

Bristol Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	B	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?	B	<p>Overall Bristol Water's business plan is high quality with convincing evidence in the areas set out below, but not sufficiently ambitious or innovative to be considered exceptional.</p> <p>There is convincing evidence to demonstrate a robust, balanced and proportionate evidence base has been used, and the company demonstrates a clear line of sight from the results of its customer research and engagement to the outcomes its business plan will deliver for customers. The company produces a detailed customer engagement road map that consists of five iterative phases of customer engagement. A wide range of techniques are used effectively and showcase a mix of traditional and innovative approaches. This includes longitudinal engagement, co-creation, and gamification. The company makes effective use of customer data through activities such as the development of a customer dashboard to pull together business as usual data to ensure this is used on an ongoing basis and so that trends can be identified. Whilst the company demonstrates its use of triangulation, there appear to be limitations in the approach with a lack of adoption of industry best practice (e.g. UKWIR guidance).</p> <p>The company conducts customer segmentation to better understand different customer needs and preferences. It also uses comparative data where appropriate. There is evidence of engagement with vulnerable audiences. However, the company's approach appears to be limited to gaining insight from stakeholder groups rather than robust primary research with a diverse range of vulnerable customers. The company demonstrates some use of two way and transparent dialogue when engaging with customers. However, following an assessment of the evidence provided, the company could have done more, for example, using social media as a feedback loop.</p> <p>The CCG assures the quality of company's customer engagement and states that the business plan is grounded in "a sound, extensive customer engagement strategy and research". There is sufficient evidence that customer engagement is incorporated into the company's ongoing business operations. For example, the customer dashboard will enable the company to utilise business as usual data in order to create an overview of customers' opinions on key service areas.</p> <p>There is convincing evidence to demonstrate that the company has considered the four FACE themes of customer participation, as set out in the Tapped In report. For example, the company set up a customer forum which it engaged at various points in the development of its business plan. The company has also conducted a series of summer roadshows, including the Water Bar. It has won industry awards for reaching and engaging with local communities in this way. There is evidence that the company conducted behavioural change campaigns such as the 'Beat the Bill' initiative to encourage meter usage. However, it provides insufficient evidence on how it will meet the objectives of the Tapped In report in its ongoing business operations.</p> <p>Finally, the company uses a high quality approach to effective engagement providing convincing evidence of its engagement with its customers on both the business plan and on longer-term issues. This includes the formation of a youth board as a means of engaging with future customers. It holds deliberative events to engage with its customers and stakeholders on resilience. However, we consider the proposals made by the company are not sufficiently ambitious and innovative to be sector-leading or exceptional. For example, there was insufficient evidence of research undertaken to understand customers' underlying risk profiles.</p>

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Addressing affordability and vulnerability	C	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	B	<p>Bristol Water provides sufficient, convincing and high quality evidence that its bills will be affordable for all in the period 2020-2025.</p> <p>The company is proposing a real bill reduction of 6% from 2019-20 to 2024-25. It has proposed two voluntary reputational performance commitments (PC) to address affordability which reflect commitment to improving affordability. Customer engagement and research has been conducted to a high quality, including convincing use of customer segmentation. Credible evidence is provided that demonstrates customer support for its proposed bill profile across online, telephone and face to face engagement.</p> <p>There is insufficient evidence to demonstrate how the company will manage the bill impacts from outcome delivery incentive (ODI) outperformance payments. The company also has a relatively inefficient 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. It has also discontinued a PC regarding negative billing contacts from PR14 without providing sufficient explanation.</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	C	<p>Bristol Water provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it proposes to increase its bills for the 2025 to 2030 period by 2.1% and has provided insufficient evidence of testing a bill profile/bill with its customers. There is therefore a lack of evidence of customer support for this increase. The company has only undertaken some general research into long-term customer preferences.</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>Bristol 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, the company demonstrates high-quality engagement with customers who struggle to pay. Moreover, the company's social tariff is growing by over 50% in the 2020 to 2025 period and there is evidence of working with third parties to actively promote affordability assistance.</p> <p>Furthermore, the company demonstrates an innovative approach to affordability support by offering 20% discounts to customers who receive pension credit and updating the scheme to ensure it is easy to access. We consider this an effective approach.</p> <p>In the round, despite some concern about customers' support for the cross-subsidy, we consider the company provides sufficient evidence of a high-quality approach to addressing affordability for customers who struggle to pay, notably through its pension credit discount.</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?	C	<p>Bristol Water provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, it is only proposing to increase the reach of its priority services register to 1.2% by 2024/25. This is not sufficiently ambitious.</p> <p>In addition, whilst we welcome the bespoke PC on the satisfaction of vulnerable customers, we consider the target not stretching. Furthermore, we consider that the company has not engaged with a sufficient number of vulnerable customers about its vulnerability plans to be considered high-quality. Finally, their use of data is overly focused on financial vulnerability, and therefore we do not consider it to be effective.</p>

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Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	<p>Overall, the evidence Bristol Water provides demonstrates that its 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>We have confidence in the evidence that the company's PC levels are stretching because:</p> <ul style="list-style-type: none"> the company has proposed service levels for leakage and supply interruptions that are forecast upper quartile; and we have no material concerns with the evidence provided to support its service levels are stretching across its PCs. <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"> it provides sufficient and convincing evidence that it will report performance accurately; in addition to annual reporting, the company plans to continue to publish a mid-year performance review; the company states that it will include comparisons with other companies' performance; and the company sets out steps to improve data and information quality, and the assurance processes that support this. <p>The area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology requirements because:</p> <ul style="list-style-type: none"> the company is proposing catchment management activities, however, the related PC, "Raw water quality of sources", is not transparent as it lacks clarity. <p>We have no concerns with the company's progress to report common PCs by 2020.</p>
		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	<p>Overall, Bristol Water's plan falls short of high quality, with insufficient evidence that its package of ODIs is appropriate and well evidenced. While the company sufficiently demonstrates that it had followed our approach in using the Ofwat formulae in determining ODI rates, there are a few instances where the use of willingness to pay (WTP) values is not sufficiently supported. We also identified concerns over its frequent use of deadbands, which may reduce incentives to the company. However, there are high quality elements within the plan as the company applies appropriate ODI incentive types to its PCs, which are largely supported by its Customer Challenge Group (CCG).</p> <p>The company provides insufficient evidence that customers support outperformance payments for some of the company's PCs. For example, for 'Local community satisfaction' the company insufficiently explains why outperformance payments are required for satisfactory delivery of community schemes, where some schemes appear to be 'business as usual'.</p> <p>We have concerns in the company's approach to its ODI rates:</p> <ul style="list-style-type: none"> Triangulation of willingness-to-pay (WTP) research. In some instances, the company uses WTP estimates that may not be wholly appropriate for the measure in question. For example, the company uses supply interruptions WTP as a proxy for asset failure. The company does not provide sufficient evidence to support the assumption that good performance against this measure would directly lead to a reduction in supply interruptions for this ODI. This ODI represents over 50% of total outperformance exposure. For the unplanned maintenance ODI, the company uses a WTP estimate for one-off water pressure incidents and proposes a low ODI rate relative to industry peers. The company does not provide sufficient evidence to justify the use of this WTP value. <p>We note that the company provides sufficient evidence to demonstrate its use of the Ofwat formula to set its ODIs.</p> <p>The company's plan falls significantly short of the quality required to appropriately justify its deadbands, caps and collars. We note that the company proposes to apply a large number of deadbands, caps and collars, which together cover all of the company's financial ODIs. The company does not sufficiently justify the use of these features, and we have identified a number of material concerns:</p> <ul style="list-style-type: none"> The company proposes to apply underperformance deadbands across all of its asset health PCs without providing a compelling justification for this. The company also proposes to apply an outperformance deadband on its per capita consumption (PCC) PC, which risks dampening its incentives to improve performance. Some of the proposed deadbands are set at levels which would allow the company to avoid incurring underperformance payments in 2020-25 despite experiencing deterioration in performance. The company does not convincingly explain why this is in customers' interests. The company fails to convincingly justify many of its underperformance collars. Whilst it appears that customers support the use of caps and collars in principle, the company does not demonstrate evidence of customer support at an individual ODI level.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, Bristol Water falls short of high quality with insufficient evidence that the company applies an appropriate and high quality approach to its focus on service performance in its risk/reward package. We have concerns that its ODI package is not appropriately balanced, with one PC attracting disproportionately high ODI reward potential. It has insufficient evidence that it has appropriately engaged customers on its past asset health challenges and it has insufficient evidence that it has fully considered how to protect customers if outperformance payments are higher than expected. However, there are high quality elements within the plan as it aligns the timing of ODIs with its service performance.</p> <p>The company does not meet our expectations that the overall ODI package is appropriate because:</p> <ul style="list-style-type: none"> whilst the scale of the return on regulatory equity (RoRE) package is itself appropriate, the company's widespread adoption of deadbands, caps and collars on individual ODIs may dampen its incentives to deliver outcomes; and the package does not appear to be appropriately balanced, with one PC attracting disproportionately high ODIs. <p>We note that:</p> <ul style="list-style-type: none"> the ODI package is within the indicative range; the company provides some evidence of engagement with customers on the acceptability of its overall ODI package, highlighting that customers were asked to choose between a range of incentive packages as part of the company's acceptability testing; and the company constructs its overall RoRE range based on bottom-up valuations of individual ODIs. <p>The company's overall approach is in line with our expectations for in-period ODIs. We have identified no concerns.</p> <p>The company has not met our expectations for ODIs for its asset health PCs because:</p> <ul style="list-style-type: none"> the company does not demonstrate high quality customer engagement on asset health; the CCG challenged the company's approach to asset health and was not satisfied with the responses; and the company does not demonstrate customer support for its outperformance payments <p>We note that:</p> <ul style="list-style-type: none"> the company demonstrates that it understands its asset health past performance challenges, which its plan addresses, as it has appropriate PCs and ODIs on water quality contacts and mains repairs; 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. <p>We note the following with the company's evidence of how it is protecting customers against higher than expected ODI payments:</p> <ul style="list-style-type: none"> the company proposes a symmetric cap at £2.5m in one year, with the balance rolling forward to subsequent years; and the company has caps on most of its PCs. While the maximum annual outperformance payments (£4.9m) are significantly larger than its RoRE P90 estimate (£2.2 million), this predominately relates to its leakage PC and therefore the risk to customers is small.

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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>Bristol Water's business plan falls short of high quality, with sufficient or convincing evidence of support from customer engagement, but insufficient and unconvincing evidence of how the company has assessed risks and consequences to its systems and services.</p> <p>The company provides sufficient evidence that it has undertaken a resilience assessment through its resilience framework, assessing service resilience in addition to operational, corporate and financial resilience. The company identifies some risks to its resilience and also provides sufficient evidence of undertaking customer engagement on the risks to resilience, including being challenged by its CCG on resilience issues and its overall approach. The company, while acknowledging that its understanding of asset health in relation to resilience is poor, provides some evidence that it is taking steps to implement an asset management approach that will improve this situation.</p> <p>However, the company's resilience assessment falls short of high quality and provides insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or knock-on/cascading impacts of one system to another should be considered. We consider that the resilience maturity assessment of the company is not sufficiently detailed to enable understanding of the areas where the company's resilience is insufficient.</p> <p>There is also little convincing evidence of how the long list of resilience risks considered in the plan has been prioritised. Finally, although the company's plan accounts for a range of environmental risks, these have not been assessed using environmental valuation techniques that ensure the objective assessment of these risks to resilience.</p> <p>The company's business plan includes elements of high quality with respect to financial resilience, but there is insufficient evidence on the steps the company could take to mitigate the financial impact in the event that its requested company specific adjustment to the cost of debt is not allowed.</p> <p>The company has considered the prescribed financial stress scenarios and some company specific scenarios to the year 2030. The board assurance statement sets out that it has 'critically appraised the approach taken with the long-term viability assessment in our annual performance report and the business plan'.</p> <p>While this provides evidence that the company has assessed some company specific risks, there is insufficient evidence that the assessment is underpinned by the company's own internal risk assessment, including, for example, how the downside scenarios are severe, plausible and reasonable.</p> <p>In its plan, the company assumes a company specific adjustment to the cost of capital and comments that without the company specific cost of capital adjustment it "could not provide Ofwat with sufficient confidence on financial viability". However, the PR19 methodology does not guarantee the company a company specific adjustment and the company has not considered in its financial resilience assessment the steps it could take to address resilience in the absence of the adjustment.</p>

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		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>Bristol Water's business plan falls short of high quality. While the company has assessed a sufficient range of mitigation options and has sufficient evidence of support from customers, the plan provides insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides evidence that it has considered a wide range of options to mitigate the resilience risks identified in the plan, including hard and soft infrastructure options and options that influence customer behaviour. It also provides evidence that it has proposed outcomes to capture its overall approach to resilience and incentivise timely delivery, particularly the "Population in centres at risk of asset failure" bespoke PC. We consider that the company also demonstrates collaboration with stakeholders to identify efficient options, for example through participating in the Resource West group. The company also provides sufficient evidence that it has engaged with customers to select its preferred resilience mitigation options, including through using participatory approaches such as gamification.</p> <p>However, we consider that the company provides insufficient evidence that it has applied a systems-based approach to resilience and, as a consequence, there is insufficient and unconvincing evidence that the plan has taken account of interdependencies between systems to address resilience risks. In addition, the company provides insufficient evidence of an assessment of risks in combination. The company does not provide convincing evidence that it links the mitigation options proposed with its high-level resilience maturity assessment. While the company follows a separate risks and needs identification exercise in order to inform its ongoing resilience intervention, the link to the resilience maturity assessment lacks the clarity expected of a high quality plan. We consider that the company provides little and unconvincing evidence that it has used environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options that we would expect of a high quality plan.</p> <p>There is insufficient evidence in the company's business plan that its financing strategy and target credit rating will allow it to maintain long term financial resilience. In particular there is insufficient evidence that the company has robustly considered the steps it will take to maintain its resilience if some specific risks materialise.</p> <p>There is insufficient evidence in the business plan that options to ensure the long term viability of the company have been addressed with shareholders in the event that the company specific cost of debt adjustment were not allowed and there is insufficient evidence that the headroom the company expects to achieve in the financial ratios relevant to its target credit rating allows it to maintain long term financial resilience</p> <p>The company cites potentially higher water abstraction payments to the Canal and River Trust as its key cost risk and has shown the impacts of such payments on its financial viability, including the need for a possible equity injection to maintain financial ratios if required. We note that the company refers to the possibility of including this cost risk as a 'notified item' in its business plan.</p> <p>While the company forecasts a debt financing requirement of only £17 million in 2020-25 and states that its key interest cover covenanted ratio is met under all downside scenarios, there is insufficient evidence that the company has considered whether its target credit rating of Baa2, one notch above the minimum for the investment grade, will provide sufficient headroom for its long term financial resilience.</p> <p>The company provides some discussion of the risk management processes it has in place, and in its assessment of financial resilience references some mitigation measures that could be applied in certain downside scenarios, for example dividend restriction or equity injection. Thresholds are breached in some scenarios, and while the business plan references a long-term investor who has "retained equity", there is insufficient evidence to demonstrate the certainty the company can place on the availability of equity. The company sets out that its defined benefit pension scheme is presently in surplus.</p>

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Targeted controls, markets and Innovation	C	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>Bristol Water's business plan is high quality with sufficient evidence 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 also has some elements of sector leading, ambitious and innovative approaches, insufficient evidence in some areas for the plan to be exceptional.</p> <p>It has defined Innovation Challenges to provide a focus for innovative thinking and promotes Open Innovation by openly sharing challenges through a number of different channels. Employees at all levels are challenged to submit innovative ideas through a Brainwaves scheme and as part of its ambitious inter-disciplinary approach the company proactively brings people together from across the organisation. However, there is limited evidence on whether individuals are given the ownership to progress their ideas to completion and how the company manages risks associated with innovation for the plan to be exceptional.</p> <p>It has a high quality approach to recognition and rewards and celebrates any attempt of innovation. It has a systemised approach to innovation aligned to business transformation and continual improvement. The process is facilitated by the company's Business Improvement and Innovation (BI&I) team which has a coordination and coaching role, as well as by Innovation Champions which focus on knowledge sharing and promoting the integration of innovative thinking.</p> <p>The leadership supports and oversees innovation framework thought Innovation Health Check and has a Resourcing Strategy in place. It also reduces resource burden by working in collaboration with third parties, but provides limited information on time and funds allocated to innovation and how those provide value for money. It has clear goal but provide no evidence of stretching innovation commitments within the company's KPIs, for the plan to be exceptional.</p> <p>The company has well evidenced commitments and mechanisms in place to engage with a variety of stakeholders both internally and externally. It divides stakeholders into six categories with an explanation of the company's aim for the collaboration with each of them. All levels of the company are able to participate in innovation from both the top-down and bottom-up. The company has set a vision which is communicated externally via its Open Innovation approach and internally with commitments to further develop an intranet portal "Inflow" to bring together all ideas.</p> <p>We consider that in many cases the company provides high quality with convincing evidence and meets best practice. These approaches, while good, are widely used in the sector and the proposals and processes are not sufficiently evidenced in all areas or ambitious enough for the plan to be exceptional.</p>
		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?	C	<p>Overall, Bristol Water's plan falls short of high quality in relation to this test question.</p> <p>The company provides only very limited 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. For example, learnings are limited to gap sites and voids.</p> <p>Regarding the use of markets, catchment management and partnership working for delivery services related to water network-plus the company provides significantly insufficient evidence.</p> <p>However, the company do provide sufficient evidence of an appropriate in-house approach for managing residential and business voids, as well as its residential gap sites. The company provides insufficient evidence it will manage business gap sites appropriately, because it plans were not detailed or concrete enough.</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?	C	<p>Bristol Water's business plan provides insufficient evidence of its use of markets to provide a long-term strategy for resilient and sustainable water resources. Thus the company is graded as a 'C' in this question.</p> <p>The business plan provides evidence of good quality in water resources. The leakage reduction target is now more ambitious than what was reported in the dWRMP. However, its PCC target ambition has reduced, suggesting the need for more work in this area.</p> <p>The company falls significantly short to provide convincing evidence on the use of third party options to deliver its water resources strategy. The detail is relatively high level in all cases and the company does not provide detailed specific evidence to support its stated ambitions. Considering the risks the company faces in terms of water resources such as the potential significant increase in costs for abstraction from the Gloucester-Sharpness canal we would expect it to have further progressed work into identifying specific third-party options to mitigate these risks. We acknowledge that the company is participating in the West Country water resources group but note that specific details of how the company will contribute to regional strategies do not appear to be provided. On the future deployment of bilateral markets, the company does not go beyond providing the required business table Wr6.</p>

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		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?	N/A	
		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	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals 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 allocation appears appropriate.
		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	Bristol Water has produced a bidding assessment framework generally in line with the principles of transparency, non-discrimination and proportionality. It has identified most of the key features that are needed, although does not always provide much detail on how it will satisfy these requirements. For example, on proportionality, there are few details on what information bidders might have to provide in the BAF. The framework has attempted to describe the scoring framework, with a commitment that in-house options will be assessed on the same criteria. The framework does not address how it will handle commercially sensitive information.
		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?	D	<p>Bristol Water provides minimal evidence that it considered DPC in its business planning process.</p> <p>The plan does not describe (or evidence) a process by which DPC has been assessed. Additional information obtained through query process, which company refers to, provides no clear link to consideration of DPC. External assurance limited to assurance on App21 table (which is blank).</p> <p>DPC is referred to in a single sentence in the main summary of the business plan with the conclusion that no schemes are suitable or large enough for DPC and that DPC is not relevant to the company.</p>

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Securing cost efficiency	C	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	C	Bristol Water's AMP7 cost projections in wholesale water activities are around 15% above our view of efficient costs. The company's leakage reduction unit costs are more efficient than the industry benchmark. Leakage reduction beyond upper quartile performance levels is forecast and we make an associated expenditure allowance. The main area of enhancement where we have not allowed costs is in resilience, where the requested costs appear to relate more to improving supply interruptions. Given that the company is not forecasting to achieve a very high level of performance in this area (ie its forecast performance is below the "upper quartile" level of performance), we consider these costs are covered in our base allowance.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	N/A	
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	C	Bristol Water's residential retail costs are about 12% higher than our view of efficient costs. This is mainly driven by a particularly poor forecast performance on bad debt and debt management 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?	D	Bristol Water proposes four cost adjustment claims. Except for one claim which passes our assessment, we consider that the rest of the claims relating to the company's unique circumstance are reflected in our cost allowance. Two of the claims lack compelling evidence and fail our quality assessment. This gives Bristol a grade of D for its cost claims.
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?	C	<p>Bristol Water's business plan falls short of high quality as the company has requested a Company Specific Adjustment to its allowed cost of capital, but there is insufficient evidence that the level of uplift it has requested is grounded in evidence on market conditions, that the uplift is justified in terms of benefits for customers, or that the company's own customers support funding it.</p> <p>The company has proposed an Appointee cost of capital of 5.74%, which is 28bp higher than our early view. This is based on a company specific adjustment of 45bp to the allowed cost of debt (55bp on embedded debt, and 15bp on new debt). The level of the proposed uplift is above our plausible range for any cost of debt premium faced by small companies relative to our 'early view' cost of capital.</p> <p>Following the approach set out in the PR19 methodology, there is overall insufficient evidence that customers will receive benefits that adequately compensate for the cost of providing its requested uplift. The company states that its efficient operating costs and lower leakage levels represent a benefit worth £4.50 per household per year to customers – exceeding the company's estimated bill impact of £2.50 per household per year from providing the uplift. We consider however that the evidence underpinning the £4.50 figure is not convincing, given we find that the company overall contributes negative benchmarking benefits. Overall we do not consider that the monetised benefits of retaining the company as an independent comparator adequately compensate for the higher cost of providing an uplift.</p> <p>The company provided inadequate evidence that the uplift is supported by customer preferences. A majority of surveyed customers only supported an uplift conditional on the bill impact being lower than the company's £4.50 benefits estimate, or if the company included a sharing mechanism in its plan which returned potentially 100% of the value conditional on it performance. As we have concerns over the £4.50 figure, and the company's final business plan contains a sharing mechanism risking only 50% of the uplift, we conclude that its research should not be taken to represent compelling customer support for its proposal.</p>

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		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	While Bristol Water's business plan demonstrates high quality in some areas, it has provided insufficient evidence of risk management or risk mitigation measures. The company has considered all of the prescribed scenarios and has provided sufficient explanation for the economic assumptions underpinning its assessment. However, there is insufficient evidence that the company has considered risk mitigation measures relevant to each RoRE scenario. The company proposes a specific uncertainty mechanism associated with water abstraction from the Canal & River Trust on the basis of 75:25 cost sharing. Whilst this appears to represent a possible material and genuine cost to the company there is insufficient evidence as to whether the costs will remain uncertain at the time of draft and final determinations. We have not factored the uncertainty mechanism in to our overall assessment for this test question.
		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 Bristol 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 the following area:</p> <ul style="list-style-type: none"> 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 procedures and calculations of the business plan data tables that support financeability. <p>There are two main areas where the plan falls short of high quality.</p> <ul style="list-style-type: none"> There is insufficient evidence that the company has undertaken an adequate assessment that its proposed target credit ratings of Baa2 (Moody's) for the notional company and Baa2/BBB (Moody's and S&P) on its actual structure, which is below the current rating of Baa1, are reasonable in the context of the investment needs and the requirement to maintain long term resilience. Whilst there is a small debt funding requirement over the period, there is insufficient evidence to support the appropriateness of the target credit rating for either the notional and actual structure. The company has provided a suite of key financial ratios for the notional and its actual structure. While the company presents evidence, including a third party report, of weakening financial ratios under its actual structure and sets out it is looking at potential mitigations to the capital structure to support the current Baa1 rating, no further explanation is provided. <p>The company has set out that without the proposed company specific adjustment the Board would not have sufficient confidence on financial viability based on the company's actual ratios.</p>
		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	C	<p>Despite some aspects of Bristol Water's business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> The company's starting points for PAYG rates are supported by sufficient and convincing evidence. The company has provided convincing evidence to support its reduction to the starting point for 2020-25 PAYG rates compared with those set in the CMA's 2015 determination. The plan proposes reductions to the starting point for RCV run-off rates to remove the impact on customers' bills of the transition to CPIH, although the plan does not set out the impact of the transition or provide any further details of the calculation of how the adjustment has achieved this objective. Overall, there is sufficient and convincing evidence that the resulting bill profile is supported by customer preferences and there is evidence that bills are consistent with customers' preferences both now and in the future. <p>There is one main area where the plan falls short of high quality.</p> <ul style="list-style-type: none"> There is insufficient evidence to support the starting point for its RCV run-off rates. The business plan does not set out the calculations or how current cost depreciation, on which the starting point is based, has been determined.

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	D	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?	C	<p>Bristol Water's plan falls short of high quality with insufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is insufficient 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 minor at 2.6% 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 found major data consistency issues between the submitted tables and populated reconciliation models for totex. We have found minor consistency issues for service incentive mechanism and wholesale revenue forecasting incentive mechanism.</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 ODI underperformance and outperformance payments are identical to those reported by the company for all PCs apart from leakage where the company overestimates the penalty by £0.180m which favours customers.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for six of the nine PCs, land sales, service incentive mechanism, residential retail and totex there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>
Accounting for past delivery	D	PD2	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?	D	<p>In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan, particularly for outcomes and customer complaints.</p> <p>There is poor outcomes performance as the company has or is forecast to deliver 64% of its PCs with financial ODIs in 2015-20. The company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. The company is proposing stretching PCs for supply interruptions, and improvements to performance for mains bursts, meter penetration and leakage. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. Taking into account the proposed level of stretch in the plan, we therefore have substantial 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. The company provides sufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The plan provides sufficient evidence that it includes appropriate measures to deliver the planned costs. The evidence focuses on those areas where improvement is needed, for example on leakage. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of the planned costs.</p> <p>The company has good performance on major incidents. The company provided sufficient evidence it understands the drivers of its performance and has learnt lessons from incidents, such as the need to improve alternative water availability or the need to flush the network quickly in the event of a contamination incident. The plan provides sufficient evidence the company has measures in place to improve performance in relation to major incidents. For example the company provides evidence that it is developing prediction models and installing additional flow and pressure loggers. We therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents.</p> <p>The company is not yet meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one but the proportion is increasing. It has an above average number of complaints per 10,000 connections in 2017-18 and this is increasing. The company provides insufficient evidence it understood the drivers of its performance and learned lessons. The company does not acknowledge its performance and focuses on customer surveys instead of comparable performance indicators. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. We therefore have substantial concerns with the evidence for deliverability of customer complaints handling performance.</p>

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Securing confidence and assurance	C	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?	C	<p>Bristol Water's business plan falls short of demonstrating sufficient 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 Board provides nine compliant statements, eight of which have sufficient supporting evidence, four statements are partially compliant and three statements are non-compliant.</p> <p>On business planning, the Board provides two compliant statements from the four set out in the PR19 Final Methodology. The Board's statements are non-compliant on 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 seven compliant statements from the twelve requested in the PR19 Final Methodology. The Board's statements are partially compliant on resilience; and whether large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers. 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.</p> <p>For the 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. The Board assurance statement documents challenges made by the Board and associated management responses, which sufficiently cover the topics of the Board's compliant statements.</p> <p>For the statements on the remaining topics, Boards are asked to demonstrate how they satisfied themselves prior to making their statements. The company demonstrates the Board's assurance process for each statement using titles of documents considered by the Board and challenges made by the Board and associated management responses. There is sufficient evidence of how the Board satisfied itself prior to making the compliant statements.</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>Bristol Water's business plan provides little or no 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 Board's assurance statement advises that "We are satisfied that we have met Ofwat's requirement to plan for delivering resilience in the round in our customer's long term interest."</p> <p>The plan falls significantly short of high quality as it does not include a suitable statement of assurance that made reference to the Board's governance and assurance processes and there is no relevant evidence of the Board's assurance process in this area.</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>	B	<p>Overall Bristol Water's business plan provides sufficient evidence that the company'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 transparency and engagement on issues that matter to customers, such as its corporate and financial structures.</p> <p>The company's plan contains sufficient evidence that the company will commit to adopt the expectations out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> • The company proposes a base dividend yield of less than 5%. • The company's proposals on executive pay are high quality. The Board assurance statement confirms its performance related pay policy has been considered and approved for the next price control period. The company states that remuneration details will continue to be reported in its Annual Report, meeting at least the principles in the UK Corporate Governance Code, the licence and legislative requirements. It states that objectives for executive pay relate to delivery against strategic outcomes (including corporate and financial resilience and performance against key outcomes). The company confirms at least 30% of the annual and long term executive performance related pay will be linked to customer outcome metrics and at least 50% will be linked to outperforming cost allowances or the financial impact of outcome incentives. It also states that the Remuneration Committee retains discretion to tailor bonus parameters year on year and confirms such changes will be reported transparently. However, there is no reference to how the company will ensure targets will ensure stretching delivery for customers. • The company's proposals on dividend policy are high quality. The company provides sufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders over the period of the price control and demonstrates high quality in the round. The company clearly sets out its proposed dividend policy and states a base dividend yield for the period 2020-25. The proposed dividend policy stated in the business plan refers to all of the required elements from the 'Putting the sector in balance' position paper. It provides sufficient and convincing evidence in all key areas on how the elements will be taken into account when determining dividends. The company states it will discuss dividend performance periodically with its Bristol Water Challenge Group as part of their review of delivery. However, there is no specific reference to annual publishing or signalling of changes in dividend policy to stakeholders. • The company is not highly geared and is forecasting gearing below 70% during the 2020-25 price control period but states that it will accept our default gearing benefits sharing mechanism should its gearing exceed this threshold. <p>The company proposes a voluntary sharing arrangement to reinvest the claimed company specific cost of debt adjustment if it does not meet a committed level of customer satisfaction. However, we have not accepted the company specific cost of debt adjustment and so we have ascribed zero customer value from the arrangement in our IAP assessment. The company has not put forward any other voluntary benefits sharing mechanism or any shareholder contribution to social tariffs or hardship funds. However, voluntary sharing measures are not a requirement of the PR19 methodology, so this does not impact our overall assessment of this test area.</p> <p>The plan falls short of high quality with insufficient evidence that the company's full Board provides assurance that the company's business plan will enable customers' trust and confidence through engagement on corporate and financial structures and how this relates to financial resilience. The Board does not provide a statement of assurance that its plan will enable customers' trust and confidence through engagement on its corporate and financial structures. However, the company's business plan refers to its Bristol Clearly publication in which it provides sufficient evidence of transparency on its corporate and financial structures and how these relate to its financial resilience.</p>
		CA4	<p>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)?</p>	C	<p>Bristol Water's business plan falls short of demonstrating sufficient and 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 Board provides a compliant statement that it will monitor delivery of its outcomes and PCs through the following statement "We will monitor, report on and appropriately respond to performance on outcome targets contained in our business plan." However, the Board does not demonstrate its assurance process to support this statement.</p>

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		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>Bristol 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>The plan has aspects of high quality:</p> <ul style="list-style-type: none"> • The company sufficiently describes its data assurance, governance and audit processes within its business plan. • While there are minor inconsistencies in the data submitted in its Annual Performance Report and its business plan tables relating to cost assessment, these do not materially affect our assessment. • The company adequately references interventions it has implemented as a result of the company's 'Prescribed' status in the 2017 Company Monitoring Framework, stating that 'data assurance has been a particular focus.' <p>However 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 6 areas, it has minor concerns in 3 areas.</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, Bristol 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.</p> <p>We identify some issues within our assessment of the data tables in the policy area of financial modelling and risk and return, but these do not materially affect our overall assessment.</p>