

Portsmouth Water: Test question assessment

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|--|-------------------------|-----|--|---------------------|---|
| Engaging customers | C | 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? | C | <p>Overall Portsmouth Water's business plan falls short of high quality with insufficient evidence provided in the areas set out below.</p> <p>While the company provides some evidence of its approach to customer engagement, such as the use of comparative information and ongoing complaints analysis, there are significant issues relating to the small number of customers with which it engaged (which undermines the company's ability to provide adequately robust results) as well as the lack of variety and/or use of effective engagement methods. Also, there are gaps in the evidence required for the plan to be considered high quality. This includes the company's approach to triangulation, where there is a lack of independent assurance and it is unclear how outcome delivery incentive (ODI) rates reflect customer views. Another concern is the lack of segmented research techniques and a lack of direct engagement with vulnerable customers, which leads to uncertainty that the full breadth of the company's customer base is represented in its business planning.</p> <p>The company provides insufficient evidence in several areas relating to customer participation. The company makes references to the FACE (Futures, Actions, Community, Experience) themes identified in the Tapped In report (which underscores the importance of engaging with customers, and sets out a broad and embedded definition of customer participation and various approaches). In order to be considered a high-quality plan, further evidence is required regarding how the company plans to meaningfully engage with future customers and engage in community co-creation. Evidence of customer engagement under the FACE 'Actions' theme is still in development. Equally, we note that the company's initiatives under the FACE 'Experience' theme are considered as industry standard. Overall, the company provides insufficient evidence as to how it would meet the four FACE areas of action, as set out in the Tapped In report, in its ongoing business operations.</p> <p>The company provides sufficient evidence that it engaged with customers over resilience and other longer-term measures such as intergenerational fairness, and, as noted by the CCG, views were incorporated in the business plan. However, there was insufficient evidence that the company understood the risks customers were prepared to take. There is also insufficient evidence that the company understands how customer behaviour may and should influence its approaches to resilience currently and beyond 2025. The company has shown insufficient evidence of creatively exploring longer term issues in its engagement with customers.</p> |
| | | | | | <p>Portsmouth Water provides insufficient and unconvincing evidence that its bills will be affordable and provide value for money in 2020-25.</p> <p>The company has the lowest water-only company (WoC) bills in the sector and has a performance commitment (PC) to keep overall bills at less than 0.5% of average household income. It is proposing a reduction of 4% (£4.40) from 2019-20 to 2024-25. The majority of the company's affordability testing was done in the context of gaining acceptability for its final business plan where customers were provided with options to choose between various bills profiles – these varied with inflation, combining bills with wastewater, and combined bills with outcomes. The company received more than 80% and 75% support on its water and combined bill respectively.</p> <p>There is no evidence provided that its policies and/or initiatives to address affordability were co-created, either with the CCG or with customers directly. The company has not provided sufficient evidence on other plans to improve affordability for all including payment flexibility, water efficiency and metering. Additionally, it has a highly inefficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.</p> |
| Addressing affordability and vulnerability | C | AV1 | How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period? | C | <p>Portsmouth Water provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, we are not wholly satisfied with the company's use of financial levers. There is however some evidence that bills between 2025-2030 will be flat.</p> <p>The company is one of few companies that has provided evidence of testing long-term bill preferences. There is however a concern around the approach the company took to asking its question on long-term acceptability, as customers were not presented with a choice of different bill profiles.</p> |
| | | | | | <p>Portsmouth Water provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, we are not wholly satisfied with the company's use of financial levers. There is however some evidence that bills between 2025-2030 will be flat.</p> <p>The company is one of few companies that has provided evidence of testing long-term bill preferences. There is however a concern around the approach the company took to asking its question on long-term acceptability, as customers were not presented with a choice of different bill profiles.</p> |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-----------------------------------|-------------------------|-----|--|---------------------|--|
| | C | 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? | C | <p>Portsmouth Water provides insufficient and unconvincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. Its engagement on social tariffs was late, limited to a small sample, and the views from discussions were not incorporated in social tariff formulation.</p> <p>In addition, the company is growing its social tariff by less than 50% over the period, and as such, its PC is not stretching. Moreover, there is a lack of evidence in relation to how the company will increase awareness of affordability support.</p> <p>However, there is some evidence of the effectiveness of its measures for customers struggling to pay. For example, the company's arrears assist scheme matches customer payments of debt, by writing off £1 of debt for each £1 the customer pays. The company claims 400 customers have paid off debt via the scheme so far.</p> <p>We consider that there is insufficient evidence of a high-quality approach to mitigate against the material concerns we have about customer engagement on the social tariff and the low growth in social tariffs.</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>Portsmouth Water provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, it is only proposing to have 0.2% of its customer base registered on the priority services register by 2024/25 which is insufficiently ambitious reach. In addition, we do not consider its approach to engagement with vulnerable customers to be high-quality, because it was undertaken with too few customers to provide a meaningful representation of vulnerable customers' views. However, we do note that there are some examples of a high quality approach to partnership working.</p> |
| 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, Portsmouth Water does not provide sufficient evidence that it selects appropriate PCs and that its PCs demonstrate stretching service levels. However, there are elements of high quality within the plan.</p> <p>We have identified the following concerns with the company complying with the PR19 Final Methodology requirements:</p> <ul style="list-style-type: none"> the company has not chosen customer contacts asset health PC from the long list and instead proposes a measure with only a sub-component without explaining why; and some PCs (catchment management and biodiversity reward) appear to measure an output rather than an outcome. <p>We note that:</p> <ul style="list-style-type: none"> there are no material issues with being able to report common PCs by 2019-20. <p>The company's evidence to support that its PCs are stretching falls significantly short of the quality we expect because:</p> <ul style="list-style-type: none"> The company provides insufficient or unconvincing evidence with regards to the levels of proposed stretch for some common and bespoke PCs. A significant number of PCs have insufficient levels of stretch in either the short or longer term The company sets the PC level for compliance risk index (CRI) at less than 100% compliance. As a statutory target, the methodology sets out that its service level should comply fully with the statutory obligation. The company provides insufficient evidence to support the proposed service levels for leakage and per capita consumption (PCC). <p>We note that:</p> <ul style="list-style-type: none"> the company's service level for supply interruptions is forecast upper quartile (UQ); and the service level for mains repairs is appropriate. <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"> the company provides sufficiently convincing evidence to support that it has processes in place to ensure that its PC and ODI reporting will be robust; the company considers the most appropriate means to communicate with its customers; and the company demonstrates convincing plans to improve reporting, in both moving to more online communications and to provide bite-size performance updates when appropriate. |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-----------|-------------------------|-----|---|---------------------|--|
| | | OC2 | How appropriate and well-evidenced is the company's package of outcome delivery incentives? | C | <p>Portsmouth Water's business plan falls short of high quality with insufficient evidence on how appropriate its package of ODIs is, although there were some areas of high quality. It provides insufficient evidence to support its ODI rates as it uses inappropriate top-down adjustments to some PCs, single source willingness-to-pay (WTP) values and non-transparent approaches to calculating marginal benefits. The company proposes caps and collars to its PCs; whilst this is likely to protect customers from high payments, we found no commentary from the company in its business plan to justify individual levels. However, there are high quality elements within the plan. The company provides sufficient evidence to support the type of ODIs it proposes based on quantitative research. However, there are some instances where the customer challenge group (CCG) raised concerns on the type of ODI.</p> <p>The company's business plan falls significantly short of high quality and does not provide sufficient evidence to appropriately justify its ODI rates because:</p> <ul style="list-style-type: none"> • The company provides a lack of information on how ODI rates are calculated and how any adjustments are applied. • The company uses a single source for its formulation of WTP across the ODI package and provides a lack of transparency as to how marginal benefits are calculated. • The company proposes ODI rates that are of a small magnitude relative to other rates in the sector across its ODI package. • The company provides insufficient evidence to justify the rates selected and how these incentivise the company against under delivery. • The company states that top-down adjustments have been applied for some ODIs, however the company provides insufficient evidence to show how or where these are implemented. For example, with leakage, the company revisits its dataset and uplifts the outperformance payments and underperformance penalties. The company provides insufficient evidence to support the application of these adjustments. <p>The company does not meet our expectations for its approach to ODI deadbands, caps and collars because:</p> <ul style="list-style-type: none"> • it does not provide any evidence or explanation to support the level of individual caps and collars; and • we have particular concerns regarding the level of the underperformance collar proposed for the water quality compliance PC, which results in a very small performance range over which underperformance payments can apply. <p>We note that it has proposed caps and collars to protect customers from high outperformance payments.</p> <p>The company does not meet our expectations for the approach to enhanced outperformance and underperformance payments because:</p> <ul style="list-style-type: none"> • the company does not clearly set out the thresholds at which enhanced underperformance penalties and outperformance payments will apply; and • it proposes enhanced ODI rates which exceed its own customers' willingness to pay. <p>We note that:</p> <ul style="list-style-type: none"> • the company proposes four enhanced ODIs and outlines an approach to setting thresholds that is consistent with our methodology. |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-----------|-------------------------|-----|---|---------------------|--|
| | | OC3 | How appropriate is the company's focus on service performance in its risk/return package? | C | <p>Overall, Portsmouth Water falls short of high quality and provides insufficient evidence that it has an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company provides insufficient evidence that its ODI package offers sufficient incentives against service under-delivery, and the package of ODIs does not demonstrate evidence of customer support. The company provides insufficient evidence that it has considered and addressed its past asset health performance challenges. However, there are some high quality elements within the plan. The company sets out a high quality approach to customer protections, and evidences its approach to bill-smoothing.</p> <p>The company does not meet our expectations for its overall ODI package because:</p> <ul style="list-style-type: none"> • it provides insufficient evidence that the package incentivises it to deliver its PCs; • the package is not well-balanced and lacks robust evidence of customer support; and • we have material concerns about the company's uplifting of rates in a manner which is inconsistent with our methodology. <p>We note that:</p> <ul style="list-style-type: none"> • the ODI package is within the indicative return on regulated equity (RoRE) range. <p>The company does not meet our expectations on bringing payments closer in time to the service which generated them because:</p> <ul style="list-style-type: none"> • The company provides insufficient evidence or explanation for the timing of its ODIs within the business plan commentary, instead merely notes that some of its ODIs do not apply in-period. <p>We note that the company proposes in-period ODIs for most of its PCs and all ODIs apply to revenue rather than the regulatory capital value (RCV).</p> <p>The company does not meet our expectations on its asset health ODI package because:</p> <ul style="list-style-type: none"> • we do not consider that the nature and magnitude of the overall package of asset health ODIs, in terms of RoRE exposure, is sufficient to incentivise the company to meet its asset health challenges and protect customers; • the company's asset health RoRE range is not appropriate as we consider it does not offer sufficient customer protection; • the company does not demonstrate that it understands and does not address its asset health past performance challenges, as it does not have an appropriate PC and ODI on water quality contacts; • the company does not demonstrate high quality customer engagement on asset health, including that it does not demonstrate customer support for its outperformance payments; and • While the CCG challenged the company's general approach to asset health and was satisfied with the response, there is no evidence that that CCG challenged the company's asset health customer engagement. <p>We have confidence in the evidence that the company is protecting customers against higher than expected ODI payments because the company proposes caps on all its outperformance payments in line with its P90 for those measures. P90 is the level of outperformance payment that it expects there is a 10% chance of meeting or exceeding each year.</p> |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-------------------------------|-------------------------|-----|--|---------------------|--|
| 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>Portsmouth Water's business plan falls short of high quality with insufficient and unconvincing evidence of how the company has assessed risks and consequences to its systems and services.</p> <p>The company provides sufficient evidence that it has undertaken a resilience assessment through its risk and resilience register. The company identifies a wide range of risks to its resilience and also provides sufficient evidence of using consistent criteria to prioritise the resilience risks it identifies. It also provides sufficient evidence of using robust analyses to assess risks in combination and not just in isolation.</p> <p>However, the company's resilience assessment falls short of high quality and provides insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or knock-on/cascading impacts of one system to another should be considered. In addition, the company's resilience maturity assessment lacks detail and does not provide predictions of resilience maturity levels beyond the 2020-2025 period. The company also provides insufficient evidence of customer engagement on the identified risks to resilience. Finally, although the company's plan accounts for a range of environmental risks, these have not been assessed using environmental valuation techniques that ensure the objective assessment of these risks to resilience.</p> <p>While The company's business plan demonstrates a high quality assessment of financial resilience stress scenarios in the round, it has not considered risks associated with some significant issues referred to in its plan.</p> <p>There is sufficient evidence in the company's plan that it has modelled severe, plausible and reasonable scenarios linked to its internal risk assessment and building on the long term viability statement (LTVS) included in its annual performance report. The company has assessed the prescribed financial stress scenarios and this is supported by a third report. It has also assessed additional scenarios that are relevant to its circumstances.</p> <p>The company considers the impact of risks on cash flows and key financial metrics relevant to its debt covenants and credit ratings and provided results in its plan. It has also linked its modelling to its corporate risk register and LTVS. While there is convincing evidence to support the company's requested cost of debt allowance, this was not guaranteed under the PR19 methodology, and it had not adequately assessed its financial resilience were the proposed uplift not allowed. The company's board has concluded that the plan is financeable and consistent with long term financial resilience. However, it places reliance on a planned equity injection of £61m associated with its proposed development of the Havant Thicket winter storage reservoir and has not set out how resilience would be maintained were the reservoir not to proceed.</p> |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|---|-------------------------|------|---|---------------------|---|
| | C | 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>Portsmouth Water's business plan falls short of high quality. While it has assessed a sufficient range of mitigation options that build upon the risks identified in the resilience assessment, the company provides insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides evidence that it has considered a wide range of options to mitigate the resilience risks identified in the plan, including hard and soft infrastructure options and options that influence customer behaviour. It has also provided evidence that it has proposed outcomes to capture its overall approach to resilience and incentivise timely delivery of its resilience enhancement schemes. The company also provides sufficient evidence of responding to customer engagement feedback about this outcome when it identified its proposal didn't have customer support. We consider that the company also demonstrates collaboration with stakeholders to identify efficient options, for example through participating in WRSE and its collaboration with Southern Water in relation to the Havant Thicket reservoir option.</p> <p>However, we consider that the company provides insufficient evidence that it has applied a systems-based approach to resilience and, as a consequence, there is insufficient and unconvincing evidence that the plan has taken account of interdependencies between systems to address resilience risks. The company doesn't provide convincing evidence of customer co-creation of options using participatory techniques such as gamification. The plan also provides insufficient evidence of using approaches that ensure the objective assessment of solutions across a wide range of benefits, such as multi-criteria decision making. We also consider that the company provides insufficient evidence that it has used environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options that would be needed in a high quality plan.</p> <p>There is insufficient evidence in the plan to demonstrate that the company is financially resilient in the long term. While there is a proposal for a £61 million equity injection, this is to finance the Havant Thicket storage reservoir and there is insufficient evidence that the company has assessed the risks to its financial resilience were the project not to proceed. While the company does not expect gearing to vary much from 60% during 2020-25, there is insufficient evidence that the company has assessed the risks to its long term resilience of maintaining a credit rating that is one notch above the minimum for investment grade, particularly within the context of financing the Havant Thicket storage reservoir.</p> <p>The company refers to the availability of its existing revolving credit facility and a prospective new borrowing facility for capital expenditure. The company provides high level detail on the mitigation measures it considers should be available to it in respect of financial risks during the period from 2020 to 2025. These include injections of equity, investment flexibility, timing of dividends, and insurance recoveries, as well as operational response and recovery actions and confirms an overall pension surplus.</p> |
| 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? | C | <p>Portsmouth Water's business plan falls short of high quality with insufficient 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 has some elements of high quality approaches, but not sufficient evidence overall for the plan to be high quality. While the company provides sufficient and convincing evidence of risk tolerance, there are areas where more convincing evidence would be needed for the plan to be high quality. Even though the company has established the Business Improvement Group (BIG) a forum where ideas can be raised, evaluated, tested and progressed in a structured way, there was no evidence to demonstrate that it actively sets out its business challenges in this forum. Further evidence on how it actively identifies and communicates new challenges for its employees and supply chain is needed in a high quality plan. Even though it has established a recognition scheme, that includes internal 'staff compliment' forms and financial 'merit awards' to recognise outstanding performance, there is insufficient evidence that its focus is on innovation. The company provided examples of collaborative work that involve a variety of stakeholders and while it actively recognises collaboration there was limited evidence that demonstrates that it has the systems in place to manage collaborative projects effectively so that a variety of internal and external stakeholders are involved. The company also provides insufficient evidence that the company's vision is cohesive. It provided no evidence of an innovation strategy and provided no evidence to demonstrate that senior executives, business partners and customers all have a clear understanding of the company's innovation goals and strategy to address innovation challenges.</p> |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-----------|-------------------------|------|---|---------------------|---|
| | | 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, Portsmouth Water's plan falls short of high quality in relation to this test question.</p> <p>The company provides no significant evidence related to 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> <p>Regarding the use of markets, catchment management and partnership working for delivery services the company provides a range of positive examples, but there was insufficient evidence of use of markets or a longer-term strategy.</p> <p>The company plans to provide financial incentives for third parties to identify gap sites; however, there is insufficient evidence relating to voids.</p> |
| | | 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>Portsmouth Water's plan provides falls short of high quality as it provides insufficient evidence of a robust long-term water resource strategy, although the company provides sufficient and high quality evidence of engagement with third-parties. Overall, the company is graded as a C.</p> <p>The company provides sufficient evidence on effective use of third party delivery options for both demand and supply-side schemes. On supply-side schemes, the company shows a good level of engagement with other water companies and in recognising its key role towards regional water resilience. For instance the development of Havant Thicket reservoir to make bulk supplies to Southern Water in future. On demand options, the company provides evidence of collaboration with Albion water and NAVs to improve water efficiency in new homes through grey-water re-use schemes. Regarding the deployment of the future bilateral market, the company does not go beyond providing the required business tables Wr6 and Wr7 and there are issues on the quality of the reporting.</p> <p>In relation to the WRMP, the plan falls short of high quality as only two of the five key issues raised in Ofwat's letter of recommendation on the draft WRMP have been fully addressed. Issues on metering ambition, PCC ambition and board assurance have only partially been addressed and pose some residual risk to their water resource strategy. Additionally, the business plan has limited information presented with regards to the overall supply demand balance.</p> <p>There is insufficient evidence that the proposed commercial arrangements between Portsmouth Water and Southern Water for the development of the Havant Thicket reservoir will adequately protect the customers of Portsmouth Water. We are concerned that the company's customers will be exposed to costs and risks of the development which is for the benefit of the customers of Southern Water</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? | N/A | |
| | | CMI5 | How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided? | B | We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocation appears appropriate. |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|--------------------------|-------------------------|------|--|---------------------|---|
| | | 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 | Portsmouth Water appears to have developed a bid assessment framework that is proportionate, non-discriminatory and largely transparent. There is no document expressly identified as a bid assessment framework, and the bid assessment criteria document is not clear and accessible. But the material that is in the document is in places very good. The company has outlined a number of ways it will help make sure the process is proportionate, and has provided considerable detail on the criteria it may use to assess bids. There is limited information provided on how appeals will be treated or the audit and compliance trial |
| | | 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>Portsmouth Water provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold, carried out a technical analysis on the relevant schemes and for the Havant Thicket Reservoir (HTWSR) also carried out a Value for Money (VfM) assessment.</p> <p>In the appraisal of the company DPC plan we took into account the following:</p> <ul style="list-style-type: none"> The company's review of projects to see whether they met the £100 million threshold analysis for DPC was very focussed on HTWSR and evidence of a wider review was limited (although due to the size of the company this project is atypical in its size). The company provided limited evidence of a thorough technical assessment of the HTWSR scheme and that it has considered all the criteria in the guidance. The technical case, that DPC would be detrimental to the The company network and operation, was unconvincing when compared with other companies' submissions for similar types of schemes. The company provided most aspects of a VFM assessment for its HTWSR which was based on the Five Case Model. The NPV analysis was developed with a set of assumptions that were unconvincing when compared to other companies' assumptions for similar projects. The company has not provided a high quality VfM assessment as it was not sufficiently evidenced or convincing. <p>In summary, the company has carried out the DPC assessment but it falls short of high quality because it provided insufficient and unconvincing evidence in relation to its decisions in some areas. The company provided processes that followed the guidance in regard to the threshold and VFM assessments. On the technical assessment there is limited evidence of a thorough review. The decision on the HTWSR is not supported by sufficient evidence to be convincing particularly for the NPV and technical assessment.</p> |
| Securing cost efficiency | B | CE1 | How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs? | B | We consider Portsmouth Water's wholesale costs to be efficient, being around 2% below our view of efficient costs. Its base costs are around 10% below our benchmark, but its enhancement costs are less efficient. The company are proposing to reduce leakage marginally beyond 15% and therefore we make a very small enhancement allowance for leakage. We are also questioning the full scope of Havant Thicket reservoir due to it producing more water than is required to replace that being transferred to Southern Water. |
| | | CE2 | How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs? | N/A | |
| | | CE3 | How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs? | C | Portsmouth Water's retail costs are around 7% above our baseline. |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|--------------------------|-------------------------|-----|--|---------------------|--|
| | | 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 | Portsmouth Water had one entry in its cost adjustment claim business plan table but this pointed us to read a report the company had commissioned from Oxera, and did not contain a value of any additional costs claimed. The claim was discounted from our IAP quality assessment, meaning that there were no claims remaining for us to assess. We therefore give Portsmouth a grade of A in this area. |
| 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 | <p>Portsmouth Water's business plan demonstrates a high quality approach, with sufficient and convincing evidence that its request for a Company Specific Adjustment to its allowed cost of capital is supported by evidence on likely market conditions in 2020-25, and that the cost of providing it is adequately offset by likely benefits to customers. The plan also provides convincing evidence that the consequential impact on bills is supported by customer preferences.</p> <p>The company has proposed an Appointee cost of capital of 5.65% nominal, which is 18bp higher than our 'early view'. This is based on a company specific adjustment of 30bp to the allowed cost of debt, supported by evidence in a third party report. The level of the proposed adjustment is within the plausible range of incremental borrowing costs, relative to our 'early view' cost of capital.</p> <p>There is convincing evidence that customers will receive benefits that adequately compensate for the cost of providing its requested uplift, based on the company's strong track record on outcomes and PR19 cost efficiency. Modelling based on the company's provisional totex ranking in particular, suggests that the monetised benefits of retaining the company as an independent comparator are likely to adequately compensate for the cost of providing an uplift.</p> <p>The company provided high quality and convincing evidence that the uplift is supported by customer preferences, based on sufficiently large sample surveyed (500 customers), weighted to the profile of customer base, and high proportion (86%) supporting the estimated £0.80/yr increase to the average bill from providing the uplift.</p> |
| | | 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 Portsmouth Water's business plan demonstrates elements of high quality, it has provided insufficient evidence in support of its assessment in some areas. It has assessed the prescribed scenarios and an additional company-specific scenario relating to water trading (Havant Thicket). However, there is insufficient evidence to demonstrate how the RoRE range was determined for Havant Thicket or how this related to data in the bell curve provided in its plan. The company has assessed risks associated with RORE outcomes with reference to its corporate risk register. However there is insufficient evidence on risk mitigation measures in respect of the RoRE scenarios. There is insufficient evidence to support the proposed range of outcomes on revenue. No uncertainty mechanisms have been proposed. |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|-----------|-------------------------|-----|--|---------------------|--|
| | A | 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 Portsmouth Water's business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support the Board's statement that the company is financeable on the notional and its actual company structure.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> • The company has set out the steps taken to make the financeability assessment and to provide assurance over the assessment. • The company has identified a notional financeability constraint and has proposed an uplift to PAYG rates to address this. The company has provided sufficient evidence to support the adjustment. <p>There are three main areas where the plan falls short of high quality:</p> <ul style="list-style-type: none"> • There is unconvincing evidence that the target credit rating of A3 (Moody's) is appropriate for the notional company. The company sets out the basis for the notional structure target as to align to the credit ratings of companies with similar levels of gearing to the notional company. However, this does not take account of other factors considered by credit rating agencies such as the relative mix and cost of debt and the companies' performance against targets. • For the actual structure, there is insufficient evidence that the target credit rating of Baa2 (Moody's) is appropriate for the investment needs of the company. The rating provides just one notch headroom against a minimum investment grade and the company has set out a large investment programme. • There is insufficient evidence that the key financial ratios are in line with the target credit ratings. Whilst the company has provided thresholds for the key financial ratios, there is no evidence set out as to how it has derived the thresholds or why they are appropriate and a number of the key financial metrics for both the notional and actual structure appear weak in comparison to the target credit ratings. <p>The company has not identified a financeability constraint on its actual structure.</p> |
| | | RR4 | How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term | B | <p>Overall, Portsmouth Water's business plan contains sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The following areas of the plan are high quality:</p> <ul style="list-style-type: none"> • The company's starting points for PAYG rates are supported by sufficient and convincing evidence. • The company has proposed an adjustment to PAYG rates to address a notional financeability constraint which has been assessed in aligning risk and return question 3. • 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. <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> |

| Test area | Overall test area grade | TQ# | Test question | Test question grade | Test question summary assessment |
|------------------------------|-------------------------|-----|--|---------------------|---|
| | 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? | C | <p>Portsmouth Water's plan falls short of high quality with insufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is insufficient evidence to support the PR14 reconciliations in terms of the rationale provided. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal at 1.7% of the 2019-20 PR14 allowed revenue.</p> <p>The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments.</p> <p>We have found major data consistency issues between the submitted tables and populated reconciliation models for water trading and wholesale revenue forecasting incentive mechanism. We have found minor consistency issues for residential retail.</p> <p>Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and our independent checks of the reported ODI underperformance and outperformance payments are identical to those reported by the company for all PCs apart from water consumption where the company has not set out the penalty for the 2019-20 breach and supply interruptions where the company underestimates the reward.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for six of the eight PCs, land sales, residential retail, totex and wholesale revenue forecasting incentive mechanism there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p> |
| Accounting for past delivery | | 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 Portsmouth Water's 2020-25 plan, particularly for outcomes and incidents.</p> <p>There is average outcomes performance as the company has or is forecast to deliver 71% of its PCs with financial ODIs in 2015-20. The company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. The company is proposing some stretch in the PC for per capita consumption levels. The plan provides insufficient evidence that it includes appropriate measures to improve its performance for some 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 good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20. The company provides sufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance, for example, it provides evidence that it has assessed its delivery of infrastructure and non-infrastructure investments in 2015-18. The company provides evidence of the planned investments in new technologies and innovative approaches, however there is limited explanation of how these investments are going to increase efficiency levels. However, in the round, the company's current performance and the evidence provided on lessons learnt gives us confidence in the delivery of the planned performance. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of the planned costs.</p> <p>We have some concerns around performance on major incidents. It had one major incident relating to fuel theft. The company provided sufficient evidence it understands the drivers of its performance and has learnt lessons from major incidents. However, the plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents. For example, there is no focus on handling incidents when they are happening, although there is evidence around resilience measures to avoid incidents occurring. 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 but this is increasing. The company provided insufficient evidence it understood the drivers of its performance and learnt lessons; although the company has good performance, it could still learn lessons from other sectors, and identify lessons from its own good performance. The plan includes appropriate measures to sustain and improve its performance. For example the company is proposing billing improvements, online portal and increased self-service options but does not describe how it will be implemented. In the round the company's current performance provides sufficient confidence that customer complaints performance will be maintained in 2020-25. 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>Portsmouth Water's business plan falls short of providing 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's Board provides eleven compliant statements, nearly all with supporting evidence, four statements are partially compliant and one is non-compliant.</p> <p>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 on whether it has collectively owned the overall strategy and direction of the plan in the long term is non-compliant.</p> <p>For statements on the remaining topics, the Board provides eight compliant statements from the 12 requested. The Board's statements on affordability; whether the company's business plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests; whether large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers; and financeability are partially compliant.</p> <p>For statements on the topic of business planning, we ask in the PR19 Final Methodology that Boards demonstrate how they challenged management and satisfied themselves prior to making their statements. The Board states that it challenged the plan and provides examples. However, the examples do not cover all the topics of the compliant statements.</p> <p>For statements on the remaining topics Boards are asked to demonstrate how they satisfied themselves. To demonstrate the Board's assurance process the company provides a record of papers presented to the Board. This evidence is sufficient for the eight compliant statements provided.</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? | C | <p>Portsmouth Water's business plan falls short of providing 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 of how the Board satisfied itself.</p> <p>The Board's assurance statement advises that "The Board has robust governance and assurance processes and believes they are appropriate to ensure long-term financial resilience."</p> <p>This is only a partly suitable statement of assurance and the company provides insufficient evidence of how the Board satisfied itself.</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>The company includes information on its corporate and financial structure in its business plan.</p> <p>Portsmouth Water's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> • The company forecasts gearing to remain below 65% but has stated that, for years where gearing exceeds 70%, it will apply our gearing benefit sharing mechanism; and • The company proposes a base dividend of less than 5%. <p>The company does not propose a bespoke voluntary benefits sharing mechanism or donations to social tariffs and hardship funds. However, voluntary sharing mechanisms are not a requirement of the PR19 methodology, so this does not impact our assessment of this test area for this company.</p> <p>We have concerns in three areas:</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. While the proposed dividend policy refers to all of the required elements, the company provides no evidence on how the elements will be taken into account when determining dividends. The company commits to considering the required factors in declaring a dividend and in setting out its policy clearly and transparently, in each Annual Performance Report (APR), although there is no specific commitment to signal changes in dividend policy to stakeholders.</p> <p>On executive pay, the plan falls significantly short of high quality with little 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's Board assurance statement states that the company has a transparent approach to executive pay, with the performance related elements based primarily on satisfactory delivery against a wide range of customer performance metrics and that this process will continue into the next period. However, the company provides no evidence of the performance metrics it proposes to use, or the relative weighting of the metrics, including between annual and long term incentives. The company provides no evidence to explain how it will ensure performance targets will be stretching or how the policy will be monitored, reported and rigorously applied. There is also no reference as to how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports.</p> <p>The plan falls 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 a suitable assurance statement from the Board and to demonstrate the Board's assurance process, the company provides a record of papers presented to the Board. However, there is no evidence that the Board has considered information on the company's engagement with customers on its corporate and financial structures.</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>Portsmouth 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 "Throughout the current AMP, performance against key ODI's are reviewed at every Board meeting and, where necessary, appropriate corrective actions discussed and agreed. The Board have reviewed and accepted a proposal for reporting on its PCs and ODI's for the next AMP. This CCG would continue to play a part in this process. The board endorsed the proposed approach, which will be a continuation of the current process, with a review of performance against key ODIs at every Board meeting" and "Monitoring of the outcomes and PC's established at PR19 and the key delivery risks will be standard items on the Board agenda. They will also form part of the weekly review of operations by senior managers in the company" and "Throughout the current AMP, performance against key ODI's are reviewed at every Board meeting and, where necessary, appropriate corrective actions discussed and agreed."</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>Portsmouth 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"> • Overall, the performance and financial data reported in the company's business plan tables is consistent with previous data submissions, with only minor inconsistencies in the area of cost assessment which do not materially affect our assessment. • The company sufficiently describes its data assurance, governance and audit processes within its business plan. <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 meets expectations in 7 areas, it has minor concerns in 2 areas.</p> <p>Also, whilst the company references its 'Targeted' status in the 2017 Company Monitoring Framework assessment, it does not provide information on any resulting interventions it has implemented to address weaknesses identified.</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, Portsmouth 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 financial modelling, outcomes, risk and return, and cross cutting themes (water resources), but these do not materially affect our overall assessment.</p> |