

Northumbrian 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 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 company evidences effective use of a wide (but not sector-leading or exceptional) range of customer engagement techniques including face to face interviews, online surveys, telephone surveys, hall tests and co-creation events. There is convincing evidence of a high quality approach to ongoing engagement with social media 'mining' to yield insights and an engagement vehicle ('Flo') which interacts with customers at community events. There is also convincing evidence of a clear two-way and innovative dialogue with customers including, for example, customers attended the company senior team leadership conference, where they helped co-create elements of the business plan. We have concerns about the company's triangulation approach that was used to develop the proposed ODIs. The company has sourced the marginal benefit values used in the calculation of ODI rates from a single piece of research, with no evidence of triangulation against other sources of customer valuation or cross-checking against the insights of its wider customer engagement research. Furthermore, the company has provided insufficient evidence that the single piece of customer valuation research used is high quality, as we found no evidence of cognitive testing, piloting, validity assessment or peer review.</p> <p>The CCG commented "the company has used good and generally reliable techniques to understand stakeholder and customer feedback, in the round and in relation to specific propositions. It has been innovative and undertaken a good range of techniques". It adds "the business plan has taken account of the views, needs and aspirations of customers, and this led to the very high levels of acceptability achieved".</p> <p>The company provides convincing evidence of high quality and innovative approaches to customer participation and convincing evidence of adopting the four FACE themes (i.e. increasing customer participation to improve the current and future sustainability of water, encouraging customer behaviour change actions, increasing community ownership of particular aspects of water as an essential resource, and increasing customer control of water in their home or of the customer service experience). It has developed engaging approaches to think about the future through its annual innovation festival which demonstrates co-creation. It also successfully encourages some customers to help in initiatives to maintain water quality by actively participating in the company's 'water rangers' scheme. The company works on a range of initiatives with all customers in a focussed area, resulting in significant reduction in water consumption. It also demonstrates a meaningful commitment to customer service through its #makemyday campaign.</p> <p>The company provides convincing evidence of its three-phase approach to customer engagement. This includes customer engagement on business plan acceptability, appetite for risk and resilience, through both quantitative and qualitative studies. The company evidences co-creation by involving customers in the design of its overall engagement approach then inviting them to be part of its acceptability testing research.</p> <p>The company explains that customers' prioritisation of service improvements has influenced the plan, which was confirmed by the CCG. Customer research on asset health and resilience determines what enhancements for resilience are included in the plan.</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	Northumbrian Water provides sufficient and convincing evidence that its bills are affordable and value for money for the 2020-25 period. In particular, it provides a credible plan to introduce a sector leading bill reduction. The company also proposes an innovative app where customers can personalise their payment plan (payment amount and frequency). This is industry leading. It also has a relatively efficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices. The company has conducted convincing and credible customer engagement to understand customers' views on overall affordability and demonstrate deep understanding of the affordability challenges facing its customers. However, customer views on the specific bill profile included in the business plan have not been reported, but rather a total customer acceptability figure for the plan of 91% has been reported. There is no evidence of customer views on the final proposed bill profile. The company also does not provide sufficient detail on how it will manage the bill impact of ODIs.
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	C	Northumbrian Water has fallen short of a high quality approach to addressing affordability of bills beyond 2025 as it provides insufficient and unconvincing evidence in this area. In particular, its bills are projected to increase by 2.4% over 2025-30 and there is insufficient evidence of a bill profile being tested with customers. This lack of bill profile testing means there is insufficient evidence of customer support for the 2.4% increase. Although the company did undertake some research into general customer preference and found that customers preferred a more flat long-term profile, this preference appears not to have been followed.
		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>Northumbrian 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 social tariff is forecast to grow by over 50% in the 2020-25 period.</p> <p>In addition, the company proposes two stretching bespoke performance commitments (PCs). The first one measures the percentage of customers spending 3% of their disposable income on water bills and the second one targets an increase in awareness of affordability support. In particular, we consider the proposed 241,000 reduction in the number of customers spending over 3% of their disposable income on water bills to be robust evidence of an effective approach to affordability support.</p> <p>Although the company has demonstrated an effective approach to affordability for customers who struggle to pay, we have concerns about customer support for this. Specifically, we consider there is insufficient evidence that the company has customer support for the £2.92 customer cross-subsidy required to achieve its water poverty PC target.</p> <p>In the round, we consider that the company has proposed a sufficient level of ambition via PCs to mitigate concern about support for the social tariff cross-subsidy.</p>
		AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	B	<p>Northumbrian Water provides sufficient and convincing evidence of a high-quality approach to supporting customers in situations of vulnerability. In particular, it proposes to increase the reach of its priority services register to 10% by 2024/25, which is ambitious. In addition, it proposes two stretching PCs, which we consider will drive improvements in the quality of the services that customers in situations of vulnerability receive. However, we consider that there are elements of its approach to vulnerability which are not sufficiently high-quality. For example, its data sharing agreement with its local energy network appears to be less developed than other companies in the sector, and its partnership working is overly focused on helping customers who struggle to pay, with a lack of emphasis on establishing partnerships to support customers in situations of non-financial vulnerability.</p> <p>Overall, we consider that the company's ambitious proposals for increasing the reach of the priority services register, coupled with stretching PCs to increase the quality of its service demonstrate a high-quality overall approach to vulnerability.</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 that the company 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>Overall the company provides sufficient and convincing evidence that its PC levels are stretching because:</p> <ul style="list-style-type: none"> • for pollution incidents it proposes a stretching reduction that is better than the calculated upper quartile (UQ); • no material issues have been identified in the levels of stretch for the bespoke PCs; and • the proposed performance levels are generally considered sufficiently demanding, with a few exceptions listed below. <p>We note that:</p> <ul style="list-style-type: none"> • The overall approach for setting performance levels is poorly presented. • The proposed performance levels for unplanned outage, sewer collapses and treatment works compliance are not stretching. • While the company has a high level of stretch relative to its historic performance for external sewer flooding, it is significantly worse performance than forecast UQ. <p>We have confidence in the evidence that its 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; • the company is providing an annual performance report (APR) summary; and • there is evidence of innovation/best practice in making the 'Recite' tool available online and other customer-friendly reporting such as the interactive version of the plan. The 'Recite' tool makes reporting more accessible to customers with particular needs. <p>The area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology because for two common PCs (internal sewer flooding and unplanned outage) the company has a number of components identified with issues in the 2017-18 shadow reported data and does not provide evidence that it will address these issues and comply with these definitions when reporting data for 2019-20.</p> <p>We note that:</p> <ul style="list-style-type: none"> • There are no major gaps in the coverage. • Past performance is appropriately reflected.

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	<p>Northumbrian Water's approach to its package of outcome delivery incentives (ODIs) falls short of high quality due to insufficient evidence, although we did identify some areas of high quality. It has provided a high quality approach to setting the types of ODIs and has a sufficiently evidenced approach to deadbands caps and collars. However, we have some concerns over its approach to justifying ODI rates.</p> <p>The company's business plan has insufficient evidence to justify its ODI rates. We have identified that:</p> <ul style="list-style-type: none"> • The company proposes ODI rates for leakage and sewer collapses that are low relative to sector comparators. It does not provide sufficient evidence that these ODI rates adequately incentivise the company against under delivery. The company also does not provide sufficient evidence that these rates are based upon the triangulation of robust customer valuations, and uses a single source for willingness to pay in both of these instances. • The company does not provide sufficient evidence to set out its approach to calculating ODI rates for resilience focused bespoke PCs. <p>We note that the company used the Ofwat formula as a default approach to calculate ODI rates.</p> <p>The company's business plan has insufficient evidence to justify its enhanced outperformance and underperformance payments:</p> <ul style="list-style-type: none"> • its proposed outperformance reward exceeds its own customers' willingness to pay; and • customer protection is often inadequate since the threshold before enhanced underperformance payments apply is worse than the lower quartile. <p>We note that for the six proposed enhanced ODIs that all of these would require the company to exceed the frontier to realise outperformance payments.</p> <p>The company presents a high quality approach to choose the type of ODIs because:</p> <ul style="list-style-type: none"> • multiple ODIs are underperformance only in cases where there was no support for outperformance payments. This follows the principles set out within the PR19 Final Methodology; and • in cases where outperformance payments are proposed, the company has demonstrated that its customers value performance which is related to the PCs and that the customers clearly expressed a preference for an outperformance payment. <p>We have confidence that the company has a sufficiently-evidenced approach to ODI deadbands, caps and collars because:</p> <ul style="list-style-type: none"> • the company makes almost no use of deadbands, caps or collars. It makes the case that its customers are adequately protected from best case performance, even in the absence of caps and collars; • deadbands are proposed for water quality compliance and treatment works compliance, and both of these are convincingly justified. <p>We have one minor concern that a collar is proposed for abstraction incentive mechanism (AIM), which is poorly justified.</p>

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall Northumbrian Water's approach falls short of high quality, with insufficient evidence that it has applied an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company does not provide evidence of sufficient customer protections in the event of higher than expected outperformance payments, and does not propose either overall or individual caps on its ODI package. The company also provides insufficient evidence that it has considered and addressed its asset health past performance challenges. However, there are elements of high quality within the plan, including that the company has adequately evidenced its approach to bringing ODI payments closer in time to service performance.</p> <p>The plan has not met our expectations for the appropriateness of the overall ODI package because it presents limited:</p> <ul style="list-style-type: none"> • information on how the ODI package incentivises the company; and • evidence that the company has tested the overall acceptability/affordability of the package with its customers. <p>We note that:</p> <ul style="list-style-type: none"> • The return on regulatory equity (RoRE) range is within the indicative range in the methodology. • There is evidence that the package of ODIs strikes the right balance. <p>We have no concerns with the company's overall approach to bringing payments closer in time to the performance that generated these. The company proposes most of its financial ODIs should be as in-period and only one PC has an end-of-period ODI, which is well justified.</p> <p>The company has not met our expectations for ODIs for asset health PCs because it has not demonstrated that it understands and has addressed its asset health past performance challenges, for example it does not have an appropriate ODI on sewer collapses.</p> <p>We note that:</p> <ul style="list-style-type: none"> • The company has demonstrated high quality customer engagement on asset health. • The Customer Challenge Group (CCG) challenged the company's approach to asset health and was satisfied with the responses. • The company has demonstrated customer support for its outperformance payments. <p>We have concerns with the company's approach to protecting customers from high outperformance payments because it does not:</p> <ul style="list-style-type: none"> • propose any protection for customers in cases of outperformance and does not propose a cap on any ODIs; and set out how it would smooth bills in cases of high outperformance payments.

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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>Northumbrian Water presents a plan that falls short of a high-quality with insufficient and unconvincing evidence in some key areas, in particular there is: unclear evidence of identification of priority risks through a clear risk management process; a lack of evidence of a systems based approach considering consequences of risks across internal and external systems; and insufficient evidence to demonstrate the impacts on the company's resilience.</p> <p>There is a high-quality level of customer engagement and strong embedding of the importance of the environment within the plan. A wide range of long term hazards and short term shock events have been considered, particularly for critical water assets, where a robust approach to resilience assessments has been presented. However, this level of assessment is not extended for wastewater assets, where there is also significant resilience investment planned.</p> <p>As mentioned above, there is insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or cascading impacts of one system to another should be considered. The plan includes a maturity assessment of current systems, but lacks aspirational resilience levels (e.g. up to 2025 and in the long term) and future actions that will be required to improve maturity levels. A significant amount of spend appears linked to resilience within the company's plan and, although the customer engagement showed support above the 70% CCG benchmark for the water resilience schemes, the same support is not shown for the wastewater schemes. As a consequence, there is a concern about whether customers truly support the bill impacts of the wastewater enhancements proposed in the plan.</p> <p>The company's Board assurance statement says that the company has carried out a "thorough and systematic review of operational, corporate and financial risks". The company's business plan has elements of high quality with respect to financial resilience assessment. The stress scenarios cover 17 severe, plausible and reasonable financial stress test scenarios with an overarching objective of maintaining an investment grade credit rating. However the results are presented on the basis of 'pass' and 'fail' criteria rather than showing impacts on key financial metrics and there is insufficient evidence to demonstrate how these criteria were derived. There is insufficient evidence to demonstrate how the scenarios link to the company's own internal risk assessment and it is unclear how the findings of a separate consultancy report which sets out that the company could take a more integrated approach to its assessment of financial risk have been taken into account. There is also insufficient evidence to show that the company has considered risks beyond 2025.</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>Northumbrian Water presents a plan which falls short of high-quality with insufficient and unconvincing evidence in some of the necessary areas.</p> <p>The plan considers a wide range of options, including traditional infrastructure, catchment options, improving response and recovery, smart wastewater network development and customer education campaigns. The company's proposals also take a strong partnership approach to nature-based solutions (e.g. SuDS and catchment management schemes). The plan provides sufficient evidence that customers have been engaged to co-create options (e.g. RainWise) and evaluate the acceptability of the plan.</p> <p>However, without a clear prioritisation of risks, there are concerns about whether the large amount of resilience spend within the company's plan has been allocated to priority risks. This is of particular concern in areas with lower customer support, such as, the wastewater enhancement plans. The company is clearly performing well in many areas and therefore justification for developing further resilience needs to be linked to priority risk areas as has been done with critical water supply assets. A clearer prioritisation of risks across business services linked to a risk management approach would have made it easier to identify that the schemes proposed, targeted the areas that presented the greatest risk to services.</p> <p>The company's plan provides sufficient evidence for some aspects of financial risk mitigation, but there is insufficient or unconvincing evidence in other areas. While the company maintains a gearing level below that which triggers the gearing outperformance mechanism, much of the discussion in the plan about financial resilience is made at a high level and, overall, there is insufficient evidence of the company's financial resilience in all circumstances.</p> <p>There is evidence the company has considered a range of mitigation measures, which include targeted management actions, a flexible dividend policy, possible reopening mechanisms, possible credit rating agency 'look through' for certain events and issuance of index linked debt. The company also refers to a range of measures which aim to secure its financial resilience, including cash resources and undrawn facilities. However there is insufficient evidence the company has considered the full range of actions available to it including, for example, the support of additional equity in extreme downside scenarios.</p> <p>There is insufficient evidence that the company has considered the risks to its long term resilience in the context of a negative outlook to one of its credit ratings in the event that it were downgraded and there is no discussion around the risks of raising new debt, or refinancing existing debt.</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>Northumbrian 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, but not sufficient evidence overall for the plan to be exceptional.</p> <p>The company demonstrates an ambitious approach to continuously challenge employees and external stakeholders in innovative ways - internally through IdeaBase platform and externally through idea sprints during annual Innovation Festivals which engage a wide range of people and businesses and generate hundreds of ideas. The company provides details of some of the ideas that have being progressed. The company demonstrates an ambitious and sector leading approach to encouraging inter-disciplinary events both externally and internally including 'InvestQuest', a Dragon's Den-style competition as a way to take ideas forward with specific funding. It also provides high quality examples with convincing evidence of its Innovation Panel with experts, its plans for a Marketplace for Innovation for sharing and testing ideas, its Innovation Ecosystem with a wide range of organisations and its Open Innovation which includes the company planning a number of specific initiatives such as Innovation Street, digital twins and living labs. However, it provides limited evidence of employees having ownership to progress their ideas and process in place to manage innovation related risks for the plan to be exceptional.</p> <p>The company has sector leading collaboration approach with sufficient and detailed evidence and strong commitment to partner with various stakeholders both internally and externally and embed collaboration through its business. It ensures that all levels of the organisation can collaborate and participate in innovation programmes and provides various detailed examples. The company demonstrates ambitious innovative strategy to be a leader in innovation "within the utilities sector and beyond" and to become "the most digital water company in the world" which is communicated both internally and externally.</p> <p>The company demonstrates that its leadership is proactively involved in encouraging innovation through ambitious programmes and is committed to implement outputs. It is investing in the establishment of ideas development marketplace and is currently testing the platform Topcoder which is intended to build a specialist community of innovators with expertise in water-related problems. The company's innovation approach is well evidenced and it is currently being updating its Forthcoming Innovation Strategy which is due to be issued in 2019. The leadership measures innovation performance and provides convincing evidence of resources and investments for innovation solutions considered to provide value for money. It has mechanisms to support innovation through in a programme of 'intrepreneurship' coaching and mentoring to help staff to be commercial in the development of their business cases and creative in leveraging external help. However in order for the plan to be exceptional and sector leading as a whole we would need to see details and evidence of how the company allows staff the autonomy, once they have proposed an idea, to take it through to completion, the role of supervisors in encouraging employees to put forward ideas as well as how it recognises and rewards individual's involvement in innovation.</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, Northumbrian Water's plan falls short of high quality in relation to this test question.</p> <p>The company provided no significant evidence related to looking for lessons learned and innovation adopted from the business retail market and how they plan to adopt a similar approach in non-contestable markets.</p> <p>Regarding the use of markets, catchment management and partnership working for delivery services, on the wastewater side the company has a high quality plan which included good examples across all the relevant areas. However, on the water side, although there is some positive evidence, overall the plan falls short of high quality.</p> <p>The company overall has a high quality plan for managing gap sites and voids – this is strong on their approach for business properties, but insufficient for residential properties.</p>

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		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?	D	<p>Northumbrian Water's plan falls significantly short on high quality of its strategy for a long-term resilient and sustainable water resources incorporating markets. Northumbrian Water has a robust water resources position and customers face relatively low risk. However, the plan falls significantly short of high quality and for this reason is graded as a 'D'.</p> <p>The company shows limited evidence of third party engagement and use of third party solutions for water resources. The plan also lacks sufficient clarity in the different opportunities and challenges that the company faces in the North and South of England. There is limited examples of regional collaboration where the company argues that it only has a limited amount of spare capacity to trade. The only material example of water trading is the reverse trade with Thames, which is not a new export but an agreement to reduce the amount of water imported by the Essex area.</p> <p>For demand solutions, there is no evidence of engagement with third parties to deliver PCC reduction, leakage or metering. The PR19 methodology anticipates a twin track approach that also includes third party options for both the demand-side and supply-side. On the impact of the future deployment of bilateral markets, the company does not go beyond providing the required business table Wr6 and this has some data quality issues.</p> <p>The company presents two separate WRMPs, one for Northumbrian and one for the Essex and Suffolk (ESK) areas. Outstanding issues remain regarding customer engagement for both plans, and for ESK there are still concerns around the PCC strategy. There are some discrepancies in key metrics between the Business Plan and the Statement of Response.</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	Overall Northumbrian Water has an insufficiently well-evidenced long-term strategy for delivering bioresources services. The plan demonstrates evidence of a convincing approach for forecasting and measurement. The company provides a forecast that appears credible and a commentary that explains it and extensive evidence on how it measures sludge and what it measures. However, there are aspects of the plan where insufficient evidence is presented. Although the company provides a split between fixed and variable revenue, there was no supporting information to justify the proposed allocation. While it identifies environmental and operational risks that may impact on its strategy and outlines plans deliver G2G at its Bran Sands Advanced Anaerobic Digestion (AAD) site and Combined Heat and Power (CHP) at Bran Sands, the rest of its plan is business as usual. The company uses a transfer pricing model, but no detail is provided on how it would share the benefits with customers. While the company outlines that it investigating the potential for treating sludge on behalf of third parties, little evidence is provided.
		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	Northumbrian Water has developed a bid assessment framework (BAF) that largely satisfies the key principles and best practice recommendations but is lacking in detail. This absence of detail probably reflects the fact that the company does not expect to seek bids under the BAF. Consequently, the BAF is not sufficiently transparent should bids arise under the BAF. There is little material provided outlining what information parties would have to provide should they want to bid, and beyond contact details there is little information provided on the appeals process. The material in the BAF is consistent with a process that would be non-discriminatory and proportionate, although detail is lacking

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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?	D	<p>Northumbrian Water provides limited evidence that it considered DPC as part of its business planning process. It states that it had assessed all its schemes on whether they met the £100m threshold and that a single scheme was identified for technical assessment. In the appraisal of the NES DPC plan we took into account the following:</p> <ul style="list-style-type: none"> The company considered DPC as part of its business plan and identified a process for evaluation. There is insufficient evidence that the assessment had covered all schemes that met the threshold. The company provides very limited evidence on its single technical assessment of the suitability of Howdon sewage treatment works for DPC. The detail is limited to one short paragraph that stated the scheme was not suitable because of its complexity. <p>In summary, the company provides low quality evidence and its decisions are unconvincing without supporting detail.</p>
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	In wholesale water Northumbrian Water's costs are around 10% above our view of efficient costs. The company's plan presents reasonable base costs, which are approximately 4% higher than our view of efficient costs. The evidence on some discretionary enhancement proposals in raw water deterioration and resilience in particular is not high quality and we are excluding the scope in our view of costs. The company are proposing to reduce leakage marginally beyond 15% and therefore we make a small enhancement allowance for leakage. The company also provides no convincing evidence that an interconnection between reservoirs in its Essex and Suffolk region is required.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	D	<p>In wholesale wastewater Northumbrian Water's totex forecast is around 24% above our baseline, Its wholesale wastewater base costs are around 6% above our view of efficient costs.</p> <p>On enhancement, we find the company's proposals to be particularly inefficient, in terms of unit cost, in respect of growth-driven wastewater expenditure (expenditure driven by new development, growth at sewage treatment works and sewer flooding risk reduction). Its costs of other enhancements where we have benchmarking models, such as phosphorus removal are close to our view of efficient costs.</p> <p>We recognise the work the company has done to review the resilience of its wastewater sites. However not all of the investment it requests under wastewater resilience is related to low probability high consequence risks and we reallocate it to other enhancement areas and assess it there.</p>
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	C	In residential retail Northumbrian Water's costs are around 11% above our baseline.
		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?	A	As Northumbrian Water does not propose any cost adjustment claims, we consider the company to be exceptional in this area with a grade of A.

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Aligning risk and return	B	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 Northumbrian Water's business plan provides sufficient evidence in some areas of its RoRE assessment, there is insufficient evidence in relation to risk mitigation measures. The company has considered all of the prescribed scenarios including water trading. It has demonstrated a robust understanding of risk in its RoRE analysis. The assumptions behind each of the scenarios is outlined with sufficient information on the basis for the macroeconomic and company specific variables used. However there is insufficient evidence on risk mitigation measures in the company's assessment of RoRE scenarios for the notional company. There are also some anomalies in the presentation of summary RoRE tables in different places in its plan and we have concerns about the company's assessed exposure to revenue risk. No uncertainty mechanisms have been requested.
		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?	B	Overall, Northumbrian Water's business plan is high quality, providing sufficient and convincing evidence to support its board's statement that the plan is financeable on both the notional and its actual capital structure. The following areas of the plan are high quality: <ul style="list-style-type: none"> The company has set out the steps taken to make the financeability assessment and to provide assurance, supported by third party assurance of the procedures and calculations of the business plan data tables that support financeability. The business plan provides sufficient evidence to support the target credit ratings of Baa1/BBB+ (Moody's and S&P) for the notional company structure and Baa1/BBB+ for its actual structure and that the plan is consistent with maintaining the target credit ratings for the notional and actual structures. The company has not identified a financeability constraint on the notional or its actual capital structure.
		RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	B	Overall, Northumbrian Water's business plan contains sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates. The following areas of the plan are high quality: <ul style="list-style-type: none"> The company's PAYG rates are supported by sufficient and convincing evidence. No adjustment to PAYG rates has been proposed. The company's RCV run-off rates are supported by sufficient and convincing evidence. No adjustment to RCV run-off rates has been proposed. 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. 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.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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>Northumbrian Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal at 1.4% 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, though it has used an earlier version of the model for wholesale revenue forecasting incentive mechanism which does not apply the revenue correction mechanism adjustments correctly.</p> <p>We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor issues for land sales, residential retail and totex.</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 ODIs underperformance and outperformance payments are identical to those reported by the company for all PCs. The company incorrectly applies an adjustment for the tax rate in the values reported in table App 27.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for 12 of the 19 PCs, residential retail, service incentive mechanism and totex there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>
		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, incidents and customer.</p> <p>There is good outcomes performance as the company has or is forecast to deliver 88% 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 to improve performance for leakage, internal sewer flooding, wastewater treatment works compliance and sewer collapses. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example the company is proposing to reduce leakage by 15% while in the same time repairing fewer mains burst. Taking into account the proposed level of stretch in the plan, we have some concerns with the evidence for deliverability of outcomes.</p> <p>There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20 for wholesale water and wastewater. The company provides sufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides sufficient evidence of improvement measures to deliver planned costs. For example the company is introducing an 'Intelligent Asset Management Transformation' programme; Asset Hub and staff efficiency competition. Taking into account the proposed level of stretch in the plan, we do not have concerns with the evidence for deliverability of the planned costs.</p> <p>The company has poor performance on major incidents. It had four major incidents, above average number of category one and two pollution incidents per 10,000km of sewers and has an EA performance rating of two stars. The company provided insufficient evidence it understands the drivers of its performance and has learnt lessons on major incidents on communicating with customers during major incidents, although it has learnt lessons relating to operation in major incidents. The plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents. We therefore have some concerns with the evidence for deliverability of improved performance in relation to major incidents.</p> <p>The company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is increasing. It has a below average number of complaints per 10,000 connections in 2017-18 and this is declining. However, the company provided insufficient evidence it understood the drivers of its performance and has learnt lessons. Nevertheless, the plan provides sufficient evidence that it includes appropriate measures to improve its performance. We therefore do not have concerns with the evidence for deliverability of customer complaints handling performance.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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>Northumbrian 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. While the company's Board provides thirteen compliant statements, only seven have sufficient supporting evidence and three are partially compliant.</p> <p>For statements on the topic of business planning, the Board provides three compliant statements from the four requested in the PR19 Final Methodology. The Board's statement is partially compliant on whether it has collectively owned the overall strategy and direction of the plan in the long term.</p> <p>For statements on the remaining topics, the Board provides ten compliant statements from the 12 requested. The Board's statements are partially compliant on affordability and whether large investment proposals are robust and deliverable, a proper assessment of options has taken place and the option proposed is the best one for customers.</p> <p>For statements on business planning, we required Boards to demonstrate that they had challenged management and satisfied themselves. Although the Board advises that it checked and tested the plan it provides no further detail of this. Consequently, there is insufficient evidence that the Board has challenged management and satisfied itself prior to making its statements.</p> <p>For statements on the remaining topics, Boards are asked to demonstrate how they satisfied themselves prior to making their statements. For the compliant statements on customer engagement; resilience; whether the Board has identified the risks associated with delivering the plan; and financeability, the Board advises of the assurance (i.e. from the CCG and external providers) it has received and which cover the topics of the statements sufficiently. There is insufficient evidence of the Board's assurance process for statements on outcomes; cost assessment; and whether risk mitigation and management plans the Board has in place are appropriate.</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>Northumbrian 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 "The services we provide must be resilient. In order to plan for the future we have reviewed our performance in the recent past, as well as our governance and assurance systems, and services."</p> <p>The plan falls significantly short of high quality as it does not include a suitable statement of assurance and there is no relevant evidence of the Board's assurance process in this area.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA3	<p>To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?</p>	C	<p>Overall we consider there to be insufficient evidence in some areas that the plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of engagement and transparency on corporate and financial structures and how they relate to financial resilience.</p> <p>Northumbrian Water's plan contains sufficient evidence that the company will commit to adopt one of the expectations set out in the 'Putting the sector in balance' position statement, in that the company proposes a base dividend yield of less than 5%.</p> <p>The company also proposes a bespoke voluntary benefit sharing mechanism which we assess could have a value of £0.6m per year which would be donated to reduce water poverty and support customers. The company also proposes donations to social tariffs and hardship funds which we assess could have a value of £1.8m per year. We assess voluntary sharing proposals as being high quality in the context of the company's size.</p> <p>However we have concerns in four areas:</p> <p>On gearing benefits sharing, the company forecasts gearing above 65% with very little headroom to the 70% threshold. The company has not proposed a gearing benefit sharing mechanism due to its prediction that gearing will not exceed the threshold. The plan falls short of high quality in this respect as forecast gearing is close to the threshold and in some of the company's financial resilience scenarios the threshold is breached.</p> <p>On dividend policy, the company's plan falls short of high quality with insufficient evidence that the company's proposed policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. There are, however, elements of high quality. The company clearly sets out its proposed dividend policy and states a base dividend yield for the period 2020-25. The proposed policy states that the company will have regard to the level of service provided to customers but no detail has been provided on the customer measures considered as part of this review. There is no reference in the Board assurance statement to dividends. The company commits to being fully transparent on dividends in the Annual Performance Report (APR). There is no specific reference to a commitment to publish details of dividend policy annually in the APR or to signal changes in dividend policy to stakeholders.</p> <p>On executive pay, the plan falls short of high quality with insufficient evidence that the company takes full account of all of the required elements in respect of its performance related executive pay policy for 2020-25. The company includes a statement that between 40% and 50% of directors' remuneration is linked to performance. However there is no evidence of how much of this is directly related to benefits for customers. It also states that for the annual bonus it operates a balanced scorecard, targeting areas of importance to customers, but provides no further detail. The company states that the long term bonus is purely focused on key business metrics. There is no reference to the setting of stretching targets for delivery to customers and no evidence as to how the policy will be monitored and rigorously applied. The company does state that where changes are made to performance related policies, it will set out the reasons for the changes transparently in its annual performance report, including how these take due account of both customer and employee interests.</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 high levels of transparency and engagement on corporate and financial structures and how this relates to financial resilience. The company provides only a partially compliant Board assurance statement as it does not explicitly state that the company's plan has been informed by customer engagement on corporate and financial structures. The plan falls short of high quality with insufficient evidence that the company has been transparent with its customers about its corporate and financial structures and how they relate to its long-term resilience, through clear and accessible published information. Although the company referred us to its APR, which contains details of its ownership/group structure, there is no evidence of its financial structure.</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>Northumbrian Water'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 and advises how it will monitor delivery through the following compliant statements "We have assured ourselves that our commitments do represent stretching levels, that they are deliverable and that we will be equipped to deliver them. In assessing this we have taken a robust approach to monitoring how we are performing throughout the 2015-20 period, including monthly reporting to the full Board on our PCs", "We will be open about our progress against our outcomes, PCs and ODIs by reporting on them regularly and assuring that our reports can be trusted by our customers and stakeholders" and "At all levels in the business we monitor performance with respect to balanced scorecards" and "This is an embedded business process that will continue to be applied during the period 2020-25."</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	<p>Northumbrian 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. • Overall, the company reports performance and financial data in its business plan tables consistent with previous data submissions, with only minor inconsistencies in the area of cost assessment which do not materially affect our assessment. • The company refers to its 'Self-assured' category in the 2017 Company Monitoring Framework assessment, for which we identified no weaknesses in our key assessment areas. <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 7 areas, it has minor concerns in 2 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, Northumbrian Water's business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. We identify some issues within our assessment of the data tables in the policy areas of outcomes, risk and return, and financial modelling, but these do not materially affect our overall assessment.</p>