

South West Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	B	EC1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	B	<p>Overall the business plan demonstrates high quality with convincing evidence in the areas set out below, but it is not sufficiently ambitious or innovative to be considered exceptional.</p> <p>The company's business plan demonstrates high quality with convincing evidence that covers the company's approach to customer engagement and participation, and how customer engagement is reflected in the business plan and ongoing business operations. The company shows effective use of a wide range of customer engagement techniques, including postcard surveys, social media, newspaper articles, as well as more innovative techniques, such as an interactive online video. In many cases, these meet best practice, confirmed by independent assurance of its approach. The company has a high-quality approach to implementing customer valuation techniques including a variety of stated preference techniques and some use of revealed preference. However, these approaches are widely used in the sector and are not sufficiently ambitious and innovative for the engagement to be considered exceptional. The company's long-term satisfaction tracking survey is dovetailed with customer priorities research to inform decisions, however it is not clear how the tracking surveys directly impact the business plan. There is insufficient evidence of how research with different customer segments is incorporated within the plan.</p> <p>The company set out a high-quality approach to customer participation and convincing evidence of adopting the four FACE (Futures, Action, Community, Experience) areas of action set out in the Tapped In report, including an innovative customer behaviour change scheme. This scheme involves customers earning points for saving water and an initiative whereby customers can choose how to share in company financial rewards. The company demonstrates sufficient evidence of adopting the futures and community themes (of the FACE model), providing customers with opportunities to contribute to strategic planning, and running co-creation workshops, as highlighted by the CCG.</p> <p>Finally, the company uses a high-quality approach to engagement with its customers on both the business plan and on longer-term issues. This includes demonstrable incorporation of engagement with customers on risk profiles and service expectations, as well as showing creativity in the techniques used. We consider that the business plan evidence is not sufficiently ambitious and innovative to be considered exceptional due to insufficient evidence of a high quality approach to engagement with future customers and insufficient evidence on how the company plans to address intergenerational equity.</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?	B	<p>South West Water provides sufficient and convincing evidence that its bills will be affordable and provide value for money from 2020-25.</p> <p>It proposes a real bill reduction of 14% which is the second highest reduction in the sector. South West Water has tested various profiles with its customers. It has conducted acceptability and affordability testing separately for the South West Water and Bournemouth Areas. Bill profiles have been tested including nominal and real bill profiles, wastewater bills (for Bournemouth), informed and uninformed testing and how high acceptability would be if a government subsidy of £50 was removed. It obtained sufficient customer support, including an acceptability score of 78% for the bill when the £50 subsidy was removed. It has also outlined effective policies such as dual metering, the WaterShare policy and a reputational PC on achieving overall affordability.</p> <p>However, it 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?	B	<p>South West Water provides sufficient and convincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing the largest bill decrease over 2025-2030 in the sector (12.5%), and the company is not using financial levers. There is however insufficient evidence of the company testing a specific bill/bill profile for 2025-2030 with its customers.</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 West 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, it demonstrates a high-quality approach through its social tariff growth of over 50% between 2020-2025. In addition, it has a stretching performance commitment (PC) to ensure that by 2024/25, 100% of its customers will be spending less than 5% of their disposable household income on water bills.</p> <p>In addition, we consider that the company provides sufficient evidence of an effective approach to assisting customers who cannot afford to pay. For example, the company will continue income maximisation checks to support customers in identifying unclaimed benefits. The company states that this will bring up household income by an average of £43 per week.</p> <p>Moreover, the company demonstrates an innovative approach to increasing the accessibility of affordability support by creating a mobile app which allows third party organisations to submit applications on behalf of customers for social tariffs, and other financial support.</p> <p>In the round, we consider that the company's approach to increasing accessibility via an innovative app, and its stretching PC demonstrates a high-quality 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 West Water provides sufficient and convincing evidence of an ambitious and innovative approach to supporting customers in vulnerable circumstances. In particular, it demonstrates an effective approach to addressing vulnerability, with examples of innovation throughout. For example, it is proposing a PC to increase the reach of its priority services register (PSR) to 6.8% by 2024/25, which is relatively strong reach. Furthermore, it proposes a further PC to measure vulnerable customer satisfaction. We consider this stretching because it proposes a satisfaction target of 93% by 2024/25, which is the highest target for vulnerable customer satisfaction in the sector.</p> <p>In addition, it is proposing an innovative sector-leading PC to increasing the checks of customer details on the PSR every two years. It is also proposing bespoke plans to improve the accessibility and effectiveness of vulnerability support, such as introducing a WaterCare app, which has specifically been designed for vulnerable customers – we consider this to be innovative. However, whilst its engagement with vulnerable customers and stakeholders was high-quality, it was not innovative.</p> <p>Overall, we consider that the two stretching PCs that the company has proposed demonstrate sufficient evidence of ambition and innovation to its approach to supporting vulnerable customers.</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, the company provides demonstrates that its performance commitments (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's PC levels are stretching because:</p> <ul style="list-style-type: none"> the company has responded to the challenge and has set stretching levels for a range of PCs; the company is proposing significant improvements in pollution incidents and internal sewer flooding to bring it to upper quartile (UQ) industry forecast performance; whereas for supply interruptions the proposed performance level is close to UQ; we have not identified any other material issues for the package of common PCs; and within the bespoke PCs package the company has proposed stretching performance for external sewer flooding PC because the company proposed an ambitious performance level and high level of stretch as part of its joint plan for reducing internal flooding, external flooding, pollution incidents, blockages, and collapses. <p>We note that:</p> <ul style="list-style-type: none"> Two PCs (Resilience in the round – wastewater; Resilience in the round – water) do not appear to have clear evidence or explicit Customer Challenge Group (CCG) challenge. Although the proposed performance levels for bespoke PCs are demonstrably stretching, the level of evidence provided by the company on some PCs is less than we expect. <p>We have confidence in the evidence that the company's performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> It provides sufficient and convincing evidence that it will report performance accurately. It proposed to report performance with comparisons to other companies and uses a number of approaches to communication. It proposes to report the WaterShare plus scorecard which will have independent review by the WaterFuture Customer Panel (WFCP). <p>The area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology because:</p> <ul style="list-style-type: none"> the company has not provided full details of the definitions of its PCs and has not provided sufficient evidence of having fully addressed comments from the May 2018 early submission process for four bespoke PCs (Bathing water quality, Compliance with sludge standard, Resilience in the round – wastewater and Resilience in the round – water) For three common PCs (Leakage, Per capita consumption and Internal sewer flooding incidents) the company has a high number of components identified with issues in the 2017-18 shadow reported data and does not provide evidence that it will address these issues and comply with these definitions when reporting data for 2019-20. <p>We note there are no major gaps in the coverage of the bespoke PC package.</p>

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	B	<p>Overall, South West Water's business plan demonstrates a high quality and well evidenced approach to determining its package of outcome delivery incentives (ODIs), although not sufficiently ambitious or innovative to be considered exceptional. It has generally provides strong evidence to support its ODI types and an appropriate approach to justify its ODI rates. The company provide sufficient evidence to support its use of deadbands, caps and collars. It also provides some evidence that its proposed approach to enhanced ODIs can shift the frontier.</p> <p>The company appropriately justifies the type of ODI that it proposes and it has set out clear principles to inform the setting of these incentive types. In most cases where it has proposed outperformance payments, it has clearly highlighted customer evidence to support its position.</p> <p>The company's business plan demonstrates a high quality approach with convincing evidence provided to justify its ODI rates. In general we found that:</p> <ul style="list-style-type: none"> • The company clearly evidences its use of the Ofwat formula as a default approach and formulates marginal benefits based upon a robust valuation of customer willingness to pay. • The company has also put forward sufficient evidence of its use of forecast efficient marginal cost across its ODI package. • The company has provided some evidence of a high quality approach to triangulation and customer research, although it does not provide sufficient detail or examples to illustrate how this approach is applied in practice. <p>We note that:</p> <ul style="list-style-type: none"> • For Water restrictions placed on customers, the company provides insufficient evidence to justify its adjustments to the ODI rate or the trigger mechanism applied to this ODI. • For Compliance with sludge standard, the company provides insufficient evidence as to why the 50% totex sharing rate is applied despite the absence of totex sharing within the Bioresources price control. <p>We have confidence that the company has a sufficiently evidenced approach to ODI deadbands, caps and collars:</p> <ul style="list-style-type: none"> • The company makes limited use of caps, collars and deadbands, choosing only to apply collars across two PCs that have limited comparative and historical performance information. • The company proposes to use four underperformance deadbands, all of which apply to PCs which measure compliance, on the grounds that achieving perfect compliance may entail disproportionate expenditure. We are satisfied that these deadbands are appropriately justified and set at reasonable levels. <p>We note that there is a lack of outperformance caps across certain PCs, which risks rewarding the company for levels of outperformance which its customers do not appear to value highly. This is particularly concerning in cases where PCs capture company outputs rather than beneficial customer outcomes.</p> <p>The company has a sufficient approach to enhanced outperformance and underperformance payments as it has proposed two enhanced ODIs (Leakage, Internal sewer flooding incidents) with proposed enhanced reward rates that argely strike a suitable balance between incentivising the company and protecting its customers.</p> <p>We note that:</p> <ul style="list-style-type: none"> • Its enhanced service level threshold for Leakage does not correspond to where we expect the frontier to be in the 2020-2025 period. • For Internal sewer flooding incidents, the threshold where enhanced penalty rates start to apply is less challenging than the current sector lower quartile. • The only "cap" on outperformance payments for these individual enhanced ODIs is the fact that neither can go below zero.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	B	<p>Overall, South West Water applies an appropriate and high quality approach to its focus on service performance in its risk/reward package, although not sufficiently ambitious or innovative to be considered exceptional. While we consider that several areas are convincing and of high quality, there are some areas where insufficient evidence or explanation have been provided. The company provides a balanced package that offers incentives against service under delivery, which has been tested with customers. The company also aligns proposed ODI payments with the timing of service performance. However, the company does not sufficiently evidence its consideration of its past asset health challenges or provide sufficient detail on how its mechanism (WaterShare plus) will be used to protect customers.</p> <p>We have confidence in the evidence that the company has met our expectations for the size of the overall ODI package because:</p> <ul style="list-style-type: none"> • The ODI package is within the indicative range. • The approach and acceptability of package is tested with customers. Additional customer testing has been performed to gauge customer reaction from outperformance above range. • Though the company has not provided a comprehensive justification for how its ODI package will incentivise it to improve performance, its lack of underperformance collars does leave it exposed to significant downside risk, which should provide incentives to deliver strong performance across the ODI package. • Overall, the company appears to have a good balance of incentives, with rates spread out across multiple PCs. <p>The company has a high-quality approach to in-period ODIs. Most PCs with financial ODIs have been put forward as in-period. The company proposes to apply end-of-period regulatory capital value (RCV) ODIs to four PCs (Water restrictions placed on customers, Bathing water quality, Biodiversity – Enhancement and PCC), to mitigate bill volatility. We identify no concerns.</p> <p>The company does not meet our expectations for ODIs for asset health PCs because:</p> <ul style="list-style-type: none"> • The company does not demonstrate that it understands and has addressed its asset health past performance challenges, as while it has appropriate PCs on wastewater treatment works compliance and sewer collapses the ODIs are insufficient. • The company has not demonstrated customer support for its outperformance payments. <p>We note that:</p> <ul style="list-style-type: none"> • The company has demonstrated high quality customer engagement on asset health. • The CCG challenged the company's approach to asset health and was satisfied with the responses. • 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>We have identified concerns with the company's evidence that it is protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> • The company proposes to alter its framework currently called WaterShare (from 2020 called WaterShare+), where it shares benefits with customers through engaging with customers and its CCG, but has provided insufficient explanation of how this will work in practice. • It states it will use WaterShare+ to keep bills stable and certain ODIs will be based on RCV – not revenue – so that benefits do not exceed the upper RORE limit, but customer bills would still go up indirectly in the future due to the RCV increase.

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Securing long-term resilience	B	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?	B	<p>South West Water's business plan is of high quality with evidence of support from customer engagement and cross-sector collaboration in the identification of risks and high level evidence of how the company has assessed risks and consequences to its systems and services.</p> <p>The company provides sufficient evidence that it has undertaken a baseline resilience assessment through its maturity profile. The company identifies a wide range of risks to its resilience, developing specific analyses for each business area. It also provides evidence of an additional independent maturity assessment of its risk identification as part of its process of developing options. The company also provides high quality evidence of cross-sector resilience collaboration, including ambitions to develop a systems-based model as part of the EU SIM4NEXUS project. The company also provides sufficient evidence of undertaking customer engagement on the risks to resilience, including being challenged by its CCG on resilience issues and its overall approach.</p> <p>However, the company falls short of quality of an integrated and systems-based approach to resilience, where interdependencies and knock-on/cascading impacts of one system to another should be considered. We consider that the qualitative resilience maturity assessment prepared by PA Consulting lacks detail to explain how it supports the company's resilience service improvement (RSI) project. This assessment doesn't provide predictions for the maturity levels the company will achieve by end of the period from 2020 to 2025. There is also little convincing evidence of how the long list of resilience risks considered in the plan has been prioritised and whether these have been considered in combination, with a lack of quantitative analysis of risks. Finally, although the company's plan accounts for a wide range of environmental risks, these have not been assessed using environmental valuation techniques that ensure the objective assessment of these risks to resilience.</p> <p>Overall, the company's business plan demonstrates a high quality assessment of financial resilience. It is supported by a clear statement that the company's board has considered key financial ratios and financeability for the business, and that the board is confident that in all of the financial stress scenarios considered, mitigation in place supports the statement that the plan is financeable. The company's assessment is supported by a third party report. There is evidence in the plan that the company's assessment builds on the assessment of long term financial resilience in its annual performance report. Investment needs in the period out to 2030 are referred to in the plan, but the company does not assess its financial resilience through scenario analysis beyond 2025. However this is a relatively minor concern for the company given the quality of its assessment and its approach to assessing financial resilience.</p> <p>The company sets out the key risks to its financial resilience and provides commentary on its risk mitigation measures. It assesses a business specific combined scenario and the prescribed financial stress scenarios. The company says that in assessing stress test results, it takes into account its principal business risks, set out in its long term viability statement, and places emphasis on the impact on its ability to raise additional funds and meet covenant obligations. The company considers that its targeted financial ratios could be challenged in one individual year under the scenarios modelled (including the combined one),but provides convincing evidence that these would not threaten the overall viability or long-term financial resilience of the business.</p>

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		LR2	How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?	B	<p>South West Water's business plan is of high quality. It assesses a sufficient range of mitigation options and has evidence of support from customers. However, the company provides insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides evidence that it has considered a wide range of options to mitigate the resilience risks identified in the plan, including hard and soft infrastructure options and options that influence customer behaviour. It also provides sufficient evidence that it has proposed environmental options under its Upstream Thinking and Downstream Thinking initiatives. The company also provides sufficient evidence that it has engaged with customers to select its preferred resilience mitigation options, including through using participatory approaches such as gamification. The company provides high quality evidence of engaging with a wide range of stakeholders to develop options including from other sectors (i.e. the University of Exeter, the West Country Water Resources Group and a number of third parties) as part of its Upstream Thinking and Downstream Thinking initiatives. We consider that the company provides sufficient evidence that it is using environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options.</p> <p>However, we consider that the company provides insufficient evidence that it has applied a systems-based approach to resilience and, as a consequence, there is insufficient and unconvincing evidence that the plan has taken account of interdependencies between systems to address resilience risks. In addition, the company provides insufficient evidence of an assessment of risks in combination. Southwest Water also provides limited evidence of the line of sight from its resilience assessment and the proposed solutions. The company provides evidence of initiating a Resilience Service Improvement based on the independent resilience assessment but it provides limited evidence to illustrate how the improvements would improve resilience maturity.</p> <p>The company's business plan demonstrates high quality and convincing evidence that the company's capital structure is resilient for the long term and that the company has appropriate risk management and mitigation measures in place. Its gearing at 31 March 2018 was 60.4% and it projects a gearing level of about 62.8% for the period from 2020 to 2025. The company is not required to maintain a credit rating, but its licence requires it to achieve financial ratios that are consistent with an investment grade credit rating. The company provides evidence that it should be able to achieve financial ratios consistent with an investment grade rating during the period from 2020 to 2025.</p> <p>The company provides convincing evidence that it has effective liquidity and debt portfolio management arrangements in place. The company provides convincing evidence of the measures it will have in place to manage and mitigate other financial risks in the period from 2020 to 2025. Mitigation actions that the company identifies include dividend deferrals and the use of commercial insurance. The company refers to its management of its defined benefit pension deficit.</p>
Targeted controls, markets and Innovation	C	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	C	<p>South West Water's business plan falls short of high quality with insufficient evidence to demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation. It has some elements of high quality approaches, but not sufficient evidence overall for the plan to be high quality. The company's illustration of its innovation delivery model shows how its employees and the supply chain provide 'inputs' (i.e. innovative ideas) which are then taken through a structured process to assess, develop and be implemented if it delivers value. There is little or no evidence that it actively identifies and sets out its business challenges in its innovation model and communicates its business challenges to employees and supply chain. While the illustrated innovation model shows that it considers post project appraisal and value for money assessments, it does not provide any details to explain the diagram further. There is also no evidence that the company has an appetite for risk, or has a process that it follows to deal with the risk of failure, or is prepared to learn from innovation failures. The company states that it has innovation set within its company values and staff objectives to embed innovation, but there is limited evidence or examples to support this statement. While its illustrated innovation delivery model shows how it considers 'recognition' and 'reward', there is no evidence to demonstrate that employees are rewarded or recognised for efforts and achievements that lead to generating or implementing innovative ideas. There is convincing evidence that the company has invested time and resources to promote innovative solutions to be applied to problems e.g. through its Innovation model, innovation hub (Hype) and collaborative/partnership working with third parties - in particular, its partnership with the University of Exeter, the company where it has invested over £20m to deliver a new Innovation Centre for Water, Waste and Environmental Resilience to identify, develop and implement sustainable long-term solutions for the sector.</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 West Water's plan falls short of high quality in relation to this test question. The company overall has an inadequate plan for managing gap sites and voids. It provides a sufficient explanation of their voids and how it would manage their residential voids. However, there is significantly insufficient evidence related to their business voids, residential gap sites and business gap sites.</p> <p>The company provides no significant evidence related to looking for lessons learned and innovation adopted from the business retail market and how it plans to adopt a similar approach in non-contestable markets. Regarding the use of markets, catchment management and partnership working for delivery services related to wastewater network-plus the company had a high quality plan which included an appropriate long-term strategy, catchment management and partnership working. However, regarding water network-plus, it is insufficient, which despite some examples of catchment management and partnership working lacked sufficient evidence e.g. in relation to the use of markets.</p>
		CMI3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?	A	<p>South West Water scores as an A overall in this area because it presents high quality plan with elements of innovation and ambition to secure a resilient and sustainable water resources in the long run, considering a twin-track approach and using markets. The company shows high quality evidence in the use of markets for both supply and demand options. Regarding supply, the company is engaging with water trading exports in multi-party trade with Bristol, Wessex to export water to Southern. It is also considering a bilateral trading with Southern to export water 20 MI/day from Bournemouth. Regarding demand options, the company is working with other organisations to reduce water demand and to reduce leakage. Finally, the company shows evidence of good practice to assess third party solutions. The company has submitted a high quality strategy for the future deployment of bilateral market. It has also taken the adequate steps to facilitate this market by publishing indicative figures for access prices and notional charges for water resources. It has submitted an innovative and ambitious plan setting up an internal water resources market that will be replicated for the bilateral market. In this model, an internal system operator function undertakes long-term water resource planning, and advises on short-term system optimisation. Both water resources and network plus operate as separate functions. The company has correctly submitted the required business table Wr6. Regarding the robustness of water resources strategy, the company shows ambition pushing beyond boundaries and expectations. The company meets the requirements on leakage and water trading, and it has added additional schemes to reduce per capita consumption. It has also proposed an internal market for water resources to be replicated outside when the bilateral market opens.</p>
		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	C	<p>South West Water has an insufficiently well-evidenced long-term strategy for delivering bioresources services, and falls short of a high quality approach in certain key areas. The company provides sufficient evidence for identifying a proposed pricing structure for the future use of appointed assets, which aligns with guidance, despite having no trades in place within the current plan. Other key aspects of the plan provide insufficient evidence. While it provides a reasonable long term strategy which clearly looks to maximise the benefits from the opening of the bioresources market, the plan falls short of high-quality due to unexplained inconsistencies in sludge production rates between AMP6 and AMP7. It has also insufficient evidence on the split of fixed and variable costs and the third party engagement approach. The company could potentially lose opportunities by waiting to engage the market in AMP7 rather than before.</p>
		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 for bioresources in September 2017 and for water resources in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocations appear appropriate.</p>

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	B	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?	B	South West Water provides a bid assessment framework (BAF) that meets all the best-practice recommendations and generally reflects the key principles. The process outlined is sufficiently transparent, providing some details on the assessment criteria that will apply and how different solutions, in terms of value, will be treated at a high level. The company provides information on where parties can get additional information and how it will update this so that all potential third-party providers remain informed. There is a commitment to treat in-house solutions on the same basis as third-party options, and the appeal process allows for the possibility of using independent arbitration. For smaller value solutions, the BAF leaves open the possibility that the company will select in-house options without affording third-party suppliers an opportunity to tender
		CMI7	To what extent has the company clearly demonstrated that it has considered, whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	C	<p>South West Water provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold, carried out a technical analysis on the relevant schemes and carried out a Value for Money (VfM) assessment for two water treatment works. In the appraisal of the company DPC plan we took into account the following:</p> <ul style="list-style-type: none"> The company carried a review against the £100 million threshold for DPC and identified two schemes and one potential future scheme. The overall quality was assessed as good with external advice and assistance in developing and implementing its assessment. The company carried out a comprehensive technical assessment of the two WTWs that passed the threshold test using a framework based on the guidance. The level of evidence provided for both WTW schemes and the categorisation on the suitability for DPC was sufficient to be considered as high quality and convincing. This was supported by the overall decision to take both schemes through to VfM despite the Knapp Mill WTW being a marginal technical decision. The company provided a good quality VfM assessment, including an NPV analysis and a business case structured on the Five Case Model for both the Knapp Mill and Alderney WTWs that progressed beyond the technical assessment for DPC. The strategic and economic cases were of good quality although the commercial, financial and management cases were of mixed quality. The decision to reject both schemes, because the NPV analysis indicated only marginal benefits, was not convincing due to the conservative choice of assumptions. <p>In summary, the company has carried out a good DPC assessment but it falls short of high quality because its decisions in some areas are not supported by sufficient convincing evidence.</p>
Securing cost efficiency	B	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	B	South West Water's wholesale water costs are in line with our view of efficient costs. Its base costs are below our view of efficient costs. Its enhancement costs are above industry benchmark costs in areas such as growth and lead reduction. The company's supply-demand balance leakage unit costs are more efficient than the industry benchmark. However, it is not forecasting to reduce leakage to achieve upper quartile performance levels or by more than 15%, so we have not made any enhancement allowance for the costs of leakage reduction.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	South West Water's wholesale wastewater costs are around 5% above our view of efficient costs. Where we have enhancement benchmarks the company's costs are efficient in almost all areas. But its evidence for some proposed investment, for example in bioresources treatment capacity, was not high quality so we have not allowed for it in our view of costs. In the round, wastewater enhancement seems efficient and we are allowing business plan costs for all wastewater enhancement proposals apart from those in bioresources.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	C	South West Water's retail costs are around 14% above our view of efficient costs.

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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 West Water proposes six cost adjustment claims, four of which we assess as reasonable quality and the remaining two of poor quality. The claims that fail our assessment process generally lack supporting evidence of the need for adjustment of our cost allowance and the robustness and efficiency of costs. Overall we grade the company as a C in this area, although the grade in this area was marginal and close to the criteria for a grade of B and we take this into consideration when looking at the company's overall cost efficiency test grade.
Aligning risk and return	B	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	B	The company has provided sufficient and convincing evidence that it has based its business plan for 2020-25 on the cost of capital and retail margin caps set out as our PR19 Final Methodology 'early view'.
		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	C	While South West Water's business plan demonstrates elements of high quality, there is insufficient evidence of demonstrating a clear understanding of risk management and risk mitigation measures in its RoRE analysis. The company has considered all of the prescribed scenarios. The company has referred to its risk mitigation approaches in respect of key business risks that it has identified for its assessment of financial resilience, though these are not set out in respect of the RoRE sensitivity test factors. No uncertainty mechanisms have been requested.
		RR3	Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence?	B	Overall, South West Water's business plan is high quality, providing sufficient and convincing evidence to support its board's statement that the plan is financeable on both the notional and its actual capital structure. The following areas of the plan are high quality: <ul style="list-style-type: none"> • The company has set out the steps taken to make the financeability assessment and to provide assurance, supported by third party assurance of the approach to assessing financial resilience including financeability. • The company is not required to maintain a credit rating under its licence, but is required to certify, in the opinion of the board, it would be able to maintain an issuer credit rating which is an investment grade rating. The board has confirmed that in its opinion the company would be able to meet an investment grade credit rating. The business plan provides sufficient evidence to support the target of the boundary of A/BBB+ for the notional company structure and specific covenants for its actual structure and that the plan is consistent with maintaining the targets for the notional and actual structures. • The company has not identified a financeability constraint on the notional or its actual capital structure.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	B	<p>Overall, South West Water's business plan contains sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The following areas of the plan are high quality:</p> <ul style="list-style-type: none"> • The company's PAYG rates are supported by sufficient and convincing evidence. No adjustment to PAYG rates has been proposed. • The company's RCV run-off rates are supported by sufficient and convincing evidence. No adjustment to RCV run-off rates has been proposed. • Overall, there is sufficient and convincing evidence that the resulting bill profile, which includes the impact of the transition to CPIH, is supported by customer preferences and there is evidence that bills are consistent with customers' preferences both now and in the future. <p>The company has not demonstrated how the bill profile differs from one which assumes no transition to CPIH. However, this is not material to the overall assessment.</p>
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?	B	<p>South West Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal at 0.2% of the 2019-20 PR14 allowed revenue.</p> <p>The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments.</p> <p>We have found minor consistency issues on the Bournemouth area totex, on the South West area totex and on residential retail in both areas.</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 for the Bournemouth area. For the South West area, reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and data tables on an individual PC basis apart from a difference that marginally favours customers, where the company has overestimated its underperformance payments for supply interruptions. We also have concerns where the company excludes some events from its duration of interruptions to supply performance data in contradiction to the definition of the PC.</p> <p>For most areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for six of the South West area 24 PCs, and one of the nine Bournemouth area PCs, totex and land sales there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		PD2	<p>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?</p>	D	<p>In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan, particularly for incidents, and some concerns for outcomes and customer complaints.</p> <p>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, although we would like to see greater understanding for pollution incidents. The company is proposing to improve performance for sewer collapses, pollution incidents and wastewater treatment compliance. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example, we have concerns over delivery of pollution incidents and wastewater treatment compliance where the measures the company proposes do not appear to match the improvements required. Taking into account the proposed level of stretch in the plan, we therefore have some concerns with the evidence for deliverability of outcomes.</p> <p>There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20 for wholesale water and wastewater. The company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides sufficient evidence that the plan includes appropriate measures to deliver planned costs, such as renewable energy projects and initiatives to improve energy efficiency. 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>The company has poor performance on major incidents. It had two major incidents, the highest number of category one and two pollution incidents per 10,000km of sewers and has an EA performance rating of two stars. It had 11 prosecutions, two enforcement undertakings and eight formal cautions from the EA and DWI. The company provides insufficient evidence it understands the drivers of its performance and has learnt lessons from major incidents. For example, the company does not provide sufficient evidence it has assessed the causes and its handling of its major pollution incidents. The plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents. For example, it does not identify measures to improve customer engagement during major incidents, beyond broad commitments to improve communication and data visualisation. We therefore have substantial 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 but It has an above average number of complaints per 10,000 connections in 2017-18 and this is increasing. The company provided insufficient evidence it understood the drivers of its performance and learned lessons. For example, it fails to acknowledge its poor performance on complaints numbers and attributes its improvements to increased investment and staff development without providing sufficient detail. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example, it merely outlines broad ambitions such as being more 'proactive' when dealing with customers. We therefore have some concerns with the evidence for deliverability of customer complaints handling performance.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Securing confidence and assurance	C	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	C	<p>South West Water's business plan falls short of providing sufficient 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.</p> <p>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 each statement. The company provides fourteen compliant statements, ten of which have sufficient supporting evidence, and two statements are non-compliant.</p> <p>On the topic of business planning, the Board provides two compliant statements as set out in in the PR19 Methodology. The Board's statements are non-compliant on whether all the elements add up to a business plan that is high quality and deliverable; and whether it has collectively owned the overall strategy and direction of the plan in the long term.</p> <p>The Board provides all of the statements on the remaining topics we request in the PR19 methodology.</p> <p>For statements on business planning, we asked that Boards demonstrate how they have challenged management and satisfied themselves prior to making their statements. The Board assurance statement provides a list of eight 'key challenges' made by the Board to the executive team. These do not sufficiently cover the topics of the compliant statements.</p> <p>For statements on the remaining topics, we ask that Boards demonstrate how they satisfied themselves. The Board provides narrative on why it is satisfied prior to making each assurance statement. This evidence is sufficient for ten of the statements. There is insufficient evidence of how the Board satisfied itself prior to making its statements on whether large investment proposals are robust and deliverable, a proper assessment of options has taken place, and the option proposed is the best one for customers; and the risk mitigation and management plans the Board has in place are appropriate.</p>
		CA2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?	D	<p>South West Water's business plan provides little or no evidence that its full Board has been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long-term.</p> <p>High quality assurance means that the Board provides a compliant statement supported by suitable supporting evidence.</p> <p>The Board's assurance statement advises that "The Board oversees a well-established fully integrated risk and assurance governance framework that has delivered a consistently reliable and resilient service for our customers."</p> <p>The plan falls significantly short of high quality as it does not include a suitable statement of assurance and there is no relevant evidence of the Board's assurance process in this area.</p>

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		CA3	<p>To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?</p>	C	<p>Overall the plan falls short of high quality with insufficient evidence in some areas that the plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of engagement and transparency on corporate and financial structures and how they relate to financial resilience.</p> <p>South West Water's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> • The company does not include a gearing benefits sharing mechanism but there is convincing evidence that the company does not expect to exceed the gearing threshold of 70%, as it is committed to remain below this threshold by a covenant with one of its lenders; and • The company proposes a base dividend yield of less than 5%. <p>The company is proposing to share over £20m from its bespoke outperformance sharing mechanism on the cost of embedded debt which could equate to £4m sharing per year, and is considering a share ownership scheme for customers using the proceeds from its current cost of new debt outperformance sharing mechanism. The company is also proposing donations to social tariffs and hardship funds which could have a value of £0.2m per year. We assess the value of the company's voluntary sharing proposals as high quality and ambitious, considering its size as a company.</p> <p>However we have concerns in three areas.</p> <p>On dividend policy, the plans falls short of high quality with insufficient evidence that its proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. There are, however, elements of high quality. The proposed dividend policy refers to all of the required elements from the Putting the sector in balance position paper, and sufficient and convincing evidence is provided in some areas, on how the elements will be taken into account when determining dividends. The policy states that dividends will depend on delivery of commitments to customers but no detail is provided on how this will be assessed. The company refers to transparency in relation to dividend policy but there is no specific reference to a commitment to publish information on dividend policy annually or signal changes in dividend policy to stakeholders.</p> <p>On executive pay, the plan falls short of high quality with insufficient evidence that the company has taken full account of all of the required elements in respect of its performance related executive pay policy for 2020-25. The company included a statement that a large proportion of director's remuneration is provided by variable pay, which rewards the achievement of stretching annual and long term performance targets. However, the company provides insufficient evidence in support of this with only around 30% of the annual bonus linked to operational / RoRE performance. For the long term, there is no evidence of a linkage to customer delivery and a large proportion of the annual and long term bonuses is linked to the performance of the Pennon Group. There is insufficient evidence of how the company will set stretching targets for delivery to customers or how the policy will be monitored and rigorously applied for 2020-25. The company does state that it annually reports the details and outcomes of performance bonuses but there is insufficient evidence as to how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports.</p> <p>The plan falls short of high quality with insufficient evidence that the company's full Board provides assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement on corporate and financial structures and how this relates to financial resilience. The company provides a suitable Board assurance statement although there is insufficient evidence of the Board's assurance process to support its statement. The plan also falls short of high quality with little or 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)?	B	<p>South West Water's business plan provides sufficient and convincing evidence that its full Board provides comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes.</p> <p>The Board provides assurance that it will monitor delivery of its outcomes and PCs through the following compliant statement “Our direct involvement in this area of the plan, the extensive and robust customer engagement, independent challenge and technical assurance received, and careful comparison against our past performance and external benchmarks, has enabled the Board to be confident that our business plan will deliver – and that the Board will monitor delivery of outcomes for customers and performance commitments”. The company advises on how the Board will monitor outcome delivery through the following statement “The Board has provided extensive oversight and scrutiny of performance against promises made to customers in our PR14 business plan. Performance is reported to Board every month through our integrated governance and assurance framework...This governance framework and continuous review of performance and actions to address performance to target improvements where required, will be retained post 2020 and give confidence our commitments will be delivered.”</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	<p>South West Water falls short of sufficiently demonstrating a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>The plan has aspects of high quality:</p> <ul style="list-style-type: none"> • The company sufficiently describes its data assurance, governance and audit processes within its business plan • The performance and financial data reported in the company's business plan tables is consistent with previous data submissions, with only minor inconsistencies in the area of cost assessment which do not materially affect our assessment. • The company references its 'targeted' status in the 2017 Company Monitoring Framework assessment, for which we identified no weaknesses in our key assessment areas. <p>However in our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company exceeds expectations in 2 areas and meets expectations in 6 areas, it has minor concerns in 1 area and has serious concerns in 1 area.</p>
		CA6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?	B	<p>Overall, South West Water's business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, consistency of tax information and the assurance and commentary provided are consistent, accurate and assured. We identify no material issues within our assessments of the data tables.</p>