

Thames 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 the business plan falls short of high quality with insufficient evidence in the areas set out below.</p> <p>The business plan contains sufficient evidence of a high-quality approach to customer engagement in some areas. The company provides sufficient evidence to demonstrate an appropriate application of a broad range of customer engagement techniques. This includes deliberative research, depths, focus groups, hall-tests, operational data, gamification, willingness to pay research, in order to collect a robust and proportionate evidence base. The company has also built in home visits to educate customers on its day to day operations. Its willingness to pay surveys followed good practice guidance and were subject to academic peer review. The business plan provides some evidence of innovation in the company's approach. For example, the use of gamification techniques via an interactive customer engagement tool and the trialling of subjective well-being analysis, but not to a sufficient extent to be considered sector-leading or exceptional. The company has also used comparative information to provide context to customers. However, the approach to triangulating outcome delivery incentives (ODIs) values from customer research used by the company is inconsistent and, in some cases, unclear. Similarly, while the business plan provides sufficient evidence of the company engaging with a broad range of customer segments, including a wide range of vulnerable customers, little detail could be found on the results of this engagement and the extent to which results are reflected in the business plan.</p> <p>The company provides sufficient evidence it has taken forward two of the four FACE (Futures, Action, Community, Experience) themes of customer participation outlined in the Tapped In report: 'futures' and 'action'. The company involves customers in strategic planning and design from its initial foundation stage of customer research. There is evidence that customers had opportunities to challenge the business plan throughout the development process. Promoting customer behaviour change is another area where the company has made effective progress, using advertising campaigns to educate customers on water efficiency and the causes of sewer blockages. While the company demonstrates it engages with the communities it serves, there is a lack of evidence of co-creation, an area in which the CCG has been critical of the company. There is also little to suggest the company incorporates the 'Experience' theme in its plan. Apart from rolling out smart meters, no evidence is found of customers having greater control over their services.</p> <p>The company provides sufficient evidence that it has effectively engaged with customers on longer term issues and taken into account the needs of future customers. The company shows innovation in some elements of this, for example in the use of a customer engagement tool that effectively uses gamification (rather than simply as a tick box exercise) to understand customer service level priorities when faced 'with real life trade offs' and its futurology workshops. The company also explored and considered customer views on risk. Events such as H2InnOvate, which involves the company looking at tangible industry issues together with university age students is another example of one of the company's ambitious projects. However, evidence on how it is incorporated into the business plan is not found. There is also some evidence of the company's attempt to understand the link between customer behaviour change and resilience through its water efficiency education programme. The company shows that it made sufficient efforts to engage with both future customers and current customers on long term issues and its final acceptability testing was carried out with a sample of both current and future customers. This includes the testing of long-term acceptability and affordability of the plan (i.e. 2025 and 2030 bills), inflation and potential ODI impacts. However, the company does not in all cases incorporate the results of its customer engagement on service levels, resilience and long-term issues into its final business plan, as flagged by the CCG. The company's final acceptability testing yields insufficient support for the acceptability and affordability of its long-term bill profiles (i.e. 2025-2030). Similarly, the company proposes a PC target for supply interruptions that is not considered stretching when tested with customers and an out/underperformance ODI for the low-pressure PC when the results of its engagement indicates it should be underperformance payment only PC.</p>

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Addressing affordability and vulnerability	C	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	C	<p>Thames Water provides insufficient and unconvincing evidence to demonstrate that its bills are affordable and value for money for the 2020-25 period, the bill is reducing by 1% in real terms from 2019-20 to 2024-25.</p> <p>The company's customer engagement on affordability includes some elements of good practice, such as showing customers five options for bills in the 2020-2025 period. However, there is a lack of transparency around the bill profile engagement, alongside a poorly evidenced customer benchmark for affordability and acceptability scores. The company also provides insufficient and unconvincing evidence of customer support for its proposed bills. The company's scores for acceptability and affordability place it in the third-quartile. Furthermore, although it has surpassed a benchmark set by its customers for these scores, there is no evidence provided for how this benchmark was set, which reduces the credibility of this research as an accurate reflection of customer support. The company also 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> <p>However, it does provide evidence of ambitious approaches to helping customers keep costs down, such as water efficiency advice and smart meters, as well as offering a high level of payment flexibility to all customers which is measured through a performance commitment (PC).</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	D	<p>Thames Water provides insufficient and unconvincing evidence of a quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing to increase its bills by 8.9% during the 2025 to 2030 period, the largest increase over this period in the sector. In addition, there is insufficient evidence of the company following its customers' long-term preferences.</p> <p>There is evidence that the company undertook research into intergenerational fairness and attitudes towards how bills should change over the long-term. Its customers appear to prefer bills that increase gradually over time, however the company is proposing to increase bills by just under £40 from 2025-2030, so there is a concern around whether the company is following its customer's preferences in respect of bill increases beyond 2025.</p>
		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>Thames 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's social tariff is growing by over 50% in the 2020-2025 period and is supported by a stretching PC. The company also provides evidence of increasing the accessibility by proposing a new tiered social tariff with different levels of discount, which is based on in-depth research.</p> <p>The company also demonstrates a targeted approach to supporting customers who struggle to pay by, for example, helping customers claim unclaimed benefits via home-visits. We consider its engagement with customers regarding the cross-subsidy of its social tariff to be high-quality.</p> <p>In the round, we consider the company's approach to social tariffs, in terms of the growth over the 2020-2025 period and the tiered approach to increase its accessibility, to be sufficient to consider its overall approach high-quality.</p>
		AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	C	<p>Thames Water provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in circumstances that make them vulnerable. In particular, it has forecast to register 2.5% of its customer base on the priority services register by 2024/25. This is not sufficiently ambitious reach, given the company has identified a greater population are eligible. We consider the reach of the priority services register (PSR) to be particularly significant given the issues with the company's performance in the context of the recent Freeze Thaw incident.</p> <p>In addition, we do not consider its approach to engagement with vulnerable customers to be high-quality, because it was undertaken with less than 20 vulnerable customers.</p> <p>However, there are some examples of the company demonstrating a high-quality approach. For instance, it has evidenced robust partnerships with third parties, and demonstrated an approach which is informed by an effective use of data.</p> <p>Overall, we consider that whilst there are some elements of high-quality, the low reach of its PSR is particularly significant in light of recent issues with supporting vulnerable customers during Freeze Thaw. Therefore, we consider that the company has fallen short of high-quality in its approach to supporting customers in situations of vulnerability.</p>

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Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	C	<p>Overall, Thames Water has provided insufficient evidence that it has selected appropriate PCs and its PCs demonstrate stretching performance. However, there are elements of high quality within its plan.</p> <p>The company provides insufficient evidence that it is complied with the PR19 Final Methodology requirements and proposed appropriate PCs. We identify a number of issues with some bespoke PCs. However:</p> <ul style="list-style-type: none"> • There are no major gaps in the coverage of the bespoke PC package. • There are no material issues with proposing common PCs and we have no concerns that it will not report according to the common definitions in 2019-20. <p>We have the following concerns with the company's evidence that its PC levels are stretching:</p> <ul style="list-style-type: none"> • The levels of stretch for per capita consumption (PCC) and those of leakage are insufficiently demanding in light of the company's water resources challenges and its worst in the industry performance for leakage. • The initial levels and 2020-25 service levels for some PCs, primarily supply interruptions, are insufficiently demanding. • The company is proposing a deterioration in asset health measured by the level of mains repairs in the 2020-25 period, which is already the highest in the industry, but provides insufficient evidence to support the proposed level. <p>We have not identified concerns for the stretch of the majority of bespoke PCs.</p> <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 provides sufficient and convincing evidence that it will report performance accurately; • it provides convincing evidence that it has listened to customers, acknowledging that in AMP6 their reporting focus was too much on financial issues and not enough on operational issues; • it proposes that easy to understand monthly reporting on its critical PCs will be made available via the web and social media. The company note the microsite it launched to report on progress against its leakage recovery plan; and • it proposes to produce a simplified and easy to interpret performance report, focusing on its five customer outcomes.
		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	<p>Overall, we consider that Thames Water's approach to its package of ODIs falls short of high quality. We have concerns about its approach to setting ODI types, particularly insufficient justification of outperformance payments. We also have concerns where low rates have been chosen relative to its PC stretch. However, we consider that it has a high quality approach to deadbands, caps and collars.</p> <p>We have several material concerns over company's approach to choosing the type of ODIs for PCs. In particular, there are a number of instances where there was insufficient justification for outperformance payments. For several PCs such as low pressure, surface water management and acceptability, customers wanted underperformance only ODIs but the company has chosen both underperformance and outperformance ODIs. Additionally, there are several PCs that the company has proposed financial incentives when customers preferences were for these to be non-financial incentives.</p> <p>The company's business plan falls significantly short of the required quality in justifying its ODI rates appropriately, because:</p> <ul style="list-style-type: none"> • the company proposes ODI rates that are of low magnitude in a number of cases relative to the level of PC stretch, particularly in the case of internal sewer flooding and leakage, which means customers are not sufficiently protected from poor performance; • in the case of leakage, the company provides a high degree of transparency with regards to how it has arrived at the triangulated marginal benefit value, however it does not provide rationale for why it is appropriate to choose the lowest available value for customer willingness to pay; and • for leakage and related PCs (e.g. PCC), it provides insufficient evidence with regards to the scaling factors used in adjusting marginal benefits for overlap with PCC, security of supply index (SOSI) and mains bursts. <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"> • There is a clear general approach to application of caps/collars, with the company proposing these in only a few cases on the grounds that they dampen incentives. • Deadbands are proposed for water quality compliance and treatment works compliance, which are sufficiently justified and set at reasonable levels.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, Thames Water's business plan falls short of high quality with insufficient evidence that it has applied an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company provides an ODI package that is not balanced across ODIs and the most material ODIs do not always reflect customer priorities. The company also fails to outline adequate measures to protect customers from higher than expected outperformance payments, including any approach to bill smoothing should this occur. However, there are high quality elements within the plan. For example, it has aligned the timing of outperformance payments with its corresponding service performance and it has sufficiently evidenced that it has tested the overall acceptability of its ODI package with its customers.</p> <p>We have the following concerns with the company's overall ODI package:</p> <ul style="list-style-type: none"> • The company does not provide a sufficient 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. • The ODI package is not well-balanced between outperformance payments and underperformance payments. Additionally, the more significant ODIs do not always reflect customer priorities. <p>The company's overall approach to align the timing of outperformance payments with its corresponding service performance is in line with our expectations. It proposes that most of its financial ODIs are in-period and the ones that are end-of-period are well justified.</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 it does not have an appropriate PC and ODI on wastewater treatment works compliance. • The company does not demonstrate customer support for its outperformance payments. <p>We have the following concerns with the company's customer protection from higher than expected outperformance payments:</p> <ul style="list-style-type: none"> • The company does not outline any policies to protect customers from outperformance payments. • The company does not provide protection in terms of caps on individual PCs and does not evidence an approach to bill smoothing. • The company does not propose benefit sharing mechanisms to address cases of material outperformance on its ODI package.

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Securing long-term resilience	D	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>Thames Water’s business plan falls short of high quality with some evidence of support from customer engagement but insufficient and unconvincing evidence of how the company has assessed risks and consequences to its systems and services.</p> <p>The company provides sufficient evidence that it has undertaken a comprehensive baseline resilience assessment through its maturity profile, however, it is unclear how this assessment has informed the company’s plan. The company identifies a wide range of risks to its resilience and also some evidence of undertaking customer engagement on those risks, including being challenged by its CCG on resilience issues and its overall approach.</p> <p>However, the company’s resilience assessment falls short of high quality and provides insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or knock-on/cascading impacts of one system to another should be considered. We consider that the resilience maturity assessment of the company is not sufficiently built into the business plan.</p> <p>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. Finally, although the Thames Water’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. In this sense, the company provides unconvincing evidence that it has focused sufficiently on the natural environment in its resilience framework.</p> <p>The company provides insufficient evidence that it has a good understanding of asset health, given its historical poor performance in this area, and provides limited evidence of how it plans to improve in this area.</p> <p>The company’s business plan demonstrates insufficient evidence of a robust approach to the assessment of financial resilience in some areas.</p> <p>The company has assessed the prescribed and bespoke scenarios having regard to its corporate risk register with a look forward period of ten years. However, it has mainly tested its financial resilience against covenant interest cover requirements associated with its securitised structure; impacts against credit rating agency metrics are not presented in support of the business plan statement that it expects to maintain an investment grade credit rating even in downside scenarios. In addition it does not provide sufficient evidence that it has considered the risks that might affect its long-term financial resilience associated with the need to refinance subordinated debt.</p> <p>A third party report for the company recommends: additional scenario analysis; further planning to deal with a series of ‘severe but reasonable’ shocks; a move away from reactive to proactive maintenance; and finalising asset condition surveys to enable more accurate financial planning. There is insufficient evidence in the financial resilience assessment that the company has, or intends to, take these recommendations into account in its financial resilience assessment.</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?	D	<p>Thames Water’s business plan falls significantly short of high quality. The company has assessed a sufficient range of mitigation options and has some evidence of support from customers. However, the company provides insufficient or unconvincing evidence in key aspects of most 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 behaviours. It also provides sufficient evidence that it has proposed environmental options such as catchment management and an expanded SuDS programme under the “Smarter Water Catchments” initiative. 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.</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. The company does not provide convincing evidence that it links the mitigation options proposed with its baseline resilience assessment. The company also proposes a package of outcomes that is insufficiently demanding, particularly concerning issues where the company has historically performed poorly (i.e. asset health). The plan sets out a significant percentage of its customers are exposed to the risk of severe water restrictions during the period from 2020 to 2025, although this is expected to reduce in the long term.</p> <p>We consider that the company provides little and unconvincing evidence that it has used environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options that would be needed in a high quality plan. In addition, there is generally a lack of detailed plans and evidence to provide confidence that historical issues around performance (i.e. asset health) and corporate governance (i.e. incident management) will improve during the price control and in the long term.</p> <p>Overall there is insufficient evidence that the company has demonstrated long term financial resilience. At the time of the business plan submission, the company’s gearing exceeded 80%. The business plan states an intention to reduce the company’s gearing by 5% to around 76% and while some of this reduction is to be achieved through reduced dividend distributions, some is to be achieved through increased indebtedness elsewhere in the ownership group. There is insufficient evidence the company has considered risks that debt raised by group companies above the level of the ring fence might place on the financial resilience of the Appointee and the plan contains no firm commitment as to when its revised target gearing will be achieved (notwithstanding a refinancing/finance raising by Thames Water’s holding company at the end of November 2018). 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>In the context of its high gearing and a negative outlook on one of its credit ratings, the company provides insufficient evidence that it has considered the risks to its long term financial resilience that a lower credit rating could pose, particularly in the context of a £6.5bn financing requirement in 2020-25, its statement that interest costs would be 20-45bps higher at a credit rating of Baa2 and the need to refinance subordinated debt, which is a feature of its highly geared structure.</p> <p>In scenarios where financial ratios are lower than required under the company’s debt covenants, the company references mitigating actions, including standstill arrangements in its covenants, renegotiation of existing debt covenants, reducing dividend payments and the prospect of additional equity support. While there is evidence that it may be in the interests of creditors to renegotiate covenants in extreme circumstances, there is insufficient evidence in the plan that equity support would be available in such circumstances, particularly in the context of the company’s high gearing. The company also refers to the special administration provisions in its assessment of mitigating actions; however, it does not provide evidence that special administration would be a reasonable outcome in relation to its management of financial risk.</p>

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Targeted controls, markets and Innovation	C	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	C	<p>Thames 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 also has some elements of high quality approaches, but not sufficient evidence overall for the plan to be high quality.</p> <p>While the company has identified business challenges, its plan fails to demonstrate how those are communicated across the business or how employees are challenged to address them and are empowered to take ownership to progress their ideas, this is a substantial concern. A figure illustrating its innovation process to provide an overview on its culture to innovate was provided, but the illustration it is not sufficiently explained and convincingly evidenced. The company also provides no evidence of a framework in place to support employees and staff to manage or mitigate risks in a way that facilitates creating or implementing new ideas for the plan to be high quality.</p> <p>Although the company has strong leadership in place to support innovation, clear innovation goals throughout its innovation plan, as well as a deliberate portfolio approach to innovation, with a focus on how it makes investments in new ideas and evidenced with eight case studies, there are other areas where more convincing evidence would be need for the plan to be high quality. For example, the company's plan falls short to demonstrate team supportiveness and how supervisors encourage employees to put forward ideas and to challenge the status quo, as well as how individuals are rewarded or recognised for their ideas and efforts.</p> <p>It recognises the benefits of collaboration and manages effectively external collaboration. It provides case studies of its collaboration and partnership with variety of stakeholders in the context of innovative projects. However, the plan falls short of providing convincing evidence of how all levels of the organisation below leadership are encouraged to propose innovative ideas and how its strategy acts as cohesive unifier by bringing people together to solve challenges for the plan to be considered high quality.</p>
		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, Thames Water's plan falls short of high quality in relation to this test question.</p> <p>The company provides no significant evidence related to looking for lessons learned and innovation adopted from the business retail market and how 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 related to water-network plus, the company shows evidence of good partnership working and a catchment based approach, which contrasted with less detailed evidence for using markets. On the wastewater network-plus side, the company provides insufficient evidence, for example with no evidence of embedded decision making for natural capital / green infrastructure.</p> <p>Thames Water does though have an ambitious plans related to the management of gap sites and voids – using a mix of financial incentives and generally best practice in-house approach.</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?	C	<p>Thames Water's plan shows insufficient evidence of a long-term resilient and sustainable water resources strategy incorporating markets, despite showing a proactivity to seek for supply options. Overall, the company is graded as a 'C' in this test question.</p> <p>On the use of markets, the company shows a proactive approach for supply solutions but not for demand options. The company shows evidence on two confirmed future trades, one import with Canal and River Trust and an export with Affinity. It also gives evidence of other potential future trades although these are not properly developed in the plan nor in the WRMP. There is good evidence on the good principles for appraising third party options. On the future deployment of bilateral markets, the company does not go beyond providing the required business tables Wr6 and Wr7. The company does not provide any justification for the positive values reported in Wr6 for Post-2020 third party bilateral capacity.</p> <p>The water resources strategy presents risks around some of the key areas, particularly in relation to the significant supply schemes planned and the related uncertainties. Further evidence is needed that the company intends to continue to develop its understanding of schemes such as Abingdon reservoir, the Severn-Thames transfer, potential Welsh transfers and Teddington direct abstraction on a consistent basis. This will be a significant infrastructure development and therefore we need confidence that options have been considered appropriately.</p>

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		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	C	Thames Water has an insufficiently evidenced long-term strategy for delivering bioresources services, and falls short of a high quality approach in certain key areas. The company presents a well evidenced and convincing long term strategy, though some aspects of it are not considered particularly innovative. While the company provides a forecast which for the most part it reflects population growth, there is one outlier that is not fully explained. There is an absence of detail on sludge measurement, though it appears implicitly that the company is actively carrying out measurement. Although a split for the fixed variable revenue has been provided, it is not supported by any explanation.
		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?	C	<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.</p> <p>For bioresources, Thames received substantial feedback on the RCV Allocation which included a company-specific letter. Given the insufficient evidence provided in the business plan, further discussion is needed to understand the limited cross checks the company has undertaken.</p> <p>For Water Resources, Thames only received generic feedback and no letters were issued. In our review we have not identified any further significant concerns for the purposes of the IAP.</p> <p>In light of the outstanding issues the test question is assessed at a 'C'.</p>
		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	Thames Water has provided a bid assessment framework (BAF) that meets all the best-practice recommendations and reflects the key principles. It has sufficient and convincing evidence that the BAF is proportionate, non-discriminatory and transparent. The company sets out what the BAF is seeking to achieve, and throughout the BAF relates back to how the design is intended to realise these goals. Where it is not practical to give definitive guidance on how an individual bid may be assessed, the company indicates why and provides a possible approach and includes a commitment to be proportionate, transparent and non-discriminatory when publishing actual guidance (e.g. the evaluation criteria for bids will vary on a case-by-case basis). On non-discrimination, the company will assess bids in line with how in-house solutions are assessed and describes how commercially sensitive information will be treated. Overall this is a high-quality approach for a third party bidding assessment framework.

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		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>Thames Water provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold, carried out a technical analysis on the relevant schemes and for the two projects that passed the technical analysis carried out a Value for Money (VfM) assessment. In the appraisal of the Thames Water DPC plan we took into account the following:</p> <ul style="list-style-type: none"> The company carried out a £100 million threshold analysis for DPC based on a high quality process, and provided evidence of a thorough review with detailed cost tabulation of the schemes reviewed. The company carried out a technical assessment of the 17 schemes that passed threshold test and were considered to be enhancement type projects. The company produced a high-quality process that followed the guidance in the Final Methodology. For the SESRO and Deephams Re-use scheme the evidence is of sufficient quality to be convincing. For the remaining 15 schemes that were rejected, the level of evidence provided is very limited. In particular, there is insufficient detail and unconvincing explanation for eight of the schemes that were rejected that the decisions were to the benefit of customers. Due to the lack of evidence and unconvincing reasons for rejection on a number of projects this assessment is considered to be insufficient to be high quality. The company carried out a VfM assessment based upon the Five Case Model structure. It carried out economic assessments for the SESRO and Deephams Re-use schemes. It provided justification for some of its assumptions but has not provided supporting evidence and the assessment lacks the expected sensitivity analysis. <p>In summary, the company's assessment had some good aspects but these are not supported by sufficient evidence in some areas for the overall assessment to be categorised as high quality.</p>
Securing cost efficiency	D	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	D	Thames Water's wholesale water costs are around 36% above our view of efficient costs. Its wholesale water base costs are around 22% above our view of efficient costs. Where we have benchmarks in enhancement areas, the company's costs are above the benchmark, for example in meeting lead standards, growth and meter costs. The company's non-leakage supply-demand balance unit costs are marginally less efficient than the industry benchmark level. The company does not fully justify its proposed significant development of a strategic reservoir scheme. Its leakage reduction unit costs are higher than the industry benchmark, however, a reduction of marginally greater than 15% is forecast and so we make an enhancement allowance for leakage reduction beyond 15%. The company's metering costs are higher than the benchmark and appear to include significant expenditure associated with leakage repair activity.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	Thames Water's wholesale wastewater costs are around 13% above our view of efficient costs. Its wastewater base costs are around 7% above our view of efficient costs. Where we have enhancement cost benchmarks, the company is above the benchmark costs, for example in the areas of growth, phosphorus removal, and flow monitoring. The company's evidence for its proposed investment in bioresources treatment capacity is not high quality so we are not allowing for it in our view of costs.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	D	In residential retail, its costs are around 31% higher than our view of costs and it ranks in the lowest quartile of the industry.
		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?	D	Thames Water proposes eight cost adjustment claims, two are of good quality and we score as a marginal pass, three claims we give a partial pass for the quality of the claim, and the remaining three are of poor quality and fail. This gives Thames a score of D for its cost claims as many of the claims fail to provide detailed supporting evidence.

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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, Thames Water's business plan demonstrates high quality evidence for most areas of its RoRE assessment. The company has outlined each of the prescribed scenarios and clearly set out its assumptions and methodologies. The plan sets out a detailed risk analysis that indicates both macroeconomic and Thames specific risks and sets out a range of plausible mitigating actions for each factor. 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 does not propose 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 Thames Water's business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support the Board's statement that the company is financeable on the notional and its actual company structure.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> The company has set out the steps taken to make the financeability assessment and to provide assurance over the assessment, supported by third party assurance of the procedures and the business plan tables that support financeability. <p>The business plan provides sufficient evidence, in the round, to support the target credit rating of Baa1 (Moody's) for the notional company and that the plan is consistent with maintaining the target credit rating for the notional structure. The company has set out that the key financial ratios are not consistent with the target credit rating. However, it provides convincing evidence that other mitigating actions could achieve the target thresholds with sensitivities provided for the assumptions for dividend policy and index-linked debt – there is convincing evidence that this is beneficial to customers compared with the use of financial levers.</p> <p>There is one main area where the plan falls short of high quality, which is sufficiently material to affect the overall score for the risk and return test question.</p> <ul style="list-style-type: none"> There is insufficient evidence that the company is financeable on its actual structure. The company has targeted a credit rating of Baa1 (Moody's). There is insufficient evidence that the level of the financial ratios are consistent with the target credit rating, in particular funds from operations as a proportion of net debt appears weak.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
	B	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, Thames 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 starting points for RCV run-off rates are supported by sufficient and convincing evidence. • The company has proposed adjustments to RCV run-off rates to remove the additional revenue from the transition to CPIH, the impact of changes to lease accounting, and to smooth bills during the period. Overall, the business plan contains convincing evidence to support the adjustments and evidence that this is in line with customer preferences. • Overall, there is sufficient and convincing evidence that the resulting bill profile is supported by customer preferences and there is evidence that bills are consistent with customers' preferences for 2020-25. <p>While the company notes the uncertainties associated with possible bill profiles beyond 2025, it has not demonstrated how bills beyond 2025 are consistent with customer preferences. 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>Thames 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 the rationale provided for most reconciliations though the rationale for the Counters Creek adjustment is unconvincing. The company's submission is 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 marginal at 1.8% 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. It has made appropriate modifications to wholesale revenue forecasting incentive mechanism model to implement the poor performance penalty.</p> <p>We found a significant data consistency issue between the submitted tables and populated totex reconciliation model in relation to wastewater where the company has made an unauthorised adjustment for Counters Creek. We also found some other minor consistency issues for totex and 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 13 of the 28 PCs, residential retail, totex, land sales and service incentive mechanism 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	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 some concerns for costs, incidents and customer complaints.</p> <p>There is good outcomes performance. The company has or is forecast to deliver 76% of its PCs with financial ODIs in 2015-20. However, the company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. For example, we would like to see a greater understanding for compliance with drinking water quality standards, asset health water infrastructure and Security of Supply Index. The company provides insufficient evidence that the plan includes appropriate measures to deliver its proposed improvements in leakage performance, given its failure to deliver leakage commitments in the 2015-20 period. 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 poor performance on cost efficiency. The company's actual and forecast costs are above 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. We calculate that, in its plan, the company is proposing to increase base costs over the 2020-25 period. The company provides insufficient evidence that the plan includes appropriate measures to deliver planned costs. For example, the company fails to explain in sufficient detail how its planned investments will improve performance. We therefore have some concerns with the evidence for the deliverability of the planned costs.</p> <p>The company has poor performance on incidents. It had seven major incidents, below average number of category one and two pollution incidents per 10,000km of sewers, although it has an EA performance rating of three stars. It had 11 prosecutions and three enforcement actions from the EA. The supply interruption incident and resultant enforcement action by Ofwat occurred after the end of the 2017-18 reporting year and are not reflected in the score. It was required to provide an externally assured action plan following the 2018 freeze and thaw. The company provides sufficient evidence it understands the drivers of its performance and has learnt lessons from major incidents. For example, following the 2018 freeze and thaw, it identifies the need to improve its real-time data and its incident response capability outside of working hours. Nonetheless, the plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents. While the company proposes to implement a new operating structure and make improvements to real-time data, the plan does not provide sufficient evidence to give confidence that the measures will address the current performance. We therefore have some concerns with the evidence for the deliverability of improved performance in relation to major incidents.</p> <p>While the company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is increasing, it has an above average number of complaints per 10,000 connections in 2017-18, though this is declining. The company provides insufficient evidence it understands the drivers of its performance and learnt lessons. For example, while it identifies its fragmented operating model as inhibiting its general customer service performance, it fails to analyse, in sufficient detail, its performance on customer complaints. The plan identifies some measures to improve its performance, such as concentrating all contact centre functions into a single entity and implementing near-instant customer feedback in call centres. However, as the plan does not provide sufficient evidence on the lessons learnt, and the company still has a high number of customer complaints, the plan gives insufficient confidence that customer complaints performance will continue to improve in 2020-25. We therefore have some concerns with the evidence for the 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>Thames Water's business plan falls short of demonstrating 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 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 nine compliant statements, and eight of these have sufficient supporting evidence, five partially compliant statements and two non-compliant statements.</p> <p>On the topic of Business planning, the Board provides three compliant statements from the four requested in the PR19 methodology. The Board's statement on whether it has collectively owned the overall strategy and direction of the plan in the long term is partially compliant.</p> <p>For the statements on the remaining topics, the Board provides six compliant statements from the twelve we request in the PR19 Final Methodology. The Board's statements on affordability; risk and return; and financeability are partially compliant. The Board's statements are non-compliant on whether the company's business plan has been informed by a robust and systematic assessment of the resilience of the company's systems and services; the company's business plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.</p> <p>For statements on business planning, we request that Boards demonstrated how they have challenged management and satisfied themselves prior to making their statements. The company uses a 'Board Engagement and Deep Dive Record' to document the topics reviewed by Board members with the Executive team. This evidence sufficiently covers the topics of the compliant statements.</p> <p>For statements on the remaining topics, we request that Boards demonstrate how they satisfied themselves. The company uses the 'Board Engagement and Deep Dive Record' to evidence the Board's assurance process. There is sufficient evidence of how the Board satisfied itself prior to making five of the compliant statements. There is insufficient evidence to demonstrate how the Board has satisfied itself prior to making its statement on whether the company's business plan has been informed by customers' views about managing resilience.</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>Thames 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 "We commissioned Arup to complete a thorough review of our resilience against our resilience in the round publication. We carefully considered the immediate and long term observations of this work alongside our customer feedback on resilience ensuring that it was incorporated into our business plan."</p> <p>The plan fell significantly short of high quality as it does not include a suitable statement of assurance. Instead it provides evidence on which the Board could make its statement.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA3	<p>To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?</p>	D	<p>Overall Thames Water's plan falls significantly short of providing sufficient evidence that the company's 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 one of the expectations set out in the 'Putting the sector in balance' position statement, in that the company proposes a base dividend yield of less than 5% but there is little further evidence of high quality in the plan.</p> <p>The company proposes a mechanism for sharing outperformance on the cost of new debt, whereby the sharing rate is only triggered if the company outperforms our reference index by 50bp. Although the mechanism is asymmetrical in that customers will not have to pay more if the company under-performs, but will gain from outperformance, we have assessed this as having zero likely value to customers. The company is proposing donations to social tariffs and hardship funds which could have a value of £0.5m 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 proposed sharing does not impact our assessment in this test area.</p> <p>We also had concerns in four areas.</p> <p>On gearing benefits sharing the company's plan falls significantly short of high quality. The company forecasts gearing will remain above the 70% threshold and rejects our gearing benefits sharing mechanism and does not offer an alternative mechanism which delivers equivalent benefit for customers in the round. The company considers that its proposal to reduce gearing to around 78% is more appropriate due to customer support for reducing gearing. The company makes no specific commitment as to when its target for reduced gearing will be achieved and there is little or no evidence to support the company's view that our benefit sharing proposal will increase customer bills by increasing investor uncertainty.</p> <p>On dividend policy, the plan falls short of high quality with insufficient evidence that the company's dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. The policy states that the company will assess the impact of any dividend payments on customers but no detail is been provided on how it will be assessed and how the results of the assessment will be reflected in dividend payments. The company states that when shareholder returns are paid, the company will be clear about their level, how they relate to delivery for customers and why they have been awarded. There is no specific reference to a commitment to signal changes in dividend policy to stakeholders, but this is not considered to be a material omission as the company has committed to explaining its decisions on dividends when they are paid.</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 states targets will be clearly linked to targets in the business plan, and, if any financial targets are included, they will be focused on 'things like cost control, capital expenditure delivery and financial resilience'. However, there is insufficient evidence as to how the company intends to ensure the performance targets will be stretching or what impact these factors will have on pay. There is also insufficient evidence of how the policy will be applied and monitored during the period and 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 significantly short of high quality with little or no evidence that the company's full Board has provided 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 does not provide an assurance statement from the Board. However, the company's business plan provides sufficient evidence of transparency of its group and financial structures through information published in its Annual Performance Report.</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>Thames Water's business plan provides sufficient evidence that its full Board has provided comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes.</p> <p>The Board provides assurance that it will monitor delivery of its outcomes and PCs and advises how it will monitor outcome delivery through the following compliant statement "The governance and reporting structures of the company are designed to ensure that our operational performance, measured by PCs and ODIs, is monitored by us on a regular and timely basis, at least monthly, but more frequently when required."</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>Thames Water falls short of 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. • Overall, the performance and financial data reported in the company's business plan tables is consistent with previous data submissions, with only minor inconsistencies in the area of cost assessment which do not materially affect our assessment. • The company adequately references interventions it has implemented as a result of the company's 'Prescribed' status in the 2017 Company Monitoring Framework <p>However in our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to PR19 business plans) while the company exceeds expectations in 2 areas and meets expectations in 6 areas, it has minor concerns in 2 areas.</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, Thames Water's business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units and the assurance and commentary provided are consistent, accurate and assured. We identify an issue within our assessment of the data tables in the policy area of risk and return (tax forecasts, although this has no impact on customers), financial modelling and outcomes, but these do not materially affect our overall assessment.</p>