SES 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	Overall the business plan falls short of high quality with insufficient evidence provided in the areas set out below. SES Water's business plan falls short of high quality with insufficient evidence of its overall approach to customer engagement and participation. There is also insufficient evidence as to how its customer engagement results have been reflected in the business plan and ongoing business operations. There are however elements of a high quality approach with sufficient evidence that the company has used a range of data sources including 'business as usual' data e.g. analysis of customer complaints. The company provides sufficient and convincing evidence of elements of its approach to customer engagement. However, there are areas where more convincing evidence would be needed for the plan to be considered as high quality. For instance, the company's approach to triangulation doesn't provide adequate visibility of how research has informed the setting of outcome delivery incentive (ODI) rates. There is also an insufficient quantity of customers engaged (which undermines the company's ability to provide adequately robust results). The company provides insufficient evidence in a number of the areas of action supporting customer participation as set out in the Tapped In report. Further evidence on the company's plans to: engage with future audiences; undertake engagement focused on customers' experience; and promote change, for example, through campaigns, would be needed for it to be considered a high-quality plan. While the company references the four themes of the Tapped In report, it provides insufficient evidence on how it would meet the Tapped In areas of action in its ongoing business operations. There is also insufficient evidence demonstrating the use of comparative information for customers to make an informed decision.
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	SES Water provides sufficient and convincing evidence that its plan will address overall affordability for all from 2020-25. It proposes a significant average reduction in real bills of 5% (£10.32) over the 2020 to 2025 period which will improve affordability overall. It also proposes to continue a PR14 performance commitment (PC) regarding perception of value for money, however it is already forecast to achieve its target for this PC so this is not considered stretching. The company 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. On its engagement on overall affordability, there is insufficient evidence of customer and CCG engagement on the bill profile to 2025. Independent business plan acceptability testing found only 59% of customers find bills acceptable. However the company reports its own acceptability testing findings that 78% of customers consider bills are acceptable. The company's research is based on current bills while business plan acceptability testing is based on the bill profile for the 2020 to 2025 period. Overall, a score of B is given due to sufficient and convincing evidence provided that the plan will improve affordability for all customers through the significant real bill reduction.
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	B	SES Water provides sufficient and convincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing to decrease bills in the 2025 to 2030 period by 6%, and we are satisfied with the company's use of financial levers. The company provides insufficient evidence of testing a specific bill/bill profile for the 2025 to 2030 period with its customers.

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		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	SES 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, its social tariff is growing by over 50% in the 2020 to 2025 period, which is predicated on customer support to increase its social tariff cross subsidy by £4 to £6 overall in the same period. Therefore, we consider its PC, which measures the increase in social tariff, is stretching. In addition, the company provides evidence of undertaking high-quality engagement with customers who struggle to pay and with customers regarding the social tariff cross-subsidy. In the round, we consider the high quality customer engagement with customers struggling to pay, and customer support for a substantial increase in the social tariff cross subsidy is sufficient evidence to demonstrate a high-quality approach to helping customers who are struggling to pay.
		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	SES Water provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, there is a lack of evidence that it has used data effectively to understand and support vulnerable customers. In addition, whilst there is some evidence of partnership working with third parties, there is a lack of emphasis on how this will help customers with non-financial vulnerabilities. Whilst we note that the company is forecasting ambitious reach for its priority services register by the end of 2024/25, there is no evidence that its target is based on high-quality analysis and it has not provided sufficient evidence to support the deliverability of this target. Finally, it has not provided sufficient evidence for us to consider that its approach to engagement with vulnerable customers is high quality.
Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	Overall, the evidence, the company provides demonstrates that its PC 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. We have confidence in the evidence that the company is complying with the PR19 Final Methodology requirements because: • There are no major gaps in the coverage of the package of PCs. • There are no material issues with the definitions for bespoke PCs. • There are no material issues with the common PCs. We have confidence in the evidence that the company's PC levels are stretching because: • The company proposes service levels for supply interruptions which are forecast upper quartile (UQ). • There are no material issues for common or bespoke PCs. • The company proposes a marginal improvement in its service levels for its mains repairs PC and overall proposes the industry's best performance levels. The area of concern is that there is insufficient evidence that the company's performance reporting structures are robust, ambitious and innovative: • The company does not provide evidence that it will enhance reporting to customers through increasing the regularity, transparency or otherwise enhancing the reputational effect of PC and ODI performance reporting. The company provides evidence that it will only report through its annual performance report. • The lack of evidence that it plans to increase the reputational impact of PCs and ODIs is particularly significant as the company proposes that over half of its PCs should be non-financial (reputational) ODIs. We note that: • The company has good governance and assurance processes set out to report PC data.

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	The company's business plan falls short of high quality, with insufficient evidence on how appropriate its package of ODIs is, although we have identified elements of high quality. The company does provides insufficient evidence to justify its ODI types and rates. In particular the rates proposed for leakage and per capita consumption (PCC) are larger than other companies. However, it demonstrates a sufficient approach to ODI deadbands, caps and collars, and proposes three enhanced ODIs to incentivise the company to shift the industry performance frontier. We have concerns over the company's selection of the type of ODIs because: • It proposes a large package of reputational PCs which it does not fully justify in a number of cases. • The Customer Challenge Group (CCG) noted that it would like to see more financial incentives. We consider that the company's business plan falls significantly short of high quality in justifying its ODI rates because: • the company does not provide sufficient evidence regarding how it uses willingness to pay valuations in calculating its ODI rates and formulating its estimates of marginal benefit; • the company does not provide sufficient evidence that it forms its package of ODIs from a bottom-up approach based upon robust customer valuations; and • the company proposes standard ODI rates for both leakage and PCC that are larger than those proposed by the rest of the industry. The company does not provide sufficient evidence to justify the magnitude of these ODI rates relative to the stretch levels associated with these PCs. Leakage and PCC form a material proportion of the P90 (outperformance payments) return on regulated equity (RORE) that the company proposes. We have confidence in the evidence that the company has a sufficiently justified approach to ODI deadbands, caps and collars because: • the company proposes very few caps and collars across its ODI package; and • we consider that the company's general application of deadbands, caps and collars is appropriate; and we identify no material concerns. We note there is one exception as the company provides an unconvincing justification for its proposed underperformance penalty collar applicable to water quality compliance (CRI), which would result in a narrow gap over which underperformance payments can apply, and significantly reduces the protection to customers from poor service delivery. The enhanced ODI rates strike a suitable balance between incentivising the company to move the frontier whilst not being against the interests of its own customers. However, we have identified the following concerns: • The actual thresholds when enhanced underperformance payments and outperformance payments will apply are unclear for two of its enhanced ODIs. • For the third enhanced ODI, the threshold may not represent the frontier by 2024-25.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	Overall, the company falls short of high quality, and provides insufficient evidence that it applies an appropriate and high quality approach to its focus on service performance in its risk/reward package, although there are some elements of its plan that meet our expectations. We consider that the company does not sufficiently evidence its asset health ODI package, does not consider how its overall ODI package will align incentives between shareholders and customers, and provides insufficient consideration of protection to customers and bill smoothing. However, we consider that it does not have any past performance issues relating to its asset health PCs, it chooses in-period ODIs, and the risk of ODI payments turning out to be higher than expected is low due to it using outperformance payment collars and proposing an overall relatively small return on RORE for its ODI package. The company provides insufficient evidence that it has met our expectations for the size of the overall ODI package because: • the company does not provide sufficient evidence on how its ODI package incentivises it to deliver its PCs; • the company does not specifically test with customers any potential ODI reward/penalty impacts on customers' bills; and • while the company has a relatively balanced set of ODIs, three of the five most significant ODIs are for PCs that customers do not rank as high priority. We note that the proposed overall ODI package is within our indicative RoRE range. The company's overall approach to bringing payments closer in time to the performance which generates them is in line with our expectations as it applies all its financial ODIs as in-period. We identify no concerns. The company has no significant asset health past performance challenges which need addressing with PCs and ODIs. However, the company does not meet our expectations for ODIs for its asset health PCs because: • we do not consider that the magnitude of the overall package of asset health ODIs, in terms of RoRE exposure (in absolute terms and as a proportion of total RoRE exposure), is sufficient to incentivise the company to meet its asset health challenges and protect customers; • the company does not demonstrate customer support for its asset health outperformance payments; • the company does not demonstrate high quality customer engagement on asset health; and • there is insufficient evidence that the CCG challenged the company's approach to asset health sufficiently. The company does not meet our expectations in protecting customers against higher than expected ODI payments because: • the company provides a lack of supporting evidence for its approach to bill smoothing; and • the company does not set out the maximum customer payments that could arise or any mitigations to protect against this outcome. We note that the company provides some customer protection in the event of high outperformance payments by proposing caps on its enhanced ODIs.

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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	SES Water's business plans falls short of high quality with insufficient and unconvincing evidence of how the company has assessed risks and consequences to its systems and services. The company provides some evidence of a resilience risk assessment across eight key areas of the business. It identifies a wide range of risks and provides evidence of considering gross, residual (after existing mitigations) and aspirational (after future mitigations) levels of risk in its risk assessment profiles. It also provides sufficient evidence of taking steps to move to a more integrated approach to resilience risk assessment. However, the company provides little 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, while the risk assessment considers a wide range of risks, the company provides insufficient evidence of the methodology it uses to identify and group the risks into the eight business areas. There is also little evidence of the impacts and consequences of the identified risks to the company's systems and services and whether aspirational risk scores are achieved by 2025. The company also provides evidence that its corporate risk systems are not fully joined up at company level. There is also little or no evidence that the company undertook a 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. The company provides unconvincing evidence that it has focused on the natural environment in its risk assessment. Finally, 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 with the CCG challenging the assurance of the company on levels of service for longer term resilience. The company's business plan demonstrates elements of high quality in relation to financial resilience, but falls short in some areas. In particular, its assessment of resilience has been carried out by reference to headroom in its gearing covenants and additional borrowing requirements to withstand cost shocks; it has not assessed financial resilience by reference to other financial ratios, such as interest cover. Furthermore, the company assumes a company specific adjustment to the cost of capital, however, the PR19 methodology does not guarantee such adjustment and the company has not considered in its financial resilience assessment the steps it would take to address resilience in the absence of an adjustment. The plan does contain a clear statement from the company's board that financial resilience has been stress tested to 2030 and that it is confident that the plan will deliver operational, financial, and corporate resilience to at least 2030. The company has assessed the prescribed financial stress scenarios and a number of company-specific scenarios with reference to its corporate risk register. These include risks associated with cyber-attacks, water quality failures and cost shocks. The impacts of risk outcomes have been set out in the plan and considered out to 2030.

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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	SES Water's business plan falls short of high quality. The company has assessed a sufficient range of mitigation options and provides evidence of proposing stretching outcomes. However, the company provides insufficient or unconvincing evidence in key aspects of some necessary areas. The company provides evidence that it has considered a wide range of options to mitigate the resilience risks identified in its risk assessment of the relevant eight business areas. That includes hard and soft infrastructure options and options that influence customer behaviours. The company also provides sufficient evidence of linking the options to the Cabinet Office's 4Rs of resilience. The company also provides some evidence that it has engaged customers using participatory approaches such as gamification. Finally, the company provides sufficient evidence of proposing a package of stretching resilience-related outcomes, particularly in relation to asset health. However, we consider that the company provides insufficient evidence that it has applied a systems-based approach to resilience and, as a consequence, there is insufficient and unconvincing evidence that the plan has taken account of interdependencies between systems to address resilience risks. In addition, the company has provided insufficient evidence of an assessment of risks in combination. The company doesn't provide convincing evidence to demonstrate the extent to which and how the options proposed mitigate the risks identified in the risk assessment. We also consider that the company provides little and unconvincing evidence that it has used environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options that would be needed in a high quality plan. Despite some areas of high quality in its assessment of financial resilience, the company's business plan does not provide sufficient evidence that its capital structure is resilient for the long term because it does not consider how the company would address resilience in a scenario where its proposal for a company specific cost of debt adjustment were not allowed. The company has, however, demonstrated that it is taking steps to address its long-term financial resilience in other respects. For example, its plan provides convincing detail of its proposal to reduce gearing from around 77% to below 60% by the start of 2020, which the company has subsequently confirmed has been achieved. There is evidence that it is considering impacts on its financial resilience related to the redemption terms of a key bond and that it is engaging with its investors on issues related to its financial resilience. The company provides sufficient evidence of its processes and procedures to mitigate and manage risks to financial resilience. It has included information on its corporate risk management in its plan including a risk profile chart. It considers, for example, the risks and impacts of a credit rating downgrade in terms of the gross risk, residual risk after management controls and the aspirational risk level. The company refers to the substantial effect clause in its licence as a relevant provision in the context of risk management, though the company provides insufficient evidence this is an appropriate risk mitigation mechanism in all circumstances. The company has referred to its management of its pension deficit position.

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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?	C	SES 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, although there are elements of high quality approaches. The company continuously challenge its employees and the supply chain to address business changes by identifying and communicating challenges on a dedicated section on its website. It demonstrates mechanisms in place to champion employee's ideas and give credit for them and is willing to pursue viable innovation and to take a balance and open approach given its size and situation. It has Employee Realistic Ideas Capture mechanism is place but provides limited evidence on true interdisciplinary debates bringing together teams from across the business. Although, it demonstrates sector leading approach of team supportiveness in a non-hierarchical atmosphere where flexible innovation projects teams who can progress innovation ideas, there are areas where more convincing evidence would be needed for the plan to be high quality. For example, further information and convincing evidence on employees recognition and supervisors support are needed for the plan to be high quality. The senior leadership of the company is committed to encourage innovation and has a variety of techniques to progress innovative ideas based on scale and potential in order to ensure the appropriate time, resource and funding are provided to develop those ideas, but convincing evidence are needed on how the company ensures those resource provide value for money. Although it recognises the importance of collaboration and provide evidence of collaborative work, there are insufficient evidence of collaboration leading to innovation. The company has strong innovation messages across its plan, but does not provide high quality and convincing evidence on its innovation vision and whether it acts as unifier bringing individuals together to solve challenges for the plan to be considered as a high quality overall.
		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?	D	Overall, SES Water's plan fell significantly short of high quality in relation to this test question. The company provides significantly insufficient evidence related to identifying and managing gap sites and voids. The company provides 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. Regarding the use of markets, catchment management and partnership working for delivery services, the company has some aspects of a high quality plan, but it is lacking sufficient breadth and depth.
		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	SES Water's plan shows insufficient evidence on effective use of third-party delivery options for both demand-side and supply-side solutions, although the company has provided sufficient and high quality evidence of a long-term water resources strategy. Overall, the company is graded as a 'C'. The company's plan falls significantly short of high quality on active consideration and effective engagement with third parties as it provides very limited evidence on use of third-party demand and supply side solution in the short-term. The trading opportunities that have been explored are much later in the planning period and has inconsistencies in reporting with partner companies' business plan. Under our assessment, surplus companies are still expected to seek third party providers if they can deliver demand solutions like water efficiency, metering or leakage reduction more efficiently than if developed in-house. On the future deployment of bilateral markets, the company does not go beyond providing the required business table Wr6 and this has some quality issues. In relation to WRMP, the plan is high quality and past issues on customer engagement and PCC ambition have been solved. However, further work can be done to improve the presentation on level of resilience with respect to extreme drought orders.

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		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	N/A	
		CMI5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided?	B	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocation appears appropriate.
		CMI6	To what extent has the company produced a company bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations?	C	SES Water has produced a bidding assessment framework generally in line with the principles of transparency, non-discrimination and proportionality. It provides a transparent overview of how it intends to use the BAF and provided templates on the materials that parties will have to include in expressions of interest. While the details are limited, the company makes encouraging comments about how it will scale back requirements when procuring smaller scale projects. Beyond a general appeal to complying with existing regulations, there is relatively little to demonstrate a non-discriminatory approach between in-house and third-party options. Instead, the BAF seems to imply that third parties will have to supply EOIs that fit into the company's overall approach, and those that do will then be put out to tender. There are few details provided about the appeals process
		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	SES Water provides minimal evidence that it has considered DPC in its business plan (there is a brief mention that it considers itself to be too small for DPC). The company has not described its approach to considering the relevance of DPC and provides no evidence that the company has considered whether any of its schemes have met the cost threshold. In summary, the company's plan falls significantly short of the required quality with no supporting evidence.

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Securing cost efficiency	D	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	C	SES Water's wholesale costs are around 19% above our view of efficient costs. Its base costs are around 12% above our baseline. We are particularly challenging its assumptions of water supply demand balance 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 activities. The company's non-leakage supply-demand balance unit costs are more efficient than the industry benchmark. We make a partial allowance for the company's water softening costs.
		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?	D	SES Water's residential retail costs are particularly inefficient, being 50% higher than our view of efficient retail costs, and the highest in the industry.
		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	SES Water proposes one cost adjustment claim for its water softening costs which is of reasonable quality. This gives the company a grade of A for its cost adjustment claims.
Aligning risk and return	C	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	C	SES Water's business plan falls short of high quality, as the company has requested a Company Specific Adjustment to its allowed cost of capital, but there is insufficient evidence to demonstrate that the proposal is justified in terms of benefits for customers. Furthermore, the company has not provided sufficient evidence that the bill increase implied by the uplift is supported by the preferences of its customers. The company has proposed an Appointee cost of capital of 5.62%, which is 16bp higher than our early view. This is based on a company specific adjustment of 25bp to the allowed cost of debt (based on an uplift of 25bp on embedded debt, and 25bp on new debt). The level of the proposed uplift is within the plausible range, relative to our 'early view' cost of capital. However, following the approach to assessing benchmarking benefits set out in the PR19 methodology, there is overall insufficient evidence that customers will receive benefits that adequately compensate for the cost of providing its requested uplift. The company supplied a third party report identifying theoretical benefits from small local companies and its own positive contribution, but did not sufficiently quantify these, or convincingly differentiate its performance from larger companies. Though there is some evidence of a strong track record on some outcomes, modelling based on the company's provisional totex and retail ranking suggest that the monetised benefits of retaining the company as an independent comparator are unlikely to adequately compensate for the cost of providing an uplift. There is also insufficient evidence that the £1.75 increase to the average bill implied by providing the uplift is supported by customer preferences. Firstly, the company polled a very small sample of its customer base (100 out of ~650,000) to gather evidence on willingness to pay £4/yr to be served by a small, local company. This £4/yr was also based on the existing difference between the average sector water bill of £178/yr and the company's equivalent of £182/yr (i.e. what customers are already paying), rather than specifically measuring customer support for the additional £1.75.

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		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	D	Overall SES Water's business falls significantly short of the required quality. The evidence presented in support of the need for its two uncertainty mechanisms is unconvincing and there is insufficient information on risk mitigation measures. The company has assessed all of the prescribed scenarios. Sufficient detail has been provided on the assumptions used to determine the key factors. For each of the main factors the company shows normal distribution diagrams and highlights the values for P10 and P90. However, there is insufficient evidence on risk management and there is no discussion of mitigation measures in its RoRE analysis. There is also insufficient evidence to support the assessment that totex outcomes should be asymmetrically skewed to the downside. The company has proposed uncertainty mechanisms for costs associated with business rates and changes to lead standards. Whilst some information has been provided in support of the proposals, it falls short of the robust and compelling evidence on risks, management approaches and impacts called for in the PR19 methodology. In particular, potential costs have not been included in the company's RoRE analysis and it has not explained why the uncertainty with respect to lead standards could not be addressed through the provisions in Condition B of its Instrument of Appointment that allow possible changes to the price control to be referred to Ofwat for determination.
		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	Despite some aspects of SES 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 that the company is financeable on the notional and its actual company structure. The business plan does provide some evidence of high quality in specific areas: • The business plan provides sufficient evidence to support the target credit ratings of Baa1/BBB+ (Moody's and S&P) for its actual company structure and that the plan is consistent with maintaining the target credit rating for the actual structures. There are four main areas where the plan falls short of high quality: • The Board has set out that it is satisfied that the business plan will deliver operational, financial and corporate resilience to at least 2030. However, there is no clear reference to the Board considering the plan to be financeable on both the notional and actual structure. • The company has provided insufficient evidence of the steps taken to assess financeability or to provide assurance over the assessment, although the company has received third party assurance on the procedures and calculations of the business plan data tables that support financeability. • There is insufficient evidence that the financial ratios are consistent with the target credit rating of Baa1/BBB+ (Moody's and S&P) on the notional company structure. • The company states that it complies with bond covenants through to 2030 and sets out the key financial ratios in relation to its covenants including an interest cover ratio that has no headroom to the threshold. There is insufficient evidence that it can maintain the ratio at this level. • The company has proposed a company specific adjustment to the allowed cost of debt and it has assessed notional financeability including this uplift which will have a negative impact on financial ratios. The company has not identified a financeability constraint on its notional or actual 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, SES 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: • The company's starting points for PAYG rates are supported by sufficient and convincing evidence. • The company has proposed adjusting PAYG rates to smooth bills during the period with convincing evidence that there is no movement of revenue between price review periods. • The company's RCV run-off rates are supported by sufficient and convincing evidence. • The company has proposed an increase to RCV run-off rates for CPIH based RCV to provide a consistent level of revenue to the RPI based revenue and has provided convincing evidence to support the adjustment. • 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.

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Accounting for past delivery	B	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	SES Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall. There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal within -0.05% of the 2019-20 PR14 allowed revenue. The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments. We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor issues for land sales. 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. For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for two of the nine PCs, land sales, totex and service incentive mechanism there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.
		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?	B	In the round we have no concerns with the evidence for deliverability for the 2020-25 plan. There is average outcomes performance as the company has or is forecast to deliver 73% of its PCs with financial ODIs in 2015-20. The company provides sufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. The plan provides sufficient evidence that it includes appropriate measures to improve its performance, although the plan includes stretch on per capita consumption, and it is not clear how this will be delivered. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of outcomes. There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20. The company provides sufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides a detailed list of planned projects, however there is insufficient evidence these projects will deliver the planned costs. However, taking into account the good past performance, we do not have concerns with the evidence for deliverability of the planned costs. The company has good performance on major incidents, as it had no major incidents, prosecutions, undertakings or formal cautions. The company provides sufficient evidence it understands the drivers of its performance, especially the importance of short chains of command and well-practiced procedures, but provides insufficient evidence that it has learnt broader lessons on incidents from across and beyond the sector. The plan includes limited evidence on measures to ensure performance is maintained. In the round the company's current performance provides sufficient confidence that incidents handling performance will be maintained in 2020-25; we therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents. 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 an average number of complaints per 10,000 connections in 2017-18 and this is declining. The company provides insufficient evidence it understands the drivers of its performance and learnt lessons. The company is increasing the provision of self-service options and updating CRM systems, but it does not provide detail on implementation. However, 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.

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Securing confidence and assurance	D	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?	D	SES Water's business plan provides little or no evidence that its full Board has provided 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. High quality Board assurance statements include compliant statements as set out in the PR19 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 three compliant statements although none with sufficient evidence, two partially compliant statements and 11 non-compliant statements. This substantially reduces our overall confidence in the assurance of the plan and raises concerns over Board ownership. For statements on the topic of business planning, the Board provides two compliant statements from the four set out in the PR19 Final Methodology. The Board's statements are partially compliant on whether the overall strategy for data assurance and governance processes delivers high quality data; and whether it has collectively owned the overall strategy and direction of the plan in the long term. For statements on the remaining topics, the Board provides one compliant statement from the twelve requested i.e. that the plan has been informed by customer engagement. The remaining statements are non-compliant. 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 company states that challenges were made by the Board and advises that it 'established a PR19 Steering Group, chaired by [its] managing director' to 'coordinate the work being led by accountable managers' and 'provide a forum for discussion of strategy and policy and the environment for internal challenge'. The plan provides no details of the topics considered by the steering group and so there is insufficient evidence to demonstrate Board challenge and satisfaction of the compliant statements. For statements on the remaining topics, Boards are asked to demonstrate how they satisfied themselves. There is insufficient evidence of how the Board satisfied itself prior to making its statements.
		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	SES Water's business plan provides 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. High quality assurance means that the Board provides a compliant statement, supported by suitable supporting evidence. The plan falls significantly short of high quality as it does not include a suitable statement of Board assurance and there is no relevant evidence of the Board's assurance process in this area.

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		CA3	To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?	C	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. SES Water's plan contains sufficient evidence that the company will commit to adopt three of the expectations set out in the 'Putting the sector in balance' position statement: • The company states that it will adopt our default gearing benefits sharing mechanism should gearing exceed 70%. • The company proposes a base dividend yield less than 5%. • The company has provided sufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders over the period of the price control and the proposed dividend policy stated in the business plan refers to all of the required elements from the Putting the sector in balance position statement. It provides sufficient and convincing evidence in all key areas on how the elements will be taken into account when determining dividends. There is no specific reference to a commitment to signal changes in dividend policy to stakeholders, but this is not considered to be a material omission as the company has committed to publishing details on dividend policy every year. The company did not put forward proposals for a bespoke voluntary benefits sharing mechanism but proposes donations 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 propsoals do not impact our assessment in this test area. We also have concerns in two main areas: 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 set out in our 'Putting the sector in balance' position statement. The company refers to the disclosures in its 2018 Annual Report, stating that executive performance related pay is linked to customer interests. The company states the targets it sets are stretching. For long-term incentives it states that these reward performance against longer-term targets which support the strategic direction of the company; which it states support the longer-term focus of customers, but provides no further detail. The company states that it will review its executive pay policy, so it is linked more closely to delivering for customers. There are some elements of high quality. For example the company states the remuneration committee will continue to rigorously apply criteria when determining executive remuneration and is committed to continuously reviewing the executive pay policies and that the company will explain changes in its executive pay policy in its annual reports. However the company does not set out sufficient evidence to explain how its policies demonstrate a substantial link to stretching delivery for customers for 2020-25. The Board provides insufficient that the company's business plan will enable customers' trust and confidence through high levels of engagement on corporate and financial structures and how this relates to financial resilience since the Board provides only a partially compliant statement of assurance. However, the company's business plan also refers to its Annual Performance Report where it provides sufficient evidence of transparency on its corporate and financial structures.
		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)?	D	SES Water's business plan provides no 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. The plan falls significantly short of high quality as the Board does not provide a statement of assurance within the signed Board Assurance Statement that it will monitor delivery of its outcomes and PCs.

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		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	SES 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). The plan has aspects of high quality: • Overall, the company's business plan reports performance and financial data consistent with previous data submissions with only minor inconsistencies in the area of outcomes which do not materially affect our assessment. • The company sufficiently describes its data assurance, governance and audit processes within its business plan. • We did not identify any areas of weakness in our key assessment areas when the company was placed in the 'Targeted' category in the 2017 Company Monitoring Framework assessment. 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 1 area and has serious concerns in 1 area.
		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	Overall, SES 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 and risk and return, but these do not materially affect our overall assessment.