

## Dŵr Cymru: 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 the business plan demonstrates high quality with convincing evidence in the areas set out below, but it is not sufficiently ambitious or innovative to be considered exceptional.</p> <p>The business plan demonstrates that a wide range of qualitative methods were appropriately employed. However, the quantitative research evidence base used to inform performance commitments (PCs) is much more limited and, as flagged by the CCG, customer valuations have not always been accurately reflected in outcome delivery incentive (ODI) rates. The company sufficiently demonstrates ongoing engagement with customers since the last price review, incorporating tracker surveys and post interaction feedback into business as usual activities, in addition to PR19 specific research exercises. The company has used these ongoing insights to develop a customer sentiment map. The company maintains a two-way dialogue with customers, demonstrating that it sought to inform customers, for example, through its education initiatives and behavioural change campaigns, as well as understand customers' priorities and preferences. The company uses segmentation to understand the needs of different customers and conducts tailored research exercises with specific groups including vulnerable, hard-to-reach, future and "worst served" customers, demonstrably incorporating results in the business plan. Whilst the company claims it used information on comparative performance to set the context for customers and shows examples of the stimulus material used in its acceptability testing, evidence of more widespread use of comparative information is not found.</p> <p>The business plan provides sufficient evidence that the company involves customers in strategic service design and that they had opportunities to challenge the company throughout the development of its business plan. The company conducts qualitative and quantitative research to understand customers' priorities, the results of which are triangulated to define a set of outcomes and service measures. Two versions of the business plan are tested with customers (a "base" plan and "plus" plan) and customers had further opportunity to feedback on the final version of the business plan through the company's final acceptability testing. The business plan contains evidence of the company promoting customer behavioural change through several public awareness campaigns on sewer blockage and water efficiency and how the company involved customers in the innovative Have Your Say exercise which informed the Board's decisions on how 'customer dividends' should be used. This allows customers to create video reactions to the survey and the company pilots the use of 'hotspot' responses (a tool to help identify consistent or varying views on the topics being discussed). The plan also states that the company is due to launch a programme in partnership with the Welsh Government to encourage refill, and reduce use, of single-use plastics. The business plan provides sufficient evidence of the company promoting community ownership of water. This includes collaborating with local groups to adopt and maintain paths around its reservoirs and supporting local environmental groups to help tackle invasive, non-native species or improve water bodies. Evidence of innovation is insufficient to be considered sector-leading.</p> <p>The company demonstrates that it engages with customers to understand their priorities and preferences for service levels and attitudes to resilience. This includes conducting specific research with customers who have experienced repeated service failures. In general, the results of this engagement are incorporated into the business plan. This is done through the formulation of customer priorities and preferences around resilience and service levels (however ODI rates do not reflect customers valuations for changes in service levels) The company explicitly incorporates the results of its targeted engagement with its worst-served customers through the introduction of a PC to reduce the number of customers suffering from repeat service issues and the introduction of its WaterFair scheme. The company explores long term and intergenerational issues with future customers by using its Youth Board. It tests the acceptability, affordability and value for money of its business plan and associated bill profiles at various stages of the plan's development. The company reflects the results of its business plan options testing by adjusting the final plan to reflect customers' views on additional investment in service improvements beyond its base plan. Evidence of innovation is insufficient to be considered sector-leading.</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>Dŵr Cymru provides sufficient and convincing evidence that its bills are affordable and provide value for money for the 2020-25 period. In particular, it is proposing a real bill reduction of 5% (£22) over the period and has demonstrated strong customer support for its approach.</p> <p>In terms of customer engagement for affordability, the company provides evidence of a high-quality approach which provided customers with multiple options around the affordability of the plan. For example, it gave customers a choice of two plans and of five bill profiles. In addition, its acceptability research followed best practice, which involved testing with informed and uninformed customers, and showed customers the bill with and without inflation. This strong engagement has also underpinned the high levels of support it has received from customers, with its plan achieving 93% acceptability and 94% affordability – which represent upper quartile and frontier performance respectively.</p> <p>However, whilst it is proposing a 5% reduction in real bills, the company provides insufficient evidence of the effectiveness of the bill reduction, for example the number of customers that will be moved out of water poverty as a result of the bill reduction. There is also insufficient evidence of additional affordability schemes (e.g. rolling out metering to households who may benefit in terms of affordability), and the company is not proposing an overall affordability performance commitment.</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	C	<p>Dŵr Cymru provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing to increase bills by 2.7% over the 2025 to 2030 period with insufficient evidence of customer support for this. Although the company is not using financial levers and has demonstrated some engagement with customers about the trade-off between long term investment and resulting bill impacts, we do not consider that it has engaged with customers on the proposed bill profile. Therefore, there is insufficient evidence of customer support for the 2025 to 2030 period bill profile.</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>Dŵr Cymru's business plan demonstrates a high-quality approach to affordability assistance with sufficient and convincing evidence that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay.</p> <p>In particular, the company demonstrates a sector leading approach to social tariffs. Specifically, the company is proposing to make the largest company contribution to part-fund the social tariff, and the social tariff has the largest reach as a percentage of the customer base in the sector. Whilst we note that the social tariff growth is low, and thus its performance commitment is not stretching, we consider the overall reach and company contribution to be sufficient evidence of an effective approach to affordability assistance.</p> <p>In addition, it has undertaken high-quality engagement with customers on social tariffs and has demonstrated good levels of customers support.</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>Dŵr Cymru submitted insufficient evidence on vulnerability. It proposes a relatively strong reach for its Priority Service Register but did not provide evidence on how it would deliver this improvement. In addition, there is a lack of evidence of direct engagement with vulnerable customers or of using data effectively to identify and support vulnerable customers.</p> <p>The company demonstrates a high-quality approach to working with third parties to improve the support it offers vulnerable customers. For example, the company evidences a successful place-based approach to tackling vulnerability in Rhondda Fach, and plan to introduce a further 5 place-based approaches in the 2020 to 2025 period.</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?	C	<p>Overall, the company's plan falls short of high quality, with insufficient evidence that it has selected appropriate PCs and its PCs demonstrate stretching performance. However, there are elements of high quality within the plan.</p> <p>We have identified material issues with the company's bespoke PCs including:</p> <ul style="list-style-type: none"> <li>• lack of clarity in the definition which prevents assessment of the PC for lead supply pipes replaced; and</li> <li>• lack of commitment to independent reporting methods in more than one PC.</li> </ul> <p>We have confidence in the evidence that the company is complying with the PR19 Final Methodology requirements because:</p> <ul style="list-style-type: none"> <li>• there are no major gaps in the coverage of the bespoke PC package; and</li> <li>• there are no material issues with adopting common PCs.</li> </ul> <p>The company has not met our expectations for stretching PCs because:</p> <ul style="list-style-type: none"> <li>• the company is not proposing to meet the upper quartile (UQ) service level by 2024/25 for internal sewer flooding and long-term projections do not appear stretching relative to performance proposed by other companies. It is proposing no improvement in 2020-25;</li> <li>• proposed performance level for external sewer flooding is considered insufficiently demanding;</li> <li>• the company has chosen an insufficiently demanding target of 8 mins for supply interruptions contingent on significant mains investments; and</li> <li>• the company forecasts the third highest per capita consumption (PCC) by 2024/25 with a slightly below average rate of change despite high customer priority.</li> </ul> <p>We have some confidence in the evidence that the company's PC levels are stretching because:</p> <ul style="list-style-type: none"> <li>• the company has used the required approaches where they were considered applicable and data was sufficient;</li> <li>• the package of bespoke PCs has been generally assessed as sufficiently demanding; and</li> <li>• proposed performance level for pollution incidents marginally misses forecast UQ performance by 2024/25.</li> </ul> <p>The company has not met our expectations for reporting structures that are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> <li>• the company does not provide evidence that it will enhance reporting to customers either through increasing the regularity, transparency or otherwise enhancing the reputational effect of PC and ODIs performance reporting;</li> <li>• the company has only provided evidence that it will report through its annual performance report (APR); and</li> <li>• we could not identify any ambition or innovation except the further use of Discover Water.</li> </ul> <p>We have identified:</p> <ul style="list-style-type: none"> <li>• convincing evidence that it has processes in place to ensure that its PC and ODI reporting will be robust;</li> <li>• evidence of the desire to be more transparent and increase data sharing by stating its intent to keep its Customer Challenge Group (CCG) and Consumer Council for Water (CCWater) informed of its performance; and</li> <li>• one of only two companies to suggest increased reporting on Discover Water – but without any clear plans to take this forward.</li> </ul>

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	D	<p>Overall, we have concerns over Dŵr Cymru's package of ODIs. In particular, we have concerns that the company proposes outperformance payments for PCs despite a lack of customer support. The company has also used a method in calculating its ODIs that results in the allocation of payment amounts to ODIs that are not founded upon direct customer valuations and does not provide sufficient evidence that these reflect customers' views.</p> <p>The company's approach falls significantly short of required quality in its approach to choosing the type of ODI. In particular, we found a number of instances where its ODI selections have allocated outperformance payments in cases where customers state their preference for non-financial incentives. For example, on Customer Trust it has assigned its largest ODI reward to this measure, but customers do not support financial incentives for this measure.</p> <p>The company's business plan falls significantly short of the required quality in justifying its ODI rates appropriately. We have identified that:</p> <ul style="list-style-type: none"> <li>• The company conducts willingness to pay research for only a subset of measures and applies ODI rates based upon an allocation methodology according to the level of customer importance; this approach deviates from the PR19 Final Methodology principles.</li> <li>• In forming maximum payment amounts for each ODI, the company amends values according to management judgement; this represents a subjective approach that directly impacts upon the payment amount assigned.</li> <li>• The company calculates standard ODI rates on the basis of maximum payment amounts, with rates inferred by the P10/P90, an approach that differs from that set out in the PR19 Final Methodology.</li> <li>• The company's overall approach results in the allocation of payment amounts to ODIs that are not founded upon direct customer valuations or marginal cost estimates for each measure in turn. It does not provide sufficient evidence to show that this approach suitably represents customer willingness to pay for these measures or evidence that the application of this approach is a viable alternative to bottom-up ODI rate formulations.</li> </ul> <p>Although customers show some support for caps and collars across the ODI package as a whole, we do not have confidence that the company has a sufficiently-evidenced approach to ODI deadbands, caps and collars because:</p> <ul style="list-style-type: none"> <li>• it proposes a large number of caps/collars set at what it considers P10/P90 levels. P10 is the level at which there is a ten per cent chance that performance in a year will be this or worse and P90 is the level at which there is a ten per cent chance that performance will be this or better. The approach to the P10/P90 levels proposed is subjective, with many being decided based on "management judgement"; and</li> <li>• the deadband for Business customer satisfaction PC is poorly justified.</li> </ul>

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, the company's plan falls short of high quality and does not apply an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company has not tested its ODI package with its customers. It does not provide evidence that its customers support outperformance payments on its asset health PCs. However, there are high quality elements within the plan. It demonstrates that its ODI package protects customers and outperformance payments will not be significantly higher than expected.</p> <p>The company does not meet our expectations that the overall ODI package is appropriate because:</p> <ul style="list-style-type: none"> <li>• there is insufficient evidence that the company has tested its return on regulatory equity (RORE) range with customers; and</li> <li>• customer engagement has been limited and triangulation has been rated poorly.</li> </ul> <p>We have identified that:</p> <ul style="list-style-type: none"> <li>• The ODI package is within our indicative range.</li> <li>• The company provides a sufficient explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs.</li> <li>• The package has the right balance of incentives.</li> <li>• The package is based on a bottom-up assessment of each ODI.</li> </ul> <p>The company's overall approach is in line with our expectations for selecting in-period ODIs. It has proposed most of its financial ODIs as in-period and only one PC has an end of period ODI, which is well justified.</p> <p>The company does not meet our expectations for ODIs for its asset health PCs. We have identified that:</p> <ul style="list-style-type: none"> <li>• The company demonstrates that it understands and has addressed its asset health past performance challenges, as it has appropriate PCs and ODIs on customer acceptability of water and wastewater treatment works compliance.</li> <li>• We consider that the magnitude of the overall package of asset health ODIs, in terms of its RoRE exposure, is sufficient to incentivise the company to meet its asset health challenges and protect customers.</li> </ul> <p>However:</p> <ul style="list-style-type: none"> <li>• The company does not demonstrate high quality customer engagement on asset health.</li> <li>• The company does not demonstrate customer support for its outperformance payments.</li> <li>• We can find no evidence that the CCG challenged the company's approach to asset health.</li> </ul> <p>The company has provided sufficient and convincing evidence that the company is protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> <li>• the company caps the outperformance payments that it can receive for all ODIs; and</li> <li>• the company proposes WaterShare, a mechanism under which 50% of outperformance payments would be returned to customers in the form of lower bills. The company would set aside the remaining 50% in the WaterShare fund where it would consult customers / CCGs on its use. This could involve bill reductions, funding for social tariffs, or other investments.</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>Dŵr Cymru's business plan falls short of high quality with insufficient or unconvincing evidence of how the company has assessed risks and consequences to its systems.</p> <p>The company has developed a resilience framework (Welsh Water Resilience Wheel) aligned with its key strategic document, Welsh Water 2050. The document provides a high level assessment of future trends that will have an impact on the resilience of the business in relation to its outcomes. This is a detailed and thoughtful document, which is complemented with the Resilience Wheel, but it is not a systems-based approach that takes account of internal and external system's interdependencies and interactions in the round. Future trends are prioritised from a longer list through collaboration and in consultation with customers and stakeholders.</p> <p>The plan assesses the maturity of the different elements of the Resilience Wheel now and in the future, however, it lacks a detailed assessment of risks to resilience that quantifies the risk exposure of each system, considering instead future trends at a high level only. In this sense, future trends are analysed only in a qualitative manner, although resilience risks in critical assets are, according to the company, quantified using scorecards. It is, however, very unclear how these scorecards are used and the company is not transparent about the methods and data used to collate scorecard outputs.</p> <p>Additionally, the plan demonstrates awareness of best practice and guidance around resilience, nationally and internationally, which are used to understand resilience and develop the company's framework. The company provides an extensive consideration of environmental issues within its resilience framework, although it lacks use of environmental valuation techniques to objectively quantify these. Customer engagement on resilience is sufficient, covering a range of topics (e.g. risks, strategic responses, impact on bills) and incorporating the feedback and recommendations from the CCG.</p> <p>The company's assessment of financial resilience falls short of high quality in some limited areas of process. The results of the stress test scenarios are not presented in terms of impacts on key financial metrics, which has resulted in an assessment that the company has demonstrated insufficient transparency about its long term financial resilience. However, the company's board has made a clear statement that the plan will be financeable and deliver operational, financial, and corporate resilience having tested a challenging set of financial stress scenarios.</p> <p>The company has assessed the prescribed financial stress scenarios and additional severe, but plausible combined scenarios. The company considers the range of scenarios cover the major financial risks to its business. It has modelled results and impacts out to 2030, consistent with the approach in the long term viability statement (LTVS) included in its annual performance report. It considers that, taking mitigation measures into account, it would be able to maintain an investment grade credit rating in all cases, albeit with the rating coming under pressure in the extreme cases. However, there is insufficient evidence in the plan to demonstrate this as its plan does not include the details of test results.</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?	B	<p>Dŵr Cymru presents a high quality plan, but one which is not sufficiently ambitious and innovative to be grade A. The company assesses the full range of mitigation options and provides sufficient and convincing evidence that the solutions selected represent the best value for money over the long term and are supported by customers.</p> <p>The planned mitigations presented by the company cover a wide range of options, including traditional and soft infrastructure options and behavioural change measures. In general, the proposals include options across the 4Rs of resilience (i.e. resistance, reliability, redundancy and response/recovery). The proposed mitigations build on the identification and prioritisation of future trends and risks presented in the plan (mainly in the Welsh Water 2050 document) and on the resilience maturity assessment developed by ARUP. The company provides clear evidence of this by presenting tables that link trends and strategic responses to interventions planned as part of AMP7.</p> <p>The company demonstrates commitment and provides evidence of mitigations which are in line with the wider promotion of SUDS (RainScape) and catchment management (WaterSource) approaches. The plan has little consideration for options that are scalable, adaptable and can be developed incrementally over time, relying more on collaborative schemes (e.g. RainScape and WaterSource) to deliver efficient options and using environmental approaches to add value to National Environment Programme obligations. In this sense, the plan also provides strong evidence of how its strategy for AMP7 and beyond is aligned with Welsh Government environmental strategies and policies.</p> <p>The plan provides evidence that options were presented to customers, including those on resilience, using a mix of qualitative and quantitative methods, and using some innovative approaches but mainly relying on traditional research methods. The package of PCs presented by the company is reflective of its resilience challenges and the plan proposes improvements in most areas of resilience; however, there are concerns around the quantification of bespoke resilience PCs through scorecards.</p> <p>The company's business plan provides sufficient evidence in the round that it is financially resilient. The company expects to maintain gearing at around 60%, with a modestly declining trend through 2020 to 2025. The company holding company is a company limited by guarantee and as such is reliant on debt financing in the absence of shareholders. While the company provides only high level information on the management of its debt portfolio and maturity timings in its plan, its credit ratings provide headroom against the minimum for investment grade.</p> <p>The company sets out, albeit at a high level, the range of risks to its financial resilience in the period from 2020 to 2025. Mitigation measures are set out, but only at a high level, and there is no reference to management of its pension scheme deficit in its financial resilience assessment. However, taken in the round, there is sufficient evidence that the company is financially resilient.</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>Dŵr Cymru'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, but not sufficient evidence in some areas for the plan to be exceptional.</p> <p>The company evidences its approach to continuously challenge employees, stakeholders and the supply chain to address business challenges through Internal Innovation Forums or by bringing together people from the business and partners to 'hack' possible solutions during Hackathon event. It organises Innovation Days and hosts an annual Innovation Conference. It also actively encourages inter-disciplinary debates through an innovation web portal iLab, but although it indicates that ideas have been taken forward, it does not provide evidence of employees given ownership to progress their ideas to completion. It also acknowledges that in order to be innovative a company should encourage employees to innovate and take reasonable risks to test their ideas, however it does not provide further details or evidence of a balanced approach to the risks associated with innovation or processes in place to manage risks effectively for the plan to be exceptional.</p> <p>The company demonstrates team supportiveness through its approach is to embed innovation champions in each area of its business to enable and inspire innovation. It has implemented initiatives that lead to supervisors encouraging individuals to challenge the status quo. It also demonstrates that its senior leadership is proactively involved in encouraging innovation. For example, the company forum iLab is Director-led and drives the innovation agenda and measures progress. Activities and outcomes of the iLab process are reviewed annually by the company Board. It has innovation mantra, vision and strategy in place. It also provides evidence of its progress in AMP6 and examples of innovation in AMP7 plan are listed and well explained.</p> <p>The company has innovation goals and messages that are communicated company-wide. It provides high quality and ambitious strategy with convincing evidence and detailed illustrations of its Welsh Water 2050 long-term strategy and its 18 Strategic Responses to the challenges and trends that the company faces, each of which has an innovation 'journey plan'. The company provides high quality with convincing evidence of its resources available and demonstrates that it ensures its resources provide value for money. However, it provides limited evidence on resources to be applied to find solutions for ad-hoc problems outside the scope of already identified challenges for the plan to be considered exceptional. It demonstrates strong internal collaboration with innovation champions to inspire innovation, iLab, Innovation Days and Forums for discussions. Managers have developed successful exchange and international partnership. Collaborative projects are described and evidenced. It involves all levels in innovation initiatives and brings together people (internal and external) to solve challenges together in line with already identified strategic goals. However, it provides no convincing evidence of a flexible strategy which explores market opportunities, associated business cases and identifying where the company should invest and compete for the plan to be considered 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?	B	<p>Overall, Dŵr Cymru provides a high-quality plan in relation to this test question.</p> <p>The company has a high-quality plan for managing gap sites and voids across both the residential and business market. Regarding the use of markets, catchment management and partnership working for delivery services related to wastewater network-plus, the company has an ambitious and innovative plan, with extensive evidence relating to SuDS and taking a natural capital approach to decision making. In relation to water network plus, there is also very strong evidence related to partnership working, although taking an integrated natural capital approach is less evident.</p> <p>However, the company provides insufficient evidence of looking for lessons learned and innovation adopted from the business retail market and how it plans to adopt a similar approach in non-contestable markets.</p>



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		CM3	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>Dŵr Cymru's business plan provides insufficient and unconvincing evidence of its overall approach to long-term resilient and sustainable water resources incorporating markets.</p> <p>The company's plan falls short of high quality as it has provided insufficient detail with regards to engagement with third-parties for demand and supply-side solutions. There is limited evidence on how the company plans to engage with third-parties for solutions other than water trading. The company does not provide any evidence of engagement with third parties for demand-side solutions. Under our assessment, surplus companies are still expected to seek third party providers if they can deliver demand solutions like water efficiency, metering or leakage reduction more efficiently than if developed in-house.</p> <p>Regarding the overall long term strategy for water resources, the company falls short of high quality as it has only partially responded to both the key issues on leakage and water trading raised by Ofwat in its letter of recommendation on company's dWRMP. The plan fails at exploring other water efficiency options and there are inconsistencies between the Business Plan and the WRMP regarding metering metric.</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	Dŵr Cymru has an insufficiently well-evidenced long-term strategy for delivering bioresources services and falls short of a high quality approach across all areas. There is no evidence in the plan of sludge measurement. While it is clear that the company seeks to be innovative, there is a lack of evidence in most cases in the plan and therefore it cannot be considered high quality. The company clearly intends to engage with the market and potentially treat sludge on behalf of others, but it is still developing its sludge strategy. The plan lacks evidence on what third party engagement the company has carried out so far.
		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 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.
		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	Dŵr Cymru provides a bid assessment framework (BAF) that is largely consistent with the key principles and best practice recommendations. The BAF is influenced by the Utilities Contract Regulations, and appears to be informed by the two solutions that the company has identified to tackle shortages in two of its water resources zones. The process is transparent, except for details on the appeals process. There is reasonable detail on the types of information parties will have to provide and the assessment criteria that will apply. The BAF would be proportionate for the two solutions that are sought, with the information sought being necessary for the assessment of all options that the company envisages conducting. The BAF would benefit from providing more details on how it will ensure bids are treated in a non-discriminatory manner. There is no discussion of how commercially sensitive material will be handled, nor what steps are in place to ensure staff involved in in-house solutions will be prevented from influencing the procurement process.

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		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>Dŵr Cymru provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold, carries out a technical analysis on the relevant schemes and for two schemes carried out a Value for Money (VfM) assessment. In the appraisal of the Dŵr Cymru DPC plan we took into account the following:</p> <ul style="list-style-type: none"> <li>The company applied both a discounted and non-discounted approach to the £100m threshold in addition to seeking external advice and assistance in the assessment of DPC. It identified four projects as meeting the threshold but did not identify any other projects that were reviewed and may have been marginal.</li> <li>The company produced a reasonable technical assessment of its suitable projects with a clearly identified process aligned with the guidance. The lack of evidence in some areas and an unconvincing decision with supporting justification in regard to the Cwm Taf WTW detracted from the assessment.</li> <li>The company carried out a VfM assessment for two schemes. It provided some justifications for the majority of its assumptions, however, it did not provide sufficient evidence for the other elements of the VfM. The company considered that one scheme was marginal and the other that DPC provided better VfM for the other, however the company rejected both schemes without providing convincing evidence.</li> </ul> <p>In summary, the company has carried out a good DPC assessment but it falls short of high quality because its decisions in some areas were supported by insufficient convincing evidence.</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	Dŵr Cymru's projected wholesale water costs are 26% above our view of efficient costs. On base costs, the company's projected wholesale water costs are efficient, in line with our view of efficient costs. However, on enhancement, the company proposals appear inefficient. This is largely because we do not allow the full value of its high value cost claims, such as the water acceptability and the Cwm Taf Water Supply Strategy cost adjustment claims, some of which we assume is covered by our base allowance. The company's supply-demand balance unit costs are less efficient than the industry benchmarks. The company are proposing to reduce leakage marginally beyond 15% and therefore we are making a small enhancement allowance for leakage.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	Dŵr Cymru's projected costs are 16% above our view of efficient costs in wastewater. Its wholesale wastewater base costs are around 8% above our view of efficient costs. On enhancement, the company proposals appear inefficient, largely due to its high unit cost on growth-driven expenditure (ie new development costs, growth at sewage treatment works and costs to reduce flooding risk).
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	D	In retail, the company appears very inefficient, with costs that are almost 40% above 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?	B	Dŵr Cymru proposes three high value cost claims. We considered that two of the claims did not require a special adjustment to our allowance because of the way we make our modelled allowances. We make a partial allowance for the claim regarding reservoir safety. However the claims are high quality which gives the company a B for this test question.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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	While Dŵr Cymru's business plan provides sufficient evidence in some areas of its RoRE assessment, there is insufficient evidence to support its claim for a company specific uncertainty mechanism. The company has considered all of the prescribed scenarios and demonstrated a clear understanding of risk and set appropriate risk management and mitigation approaches. However there is insufficient evidence to support its view that the range for totex performance is asymmetrically skewed to the downside. The company has proposed that there should be a notified item in respect of local authority rates in its plan, but has not supported its claim with convincing evidence or shown the impact of uncertainty costs in its RORE 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 Dwr Cymru'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 procedures and calculations of the business plan data tables that support financeability.</li> </ul> <p>There are two main areas where the plan falls short of high quality:</p> <ul style="list-style-type: none"> <li>There is insufficient evidence that the company has undertaken an adequate assessment that its proposed target credit rating of BBB/Baa2/BBB (S&amp;P, Moody's and Fitch) is reasonable for the notional company in the context of the investment needs and the requirement to maintain long term financial resilience.</li> <li>The company has provided insufficient evidence that the business plan is consistent with target credit ratings of BBB+/Baa1/BBB+(S&amp;P, Moody's &amp; Fitch) for the actual structure. The company has not set out threshold levels for the key financial ratios or provided convincing evidence that the levels for some key financial ratios are consistent with the target credit rating for the actual structure.</li> </ul> <p>The company has not identified a financeability constraint on the notional or its actual structure.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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 Dŵr Cymru'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"> <li>• The company's PAYG rates are supported by sufficient and convincing evidence.</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>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 to demonstrate that RCV run-off rates are in line with the company's approach which is to base run-off rates on useful lives generated using an assessment of the engineering lives of each asset class and weighted using the gross MEAV.</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	C	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>Dŵr Cymru'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 found a data consistency issue with the submitted tables and populated totex reconciliation model in relation to wastewater where the company has made an unauthorised adjustment for Loughor Estuary. We have found minor issues for land sales and service 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.</p> <p>For most areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for four of the 12 PCs, land sales and residential retail 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
	A	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?	C	<p>In the round we have some concerns with the evidence for deliverability for the 2020-25 plan, particularly for outcomes, costs and customer complaints.</p> <p>There is good outcomes performance as the company has or is forecast to deliver 80% of its PCs with financial ODIs in 2015-20. However, the company provides insufficient evidence that it understands the drivers of its performance and has learnt lessons from that performance. The company is proposing improved performance for supply interruptions and wastewater treatment compliance. The plan provides insufficient evidence that it includes appropriate measures to improve its performance for these PCs. Taking into account the proposed level of stretch in the plan, we therefore have some concerns with the evidence for deliverability of outcomes.</p> <p>There is poor performance on cost efficiency as the company's actual and forecast costs above 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. The company provides insufficient evidence of improvement measures to meet its cost challenge in its plan. Some projects were quantified but it did not explain how they will be delivered at lower cost, while others with potential significant impacts, such as the company's construction efficiency challenges are not quantified. Taking into account the proposed level of stretch in the plan, we therefore have some concerns with the evidence for deliverability of the planned costs.</p> <p>We have some concerns around performance on major incidents. It had two major incidents and has an NRW performance rating of two stars, but a below average number of category one and two pollution incidents per 10,000km of sewers. It had no prosecutions or undertakings or formal cautions. The company provides sufficient evidence it understands the drivers of its performance and has learnt lessons from major incidents. The plan provides sufficient evidence the company has measures in place to improve performance in relation to major incidents, such as the fourfold expansion in its emergency planning team since 2010, and measures to improve customer engagement during major incidents, such as redefining staff roles to improve communication. 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 and the proportion is falling. 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. The plan provides some evidence of measures to improve its performance. However, as there is insufficient evidence that lessons learnt have been identified, the plan does not give us sufficient confidence that the measures will address the performance issues. We therefore have some concerns with the evidence for deliverability of customer complaints handling performance.</p>
Securing confidence and assurance	A	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?	B	<p>Dŵr Cymru's business plan provides 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 company provides all sixteen compliant statements.</p> <p>For statements on business planning, we ask in the PR19 Final Methodology, that Boards demonstrate how they have challenged management and satisfied themselves prior to making their statements. The company's 'PR19 Board agendas, decisions and challenges' documents Board decisions and challenges made. This evidence sufficiently covers two of the compliant statements. The evidence insufficiently covers the topics of the Board's statements on whether the overall strategy for data assurance and governance processes delivers high-quality data; or 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, Boards are asked to demonstrate how they satisfied themselves. The company demonstrates the Board's assurance process using the 'PR19 Board agendas, decisions and challenges' document and the Board advises why it was satisfied. This information is sufficient for all of the assurance statements.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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?	B	<p>Dŵr Cymru's business plan provides sufficient and 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 Board's assurance statement advises that "The Board has satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and the long term through its governance and assurance processes, taking account of its track record of performance." This is a suitable statement of assurance and the Board demonstrates its assurance process through the following statement "We have strong ongoing governance and risk management processes and procedures which protect the delivery of the essential services that we provide against unexpected shocks and stresses."</p>
		CA3	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)?	A	<p>Overall Dŵr Cymru'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 and how they relate to financial resilience.</p> <p>The business 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"> <li>On executive pay the company's business plan contains high quality and convincing evidence that it is committed to meeting the expectations set out in our 'Putting the sector in balance' position statement. The company sets out details of the current policy, where all Annual and Long term bonus performance measures are directly relevant to customers. Measures include customer satisfaction and complaints, reliability of customer service, three year SIM performance and environmental compliance. Incentives are calibrated against prior year performance and the performance of other companies. While there is there no reference as to how any changes and the underlying reasons for those changes will be communicated to customers and stakeholders, the company commits to continue to report the details of its policy annually in its report and accounts and sets out the remuneration committee will operate each scheme in accordance with their respective policies.</li> <li>There are no dividend distributions to external shareholders as the company is a Company Limited by Guarantee with no equity shareholders. The company proposes a base dividend yield of less than 5 %.</li> <li>The company is not highly geared and is not forecasting gearing above 65% during the 2020-25 price control period. It does not explicitly accept our default outperformance sharing mechanism but as a non-shareholder business has limited incentives to increase gearing, and in any case has a stated Board policy of targeting gearing of around 60%.</li> </ul> <p>The company's proposals around voluntary sharing are high quality and ambitious in the context of others' plans and its size as a company. The company commits to making contributions to social tariffs and hardship funds which we assess average £19.9m per year. It is also proposes a bespoke outperformance sharing mechanism ('Watershare') where 50% of net ODI outperformance will be returned in the form of lower bills. Assuming outperformance similar to 2015/16 and 2016/17, we assess this would be equivalent to £1.2m per year.</p> <p>The company's business plan references its Annual Performance Report, in which it provides sufficient evidence on transparency of its corporate and financial structure. However the plan falls short of high quality on providing Board assurance that the plan will enable customers' trust and confidence through engagement on its corporate and financial structures since the Board provides a partially-compliant statement.</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)?	B	<p>Dŵr Cymru's business plan provides 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 assurance that it will monitor delivery of its outcomes and PCs through the following compliant statement "The Board is confident that the business will deliver the outcomes and PCs set out in the plan, and will monitor delivery of the outcomes and PCs on an ongoing basis".</p> <p>It advises how it will monitor outcome delivery through the following statements "Performance against regulatory commitments is monitored by the Board on a monthly basis against annual and 5-year targets" and "The Board has put in place an audit and assurance framework designed to allow the systematic monitoring and evaluation of the various aspects of our performance to ensure that appropriate standards of quality are being met. This involves a "3 lines of defence" model for ensuring compliance with reporting requirements, with appropriate governance arrangements, close involvement by our Board in the assurance process, and the right level of independence in the process by our Reporter and auditors providing third party review and challenge. Every year, the company consults with relevant stakeholders (Customer Challenge Group, CCWater, Welsh Government, DWI and NRW) on the form and content of its Annual Performance Report, to ensure that its reporting meets the needs of customers and stakeholders."</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?	B	<p>Dŵr Cymru sufficiently demonstrates 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>There are elements 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 has minor concerns in 2 areas, it exceeds expectations in 2 areas and meets expectations in 5 areas.</li> <li>• Overall, the company's business plan tables report performance and financial data consistent with previous data submissions, with only inconsistencies in the area of cost assessment which do not materially affect our assessment.</li> </ul> <p>However we note the company falls short of high quality in the following areas:</p> <ul style="list-style-type: none"> <li>• The company only briefly describes its assurance process at a high level; and</li> </ul> <p>The company inadequately references the interventions it has implemented as a result of the company's 'Targeted' status in the 2017 Company Monitoring Framework assessment.</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, Dŵr Cymru'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 issues in financial modelling and in cost assessment with the treatment of transition expenditure and some minor inconsistencies between data tables and commentaries, but these do not materially affect our overall assessment.</p>