

South East 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 South East Water's business plan falls short of high quality with insufficient evidence in the areas set out below.</p> <p>The company largely provides sufficient evidence of its approach to customer engagement but is limited by unconvincing evidence in some necessary areas. Positives include effective use of a wide range customer engagement techniques, including qualitative approaches such as focus groups, face to face interviews, online communities and deliberative events. It also engaged in quantitative approaches such as online surveys, telephone surveys, and online approaches incorporating interactive answer options. However, there are areas where more convincing evidence would be needed for the company's customer engagement to be considered as high quality. These include the lack of robust data, with views based on qualitative studies alone, with no quantitative data to support some findings and the company's approach to ongoing engagement, the absence of which demonstrates the lack of a truly embedded and customer-centric approach. This also appears to undermine the robustness of the company's current engagement across different customer types, for example, vulnerable customers. However, we found sufficient evidence of triangulation of robust customer data informing performance commitments (PC), but insufficient evidence of the extent to which customer segmentation is driving customer outcomes and priorities, shaping delivery of services, or a tailored approach to engagement.</p> <p>The company provides sufficient evidence of its high quality approach to customer participation and convincing evidence of adopting the four FACE areas of action set out in the Tapped In report. This includes: promoting customer action through 'the Resilient Customer' and 'Resilient Business Customer'; and engaging the wider community through the set-up of the 'Environmental Focus Group' to help agree on future initiatives. We noted convincing evidence of the customer participation techniques used across a broad range of customers including online customer panels, customer tours of their works, open days and weekly calls with non-household customers.</p> <p>Finally, the company provides convincing evidence of its high quality approach to effective engagement with customers on both the business plan and on longer-term issues in general, including its work on willingness to pay. However, these engagements were not sufficiently ambitious and innovative to be considered sector-leading. For example, the gamification-type study did not indicate that it was sufficiently immersive to be considered exceptional. However, the company demonstrates how it considered the needs and requirements of future customers in its business plan and ongoing business operations. This included engagement on current and future priorities and by including views from 16-24 year olds.</p>
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?	C	<p>South East Water provides insufficient credible evidence that its bills will be affordable and provide value for money from 2020-25. The company has engaged with customers to a limited extent on overall affordability, choosing to focus instead on affordability for those who struggle to pay. Illustrative of this focus is the fact that the company has dropped two PCs measuring overall customer views on value for money, which the company has not provided sufficient evidence for doing, in favour of two commitments on improving the position of those who struggle to pay.</p> <p>The company is proposing to keep real water bills flat from 2020 to 2025. However, the plan does not include credible evidence of how combined bills will impact customers. It also does not commit to any specific actions on protecting customers from bill volatility caused by in-period outcome delivery incentives (ODI).</p> <p>The company does have a credible plan to improve water efficiency and provide water audits that should help improve affordability. The company has a relatively 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>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	D	<p>South East Water provides insufficient and unconvincing evidence of a quality approach to addressing affordability of bills beyond 2025. Although there is some evidence of engaging with customers on long-term bill preferences, it is proposing a 1.6% increase in bills over the 2025 to 2030 period and we have significant concerns with the company's use of financial levers.</p>

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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	<p>South East Water provides sufficient and convincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, the company is growing its social tariff by more than 50% over the period, and we consider its PC, which measures its overall package of affordability support, to be stretching.</p> <p>In addition, the company will proactively identify customers who are about to go into debt through a passport scheme with third parties which will automatically register customers who are struggling to pay on an appropriate form of affordability support. We consider this to be an innovative approach.</p> <p>Furthermore, the company demonstrates high-quality and in-depth engagement with customers and stakeholders which has altered its approach to supporting customers who struggle to pay. For example, the company's Vulnerability Strategy, includes 19 recommendations from stakeholders on improving affordability, of which the company accepted 13.</p> <p>However, we note that final details of the company's proposed cross-subsidy have not yet been confirmed, and the company would like to undertake another round of customer testing.</p> <p>In the round, we consider that the company's strong engagement with customers and stakeholders, and its innovative approach to addressing customers in arrears to be sufficient evidence of a high-quality overall approach.</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?	A	<p>South East Water provides sufficient and convincing evidence of an ambitious, innovative and at several points, sector leading approach to supporting customers in vulnerable circumstances. In particular, it is proposing to increase the reach of its priority services register to 6.8% by 2024/25 which is relatively strong reach.</p> <p>In addition, it has proposed four bespoke vulnerability PCs, which is the highest in the sector. These cover both the number of customers on the priority services register as well as measuring the quality of service they receive. We consider two out of the four commitments to be stretching, with the other two having baselines which are not yet set.</p> <p>The company also provides independent assurance of its approach towards addressing vulnerability by achieving the BSI standard for fair, flexible and inclusive services. Moreover, it evidences an innovative approach to using data regarding its proposal to build an integrated vulnerability mapping tool.</p>

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Delivering outcomes for customers	B	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	<p>Overall, the evidence South East Water provides demonstrates that its PCs are appropriate, well-evidenced and stretching, which makes for a high-quality plan, although not sufficiently ambitious or innovative to be considered exceptional. There is one area of concern.</p> <p>We have confidence in the evidence that the company is complying with the PR19 Methodology requirements because:</p> <ul style="list-style-type: none"> • there are no material gaps in the coverage of the bespoke PC package; • there are no material issues with the definitions for the bespoke PCs; and • there are no concerns with the company's progress to report common PCs by 2020. <p>We have confidence in the evidence that its performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> • it has clear reporting and governance processes to report PCs and ODIs; • proposed performance reporting includes updating some performance information online every three months to ensure that reputational incentives are as strong as financial ones; • It has a planned audit of new vulnerability strategy; and • it proposes to provide a two-page summary of its performance, in addition to the customer-friendly 'Performance, People and Planet' report that it currently publishes. <p>The area of concern is that the company does not meet our expectations for proposing stretching PC levels because:</p> <ul style="list-style-type: none"> • the company provides insufficient evidence that the reduction in service levels for per capita consumption (PCC) it proposes is sufficient considering that the company is in an area of serious water stress and it has one of the highest PCC levels in the industry; and • the company proposes a deterioration in asset health as measured by the level of mains repairs in the 2020 – 2025 period from the levels in 2015-16 and before due to the expected increase in active leakage control, but provides insufficient evidence to support the proposed level. <p>We note that:</p> <ul style="list-style-type: none"> • it proposes upper quartile (UQ) service levels for leakage and for supply interruptions the proposed service level is close to UQ; and • the PC service levels for most other PCs are also stretching.
		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	B	<p>Overall, the evidence South East Water provides demonstrates that its package of ODIs is appropriate and well evidenced, which makes for a high-quality plan, although not sufficiently ambitious or innovative to be considered exceptional. It provides convincing evidence on how it justifies its approach to ODI rates, ODI type and its approach to caps, collars and deadbands.</p> <p>The company's business plan demonstrates a high quality approach to justifying its types of ODIs because:</p> <ul style="list-style-type: none"> • the company provides strong justification for PCs that had financial incentives, including where the company does not consider it to be appropriate to have outperformance payments attached; • it provides valid justification for why some PCs would not suit being financial, including overlapping with other PCs or the immaturity of the PC itself. <p>The company's business plan demonstrates a high quality approach to justifying its ODI rates because:</p> <ul style="list-style-type: none"> • it provides a high quality evidence base to document its use of the Ofwat formula as a default approach, in line with the PR19 Final Methodology; • it provides sufficient evidence of a well-reasoned and objective approach to the triangulation of customer valuations in forming its marginal benefits; and • it provides sufficient evidence of the marginal cost inputs. <p>The company's business plan demonstrates a high quality approach to ODI deadbands, caps and collars because:</p> <ul style="list-style-type: none"> • it proposes very few caps and collars; • we are satisfied that the company has considered how best to protect its customers from high outperformance payments; • the company proposes a cap and collar on its water supply interruptions PC, which is convincingly justified and we note that the company will compensate affected customers in the event of water supply interruptions performance breaching the collar; and • the company proposes to apply an underperformance deadband on its water quality compliance PC, which is convincingly justified.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, South East Water's approach falls short of high quality with insufficient evidence that it applies an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company provides insufficient explanation of how its ODI package incentivises it against service under delivery, through better aligning the interests of management and shareholders with customers. The company also does not outline any policies to protect customers from large outperformance payments. However, there are high quality elements within the plan, including the alignment of ODI payments timing with the service performance that generated them.</p> <p>The company does not meet our expectations for its overall ODI package because:</p> <ul style="list-style-type: none"> • the company provides insufficient explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers; and • the package is not well-balanced, with leakage attracting a high reward and penalty, while other customer priorities are not addressed in terms of ODIs. <p>We note that the company provides sufficient evidence that its ODI package is supported by robust customer engagement and valuations.</p> <p>The company's approach to bring payments closer in time to the performance that generates it is in line with our expectations because:</p> <ul style="list-style-type: none"> • It proposes to apply most of its financial ODIs as in-period; and • ODIs it proposes to pay/receive at the end of the period are well justified. <p>The company does not meet our expectations for ODIs for its asset health PCs because:</p> <ul style="list-style-type: none"> • it does not demonstrate high quality customer engagement on asset health; • it does not demonstrate customer support for its outperformance payments; and • The evidence provided suggests that the CCG did not challenge the company's approach to asset health sufficiently, and in any case the company's responses to the challenges that were made were insufficient. <p>We note that:</p> <ul style="list-style-type: none"> • the company has no significant asset health past performance challenges which need addressing with PCs and ODIs; and • we consider that the 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. <p>The company does not meet our expectations for protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> • it does not outline any policies to protect customers from large outperformance payments; • the company does not provide protection in terms of caps on individual PCs; and • it does not outline any re-investment plans and does not provide details on bill smoothing mechanisms. <p>We note that the company has a relatively low ODI RoRE range which reduces the risk to customers.</p>

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Securing long-term resilience	C	LR1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	C	<p>South East Water's business plan falls short of high quality with insufficient or unconvincing evidence of support from customer engagement and how the company has assessed risks and consequences to its systems and services.</p> <p>The company provides sufficient and convincing evidence that the plan incorporates some elements of the resilience-in-the-round ethos into its resilience framework and that risks are managed in a systematic way, embedded in the oversight and decision-making of the organisation, including risks to the delivery of the business plan.</p> <p>However, the company appears to have developed a compartmentalised approach to resilience, divided into resilience areas with limited explicit analysis of risk interdependencies or knock-on/cascading impacts of one system to another, lacking the integrated and systems-based approach expected from a high quality plan. Additionally, while the plan provides some evidence of customer engagement on resilience, this appears to be limited and does not reflect the broad, interactive and participatory engagement that would be needed in a high quality plan.</p> <p>Moreover, the company provides insufficient evidence of how risks are prioritised from a long list of risks (which has limited detail in the plan) and how operational resilience metrics are aggregated into overall resilience scores for each water resource zone (WRZ). In this sense, we are also concerned that there is insufficient evidence to justify the stated levels of resilience in the plan. While the plan considers the natural environment and develops a comprehensive assessment of environmental risks, the company is not ambitious or innovative in its use of tools (e.g. natural capital) or in collaborating with other parties to identify and evaluate risks to resilience, which are considered in isolation and rarely in combination in the plan.</p> <p>The company's business plan demonstrates elements of high quality in its assessment of financial resilience. It is supported by a clear board assurance statement on financial resilience and third party reports.</p> <p>The company has assessed the prescribed financial stress scenarios, with the exception of the scenario on re-financing costs and company-specific scenarios. There is evidence that the scenarios modelled are severe but plausible, and build on the long term viability statement (LTVS) included in the company's annual performance report. The company explains that it only has a small refinancing requirement in the period to 2025 meaning that there is no significant risk in this respect. However the company does not extend its analysis of stress test scenarios beyond 2025.</p> <p>The company provides evidence of the results of its scenario analysis in its plan, setting out the impact on average values for key credit rating ratios. It demonstrates that none of the scenarios would result in a breach of its financial covenant requirements (gearing higher than 85% and interest cover lower than 1.4 times).</p>

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	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>South East Water's business plan falls short of high quality and provides insufficient evidence that the solutions selected represent the best value for money over the long term and with insufficient evidence of support from customers and with insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides sufficient and convincing evidence that it has considered a range of interventions to mitigate the risks to resilience identified earlier in the plan, including behavioural change, and demonstrates collaboration in its nature-based proposals (e.g. trialling Payments for Ecosystem Services with land owners). The company also provides evidence that the mitigation of risks to resilience is embedded in the oversight and decision-making of the organisation.</p> <p>However, the company provides insufficient and unconvincing evidence that it has effectively engaged with customers regarding options to co-create and co-deliver resilience. Moreover, the plan relies on resistance and capacity engineering solutions and much less on response and recovery measures that may be needed to face disruptive events (e.g. freeze-thaw). In addition to this, the company has provided insufficient evidence of consideration of smart resilience or that it has assessed risks in combination to develop efficient options that represent best value for money. While we welcome the company's initiatives to change customer behaviours on water consumption, the plan provides insufficient evidence to demonstrate that adequate resources have been allocated to these schemes. On balance we consider that the company's proposals are not supported by stretching commitments made to customers, in particular regarding demand management measures to reduce per capita consumption.</p> <p>There is insufficient evidence in the company's business plan that it is financially resilient in the long term, particularly in the context of its targeted credit ratings. The company is highly geared at around 80%. While it plans to reduce this to 75% by April 2020 through an equity injection of £55m and maintain gearing at this level for the period from 2020 to 2025, it has a significant £300 million refinancing requirement in 2019. There is insufficient evidence that the company has adequately considered the risks that maintaining a credit rating one notch above the minimum for investment grade, is consistent with maintaining long term financial resilience. Furthermore, it is not clear that the company has taken account of our illustrative mechanism for sharing financing outperformance for companies with actual gearing levels of 70% and above in its financial risk analysis.</p> <p>The company provides sufficient evidence that it manages risks to its business through its corporate risk register, although the examples of risk management included in its plan mainly relate to operational rather than financial risks. The company does set out that its main mitigations for financial risks are its liquidity facilities, debt covenant provisions (which include restrictions on payments to shareholders) and regulatory adjustment mechanisms.</p>
Targeted controls, markets and Innovation	B	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	B	<p>South East Water's business plan is high quality with sufficient evidence to demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation. It also has some elements of sector leading, ambitious and innovative approaches, but with insufficient evidence in some areas for the plan to be exceptional.</p> <p>The company has evidenced its focused approach to finding solutions to business and customers' needs. It encourages inter-disciplinary debates which brings together teams through an Innovation Steering Group, but provides insufficient evidence to show employees are given ownership to progress their ideas and how the company manages risks inherent in innovation.</p> <p>The company provides a high quality leader support and goal clarity to its employees. It is committed to deliver its targeted strategy through a range of toolboxes and has mechanism in place to measure and monitor innovation progress. Business objectives are rooted in its strategy and has a high quality approach to provide the resources and support to develop a creative community that embraces change and different thinking. However, there are areas such as employees' recognition, supervisors support and team supportiveness for idea creation where limited evidence have been provided.</p> <p>The company demonstrates high quality approach to collaboration that drives solutions and provides examples its collaborative work with a wide range of stakeholders. Its focused approach to innovation creates a vision which brings senior executives and various stakeholders together, but there is not sufficient evidence of how all levels of the company are involved in innovation programmes or are able to interact.</p> <p>We consider that in many cases the company provides high quality with convincing evidence and meets best practice. These approaches, while good, are widely used in the sector and the proposals and processes are not sufficiently evidenced in all areas or ambitious enough for the plan to be exceptional.</p>

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		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, South East Water's plan falls short of high quality in relation to this test question. 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.</p> <p>Regarding the use of markets, catchment management and partnership working for delivery services for water-network plus, there are some good elements to the plan, but there is insufficient evidence related to its consideration of market solutions.</p> <p>The company does though provide sufficient evidence it will manage gap sites appropriately, but not void properties where we could find no evidence of using external data.</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?	B	<p>South East Water provides a high quality plan on its long-term strategy for water resources incorporating the use of markets to this aim. Overall, the company is graded as a 'B' on this question.</p> <p>The company provides sufficient and high quality evidence on effective use of third-party delivery options for both demand-side and supply-side solutions. On the supply side, the company has agreed the Aylesford Newsprint abstraction licence. On the demand, the company has worked with Advizzo for a demand management solution using behavioural approaches to reduce water consumption. The company has also provided sufficient evidence on the deployment of the future bilateral market and submitted the required business tables (Wr6 and Wr7).</p> <p>The water resources strategy is high quality and convincing as the leakage and PCC reductions are significantly more ambitious than in their dWRMP and increased focus on demand management means that for example the Ford water treatment works upgrade is no longer required. Due to the company's strategy the requirement for water trades and regional solutions has reduced.</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	<p>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.</p>

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		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	South East Water has produced a bidding assessment framework generally in line with the principles of transparency, non-discrimination and proportionality. It appears to give careful thought to making the framework accessible to all third parties (e.g. the facilitation fund for smaller suppliers, and the innovation stream to allow consideration of less developed options). The process is set out clearly, with template documentation provided and indications of timelines. The framework does not address how it will handle commercially sensitive information and there are other areas where more convincing evidence would be needed for the plan to be graded high quality. There is scope to improve to the appeal process described in the BAF. There is a clear process for new options rejected under stream 1, but there are no avenues for appealing decisions to reject options assessed under streams 2 and streams 3, nor to appeal the decision to assign an option to a given stream.
		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	South East Water provides evidence that it considered DPC as part of its business planning process. The company considered four projects with two being excluded at the Threshold stage and a further two being progressed to Technical and Value For Money (VFM) assessments. For the two projects taken forward to the latter stages, the company has provided evidence of a decision-making process for technical suitability. However for the VFM assessment, although the company undertook analysis, there is insufficient evidence that the company followed the Five Case Treasury model
Securing cost efficiency	C	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	D	In wholesale water South East Water's projections are around 23% above our view of efficient costs. This is largely due to high projections for costs associated with accommodating new developments, where we disallowed £95m based on benchmarking the company's costs to its peers. Its base costs are relatively efficient at around 5% above our view of efficient base costs. In enhancement the company's non-leakage supply-demand balance unit costs are more efficient than the industry benchmark. However, the proposed reservoir and interconnection schemes are not fully justified and we have not made a full allowance for these schemes. The company's leakage reduction unit costs are higher than the industry benchmark and we have made a benchmark allowance for the reduction the company plans to meet that is beyond upper quartile performance levels.
		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?	B	South East Water's costs for residential retail are efficient at around 4% below our view of efficient retail costs. The efficiency is both in terms of costs associated with bad debt management and other retail costs (for example customer service, meter reading).

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		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?	C	South East Water submitted two cost adjustment claims. The claims argue for additional costs associated with treatment complexity and disadvantages of operating small scale water resources and treatment works. We considered that our models sufficiently account for these factors for the company and did not make any adjustment. One claim received a partial pass and the other failed on quality of evidence. The company received a grade of C for this test.
Aligning risk and return	C	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	B	The company has provided sufficient and convincing evidence that it has based its business plan for 2020-25 on the cost of capital and retail margin caps set out as our PR19 Final Methodology 'early view'.
		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	B	Overall, South East Water's business plan demonstrates high quality evidence for most areas of its RoRE assessment. The company has assessed all of the prescribed scenarios relevant to its circumstances. Each of the scenarios is supported by economic rationale and historical evidence. There is a clear description of the risk management process with reference to the company's risk register and mitigating measures. While the conclusion in its RoRE presentation is that totex outcomes should be skewed to the downside is of concern, this has not affected the overall score. The company has not proposed any bespoke uncertainty mechanisms.
		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 South East Water's business plan which are high quality, shortcomings in other aspects mean that, overall, it 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>There are three main areas where the plan falls short of high quality:</p> <ul style="list-style-type: none"> • There is insufficient evidence that the target credit rating of Baa2/BBB (Moody's and S&P) is appropriate for the actual company given the investment needs of the company. • The target credit ratings for the notional company are inconsistent between the business plan at Baa1/A- (Moody's & S&P) and the accompanying business plan tables at Baa2/BBB. • The company has identified a notional financeability constraint and has proposed an uplift of 4% to PAYG rates. The company has provided evidence in the form of a third party report to support an uplift of 3.4% but there is insufficient convincing evidence to support that the level of the uplift proposed is consistent with addressing a notional financeability constraint. <p>The company has not identified a financeability constraint on its actual structure.</p>

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	C	RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	C	<p>Despite some aspects of South East Water's business plan which are high quality, shortcomings in other aspects mean that, overall, it falls short of providing sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> • The company's starting points for PAYG rates are supported by sufficient and convincing evidence. <p>There are three main areas where the plan falls short of high quality.</p> <ul style="list-style-type: none"> • There is insufficient evidence to support the 4% increase in PAYG rates. The company has provided a report in support of 3.4% of the increase to address a notional financeability constraint. However, there is insufficient evidence for an adjustment above this level. • There is insufficient evidence to support the RCV run-off rates. The company does not set out how average asset lives that underpin the run-off rates have been determined. • There is insufficient evidence that the bill profile is in line with customer preferences for smooth bills over 2020-25 and the longer term. The estimated bills for 2025-30 are higher than PR19 primarily as a result of a higher cost of capital assumption of 3.5% supported by a third party report. The evidence supporting the higher cost of capital for 2025-30 and hence the bill profile is unconvincing.
Accounting for past delivery	D	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>South East Water's plan falls short of high quality with insufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of the rationale provided however the company's submission falls short of high quality in terms of 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 minor at 2.6% 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 not found major data consistency issues between the submitted tables and populated reconciliation models. 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.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for ten of the 22 PCs, land sales, residential retail and totex there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories</p>

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		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?	D	<p>In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan, particularly for outcomes and we have some concerns for incidents management.</p> <p>There is poor outcomes performance as the company has delivered or is forecast to deliver 66% of its PCs with financial ODIs in 2015-20 (excluding customer satisfaction measures). The company provides insufficient evidence that it understands the drivers of its performance and has learnt lessons from that performance. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example while the company explains the measures it will put in place to improve water supply interruptions, it has not explained how it will improve customer satisfaction measures, which are a significant focus for the company. Taking into account the proposed level of stretch in the plan, we therefore have substantial 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, identifying power procurement, engineering and asset efficiency and a faster metering roll out as drivers of its performance. The company provides sufficient evidence that the plan includes appropriate measures to deliver its planned costs. 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 no major pollution or water quality incidents however it was required to provide an externally assured action plan following the 2018 freeze and thaw. The company provided insufficient evidence it understands the drivers of its performance and has identified learnt lessons from major incidents. The company provides insufficient evidence that the plan includes appropriate measures to improve performance in relation to major incidents. We therefore have some concerns with the evidence for deliverability of improved performance in relation to major incidents.</p> <p>The company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is increasing. It has a below average number of complaints per 10,000 connections in 2017-18 and this is declining. The company provides insufficient evidence it understands the drivers of its performance and learned lessons. The plan provides insufficient evidence that it includes appropriate measures to improve its performance, for example focusing on a 'resilient customer' concept without fully explaining how this will be implemented. 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.</p>
Securing confidence and assurance	B	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	B	<p>South East Water's business plan provides sufficient and convincing evidence that its full Board provides comprehensive assurance to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable and that it has challenged management to ensure this is the case.</p> <p>High quality Board assurance statements include compliant statements as set out in the PR19 Final Methodology which, in general are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. The company provides all sixteen compliant statements and a majority with sufficient supporting evidence.</p> <p>The company's business plan provides Board assurance statements that comply with those requested in the PR19 Final Methodology.</p> <p>For statements on the topic of business planning, we ask in the PR19 Final Methodology that Boards demonstrate how they challenged and satisfied themselves. The Board provides a list of 13 challenges it made of the plan. However, these insufficiently demonstrate the Board's challenge and satisfaction process prior to making its statements.</p> <p>For statements on the remaining topics Boards are asked to demonstrate how they satisfied themselves. The Board describes why it is satisfied and in some instances the company refers to assurance the Board has received. There is sufficient evidence to demonstrate how the Board satisfied itself for nine of the compliant statements. There is insufficient evidence to demonstrate how the Board satisfied itself prior to making its statements on whether the company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and how this has been incorporated into its plan; affordability; and outcomes.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
	C	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>South East Water's business plan falls short in 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.</p> <p>The Board's assurance statement advises that "Relying on this comprehensive governance framework and stringent quality assurance, the Board of the company states that it has ownership of the overall strategy and direction in the long term and that it has satisfied itself that this business plan is of high quality, innovative, deliverable and will enhance operational, financial and corporate resilience over the next control period and the long term."</p> <p>This is a suitable statement of assurance. However the company provides insufficient evidence of the Board's assurance process to support its statement.</p>
		CA3	To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?	C	<p>Overall South East Water's plan falls short of demonstrating sufficient evidence 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'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:</p> <ul style="list-style-type: none"> • The company is currently geared above 70% and forecasts gearing above this threshold in 2020-25. The company provisionally includes our gearing benefit sharing mechanism but states that it may propose an alternative proposal later in the price review process. • The company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. It provides sufficient and convincing evidence in all areas on how the required elements will be taken into account when determining dividends. The plan contains a commitment to be transparent with customers over changes to dividend policy. There is no specific reference to a commitment to annual publishing of dividend policy, but this is not considered to be a material omission as the company commits to being transparent with customers over changes. • The company proposes a base dividend yield of less than 5%. <p>The company does 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 for voluntary sharing are very modest in the context of the company's size. However, voluntary sharing mechanisms are not a requirement of the PR19 methodology, so the proposals do not impact our assessment of this test area.</p> <p>We also have concerns in two areas:</p> <p>On executive pay, the plan falls short of high quality with insufficient evidence that the company takes full account of all of the required elements in respect of its performance related executive pay policy for 2020-25. The company makes a general commitment to be open and transparent with its customers with regard to executive pay. It details its current annual bonus policy which consists of six key operational objectives, which include customer service, leakage and the Service Incentive Mechanism and states that the bonus progressively decreases if one or more of the objectives are not met. However, there is no evidence detailing any weighting towards customer objectives or reference to stretching targets. The company states its long term incentive is designed so it continues to prioritise operational objectives that meet customer's expectations and no bonus is payable if the overall performance against ODI's is a penalty. It states that any future incentive will be designed in a similar manner, but provides no further details. Overall there is insufficient evidence that the remuneration policy will be monitored and rigorously applied for 2020-25, or 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 since the company provides a partially compliant statement of assurance. We found no evidence that the company has been transparent with its customers about its corporate and financial structures and how they relate to its long-term resilience, through clear and accessible published information.</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)?	C	<p>South East Water's business plan falls short of demonstrating 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 a compliant assurance statement that it will monitor delivery of its outcomes and PCs, stating "The Board is able to confirm that the company has a robust approach to reporting on its PCs, ODIs and projections of outcomes which includes monitoring by the Board."</p> <p>The company provides insufficient evidence of how the Board will monitor outcome delivery, stating "We closely monitor our performance against targets and report progress during the year through our Company Monitoring Framework, which includes assessing risks of not achieving the performance levels we have committed to, and a plan to mitigate these risks."</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	B	<p>South East Water sufficiently demonstrates a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>The majority of the plan is of high quality:</p> <ul style="list-style-type: none"> • In our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company has minor concerns in 2 areas, it exceeds expectations in 2 areas and meets expectations in 5 areas. • The company sufficiently describes its data assurance, governance and audit processes within its business plan. • The company refers to its 'Self-assured' category in the 2017 Company Monitoring Framework assessment, for which we identified no weaknesses in our key assessment areas. <p>Whilst the majority of the company's data is of high quality, we note some minor inconsistencies between the performance and financial data reported in the company's business plan tables and previous data submissions in the areas of cost assessment, outcomes (affordability and vulnerability) and risk and return.</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?	C	<p>Overall, South East Water's business plan falls short of providing sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured.</p> <p>The plan falls short of high quality as we identify several issues within our assessments of the data tables in the policy areas of outcomes, cost assessment, risk and return and financial modelling. For example, in outcomes, for the affordability and vulnerability table, the number of people on the Priority Services Register was missing and the table includes a misleading total with no explanation.</p>