

SES Water: Test area assessment

All company test area grades								
Engaging customers	Addressing affordability and vulnerability	Delivering outcomes for customers	Securing long-term resilience	Targeted controls markets and innovation	Securing cost efficiency	Aligning risk and return	Accounting for past delivery	Securing confidence and assurance
C	B	C	C	C	D	C	B	D

SES Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	C	<p>Overall SES Water's business plan falls short of high quality with insufficient evidence provided in some areas.</p> <p>There are elements of a high quality approach with sufficient evidence that the company has used a range of data sources including 'business as usual' data.</p> <p>However, the business plan falls short of high quality with insufficient evidence, in the following areas:</p> <ul style="list-style-type: none"> While the company provides evidence that it engaged with customers over resilience and other longer-term measures, there was insufficient evidence of customers' appetite for risk. Insufficient evidence of the use of comparative information for customers to make an informed decision. How the company's customer engagement results/outputs have been reflected in the business plan and ongoing business operations. The company's approach to triangulation doesn't provide adequate visibility of how research has informed the setting of outcome delivery incentive (ODI) rates. The small number of customers engaged (which undermines the company's ability to provide adequately robust results) and an overall limited range of customer engagement activities undertaken. While the company makes references to the four themes of customer participation, it also provides insufficient evidence on how it would meet the Tapped In report areas of action in its ongoing business operations. 	EC1	C
Addressing affordability and vulnerability	B	<p>Overall SES Water's plan demonstrates high quality with convincing evidence that covers its approach to affordability and vulnerability because it proposes:</p> <ul style="list-style-type: none"> Making a 5% real bill decrease over the 2020 to 2025 period. The company reports relatively high acceptability and affordability for bills, although it is not always consistently reported. To reduce bills by 6% in the 2025 to 2030 period, and it has engaged customers on their future priorities. A high quality approach to helping customers who can't afford their bills by undertaking extensive research into customer's views on social tariff support and plan to more than double the amount of support available to customers. <p>The business plan falls short of high quality because:</p> <ul style="list-style-type: none"> It provides insufficient and unconvincing evidence in relation to its approach on vulnerability. It proposes an ambitious reach for its Priority Service Register but does not provide evidence on how it would deliver this improvement. In addition, it did not provide convincing evidence of working with third parties to address vulnerability. 	AV1	B
			AV2	B
			AV3	B
			AV4	C
Delivering outcomes for customers	C	<p>Overall, across the delivering outcomes for customers test area, the evidence SES Water provides to support its proposed performance commitments (PC) and ODIs in its plan falls short of high quality, and is insufficient or unconvincing in some areas.</p> <p>The plan provides evidence of some aspects of a high-quality approach to the company's PCs, and appropriately stretching service levels, particularly</p>	OC1	B

SES Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
		that its proposed performance levels are upper quartile for supply interruptions for 2020-25. However, the evidence the company provides to support its package of ODIs is insufficient, and it is unconvincing that it has a sufficient focus on appropriate service delivery within its overall risk/return package. Key areas where the business plan falls short of high quality are: <ul style="list-style-type: none"> • The company relies on a narrow evidence base to support its ODI rates and proposes a number of ODI rates which are industry outliers. • It is unclear how the overall ODI package incentivises the company to deliver better outcomes, and we consider that it has been insufficiently tested with its customers particularly regarding bill impacts associated with ODIs. • The financial ODIs on asset health are not strong enough to protect customers from poor performance in this area. 	OC2	C
			OC3	C
Securing long-term resilience	C	Overall, the plan falls short of high quality and the company does not provide sufficient and convincing evidence of securing long term resilience in certain areas. The plan is supported by a package of stretching asset health and bespoke PCs. The plan provides sufficient evidence for some aspects of financial resilience assessment and risk management, and the company has set out an approach to reduce its gearing. However, there is insufficient or unconvincing evidence in other areas. We consider that the company plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas. <ul style="list-style-type: none"> • 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. • There is little or no evidence of a comprehensive baseline resilience maturity assessment that would enable an understanding of where and why the company's level of resilience has been assessed as sufficient or insufficient. • There is insufficient evidence regarding the methodology used to assess and prioritise risks to resilience. There is also limited evidence of the impacts and consequences from the identified risks to the company's systems and services. • There is insufficient evidence in the plan that the company has used environmental valuation techniques to ensure the objective assessment of nature-based solutions and that the environment has been considered as a key component of a systems based resilience approach; • The plan presents unconvincing evidence of a high quality approach to customer engagement in relation to resilience with evidence of only 22 customers engaged on the topic and the CCG has challenged the assurance of the company on levels of service for longer term resilience. • Although the company has modelled the impacts of financial stress scenarios it primarily assesses the risks against its debt covenant headroom and borrowing capacity rather than assessing financial resilience by reference to key financial indicators such as interest cover. The company has requested a company specific cost of debt adjustment, but the methodology does not guarantee such an adjustment would be made and the company does not set out the steps it could take to address its financial resilience in the absence of the adjustment. 	LR1	C
			LR2	C
Targeted controls, markets and Innovation	C	Overall, SES Water's plan falls short of high quality across the Targeted Controls, Markets and Innovation test area. The evidence is insufficient and/or unconvincing in many areas. On innovation, the plan provides convincing evidence on the approach to encouraging innovation debates and enabling employees to take ownership of innovative ideas, but insufficient evidence for innovation goals and vision. For RCV Allocation the evidence is complete. The company's plan falls significantly short of high quality in relation to identifying and managing gap sites and voids and does not demonstrate any learnings from the business retail market. The Company provides some evidence of catchment partnerships that is high quality, but the evidence that market options and third party solutions have been considered lacks sufficient breadth and depth. On water resources, the company's plan sets out increased ambition to reduce leakage and demand. However, there is limited evidence of use of markets to deliver their outcomes. The plan also has unconvincing evidence that regional solutions have been optimised and the plan fails to align the company's water resources strategy with the plans of neighbouring companies. The company presents insufficient evidence on its understanding of the risks and impacts of the opening of bilateral markets for water resources and seems to confuse bilateral markets with bidding markets and water trading. The company's plan states that there are no schemes that meet the requirements to be considered for a DPC. The plan does not set out the process or evidence to support this conclusion and therefore falls significantly short of high quality in this area. The company provides a bid assessment framework generally in line with the principles of transparency, non-discrimination and proportionality. However, it is not high quality because there is insufficient evidence to demonstrate a non-discriminatory approach between in-house and third-party options and it lacks detail about the appeals process.	CMI1	C
			CMI2	D
			CMI3	C
			CMI4	N/A
			CMI5	B
			CMI6	C
			CMI7	D

SES Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Securing cost efficiency	D	<p>Overall, SES Water's plan falls significantly short of the required quality in this area and we do not consider the company's cost are efficient. At the company level its costs are around 22% above our view of efficient costs. Its residential retail costs are particularly inefficient, being 50% higher than our view of efficient retail costs.</p> <p>The company's water costs are around 19% above our view of efficient costs. The company is not proposing to reduce leakage to achieve upper quartile performance levels or by greater than 15%, so we are not making any enhancement allowance for leakage reduction activities.</p> <p>The company proposes one cost adjustment claim which is of reasonable quality. This gives the company a score of A for its cost adjustment claims</p>	CE1	C
			CE2	N/A
			CE3	D
			CE4	A
Aligning risk and return	C	<p>Despite some aspects of SES Water's plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support its approach in the area of aligning risk and return.</p> <p>The following area of the plan is high quality:</p> <ul style="list-style-type: none"> There is convincing evidence to support the company's choice of PAYG and RCV run-off rates. <p>There are three main areas where the plan falls short of high quality. It does not provide sufficient and convincing evidence:</p> <ul style="list-style-type: none"> To support the requested company specific cost of debt adjustment. There is insufficient evidence that customers would be adequately compensated for the cost of the uplift and the evidence is unconvincing that customers support the proposed uplift. That the plan is financeable on the notional and actual structures – insufficient assurance has been given as the board statement did not clearly say this, and the steps taken to gain assurance over financeability were not clear. To justify the two proposed uncertainty mechanisms and we have concerns that the company's presentation of likely totex outturns is weighted towards underperformance on a notional basis. 	RR1	C
			RR2	D
			RR3	C
			RR4	B
Accounting for past delivery	B	<p>Overall, SES Water's business plan demonstrates high quality accounting for past delivery, with sufficient and convincing evidence both in support of PR14 reconciliations and on deliverability of the 2020-25 plan given past performance.</p> <p>In the round, we do not have concerns with the evidence for deliverability for the 2020-25 plan.</p> <p>The plan is high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> The company has delivered or is forecast to deliver 73% of its PCs in 2015-20. It provides sufficient evidence that it has learnt lessons and put in place measures to improve performance in most areas. Overall, we do not have concerns with the evidence for deliverability for outcomes. The company is currently underspending against its allowance. The plan contains sufficient evidence that it understands the drivers of its cost performance. Overall we do not have concerns with the evidence for deliverability for the planned costs. We do not have concerns with the evidence for deliverability for performance in relation to major incidents. We do not have concerns with the evidence for deliverability for customer complaints handling performance. <p>There is sufficient and convincing evidence for six out of eight PR14 reconciliation areas and insufficient evidence for land sales and service incentive mechanism. There is only a marginal difference (within -0.05% of 2019-20 revenue) between expected and proposed reconciliations. In the round we consider that this supports the accounting for past delivery test area score.</p>	PD1	B
			PD2	B
Securing confidence and assurance	D	<p>Overall, SES Water's business plan falls significantly short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area.</p> <p>The company's business plan provides some evidence of high quality since it provides sufficient and convincing evidence that overall, its PR19 business plan tables and the assurance and commentary provided are consistent, accurate and assured.</p>	CA1	D

SES Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
	D	<p>The company's business plan falls short of high quality in the following areas:</p> <p>On demonstrating evidence of a fair balance between customers and investors.</p> <ul style="list-style-type: none"> The company includes the gearing outperformance mechanism and proposes a base dividend yield that is below 5%. On dividend policy, there is sufficient evidence of the company's intention to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear Board commitment to signal changes in dividend policy to stakeholders. On executive pay, the company demonstrates insufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is insufficient evidence of how the targets will be stretching and aligned with delivery to customers. Also, there is no commitment to publish the policy once it has been finalised. Although the company demonstrates sufficient evidence of transparency on its corporate and financial structures and how these relate to its long term resilience, the Board provides only a partially-compliant statement of assurance that its plan will enable customers' trust and confidence through high levels of engagement on its corporate and financial structures. The company does not put forward proposals for a bespoke voluntary benefits sharing mechanism but proposes shareholder contributions to social tariffs and hardship funds which we assess could have a value of £0.1m per year. The scale of the proposals are modest in the context of the company's size. However voluntary mechanisms are not a requirement of the PR19 methodology, so the proposals do not impact our assessment in this test area. <p>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 1 area and has serious concerns in 1 area.</p> <p>The company's plan falls significantly short of high quality in the following areas:</p> <p>The company's Board provides a small minority of the assurance statements requested 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. This substantially reduces our overall confidence in the assurance of the plan and raises concerns over Board ownership.</p> <p>The company's Board provides a non-compliant statement of assurance 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>The company's Board does not provide a compliant statement of assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes.</p>	CA2	D
			CA3	C
			CA4	D
			CA5	C
			CA6	B