater data is misquoted and we also have concerns around the calculation of affordability benefits due to the inclusion of leakage allowance.</li> </ul> <p>The company does not refer to its 'Targeted' status in the 2017 Company Monitoring Framework assessment or demonstrate the steps it is taking to address its shortcomings.</p>
		CA6	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?	B	<p>Overall, Anglian Water's business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. We identify some issues within our assessment of the data tables in the policy area of financial modelling, but these do not materially affect our overall assessment.</p>