

United Utilities: Test area assessment

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

United Utilities - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	B	<p>Overall United Utilities business plan demonstrates high quality with convincing evidence in the areas set out below. Whilst the company demonstrates significant ambition and innovation, there are areas of concern in the application of customer research that mean the company is not considered exceptional.</p> <p>The company provides sufficient evidence of a high quality approach in the following areas:</p> <ul style="list-style-type: none"> A wide range of customer engagement techniques which have been tailored to suit target audiences, including innovative use of behavioural economics techniques within immersive methods such as videos, puzzles and interactive activities. Innovative ways to use business as usual data to inform customer areas of priority, for example, using speech analytics. Comparative information was available in the larger scale projects, such as willingness to pay studies, but insufficient evidence is provided of the use of comparative information in smaller scale research projects. A sector-leading communication approach with its customers, incorporating a large customer panel, Unified Messaging System, community events and marketing campaigns. Demonstration of engagement with a wide range of customers including vulnerable customers. Its approach to adopting the four areas of action set out in the Tapped In report, including interaction with the community through its online panel regularly; research on future products; promoting water efficiency; and customers' preferred communication methods, demonstrably informing the business, for example, regarding bill preferences. Engagement with its customers on longer-term issues and in its ongoing operations, demonstrating best practice by involving independent experts and ensuring that customers were informed when making decisions. The company engages customers by using interactive 'trade off' scenario-type questions to establish customer priorities. The company also uses triangulation from immersive research, natural experiments and customer data to inform its resilience scheme. The company's approach to willingness to pay surveys involves online and face to face interviews representative of its customer profile, including customers in situations of vulnerability. <p>However, the business plan falls short of high quality in one area - the line of sight between customer research and outcome delivery incentive (ODI) rates. Although the company has an extensive and high quality approach to triangulation, there were material limitations in the use of research to appropriately inform the setting of specific outcome delivery incentive (ODI) rates and to inform specific cost claims. In doing so, the company provides insufficient evidence to demonstrate that customer preferences align with its proposals.</p>	EC1	B
Addressing affordability and vulnerability	A	<p>Overall United Utilities' business plan provides convincing evidence to demonstrate an ambitious, innovative and high-quality approach to addressing affordability and vulnerability because it:</p>	AV1	A

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		<ul style="list-style-type: none"> displays an innovative and high-quality approach to addressing vulnerability - including working with partners, committing to attaining BSI's standard on accessibility and leading the sector on working with its local energy network; proposes sector-leading options in payment plan flexibility; proposes a significant bill reduction of 11% in the 2020 to 2025 period and obtains high scores in acceptability and affordability testing; and displays a high-quality approach to helping customers who could not afford to pay their bills, working with stakeholders and customers to devise appropriate schemes. <p>The company also outlined plans to put £71m of shareholder money toward achieving its aims in this area. The business plan falls short of high quality in one area because:</p> <ul style="list-style-type: none"> The company proposes a 3.8% bill increase in 2025-30 and there is insufficient evidence of customer engagement on long-term bills. 	AV2	C
			AV3	A
			AV4	A
Delivering outcomes for customers	C	<p>Overall, across the delivering outcomes for customers test area the plan proposed by United Utilities falls short of high quality and the evidence it provides to support its performance commitments (PC) and ODIs is insufficient or unconvincing in some areas.</p> <p>The plan does demonstrate some aspects of high quality. The company proposes a package of PCs that generally reflects its customers' views, although there are material concerns about the design of some PCs. The company also proposes a package of ODIs that covers its different business areas.</p> <p>However, there are several areas where the business plan falls short of high quality:</p> <ul style="list-style-type: none"> Some of the company's proposed PCs are unclear. The company has proposed insufficiently stretching performance targets for its leakage, per capita consumption and internal/external sewer flooding PCs. The company has set symmetrical outperformance and underperformance ODI rates but this is not supported by customer evidence. It has additionally made top-down adjustments to its ODI rates without sufficient justification. The company has set a material ODI rate for its Systems Thinking PCs without providing suitable evidence of customer valuations to support this. We note that current performance against this measure is unclear from the evidence provided, and this PC appears to be measured through self-assessment, which is not appropriate for a PC with significant financial incentives. 	OC1	C
			OC2	C
			OC3	C
Securing long-term resilience	B	<p>Overall, the United Utilities' plan presents sufficient and convincing evidence in most aspects of operational, corporate and financial resilience to be graded as high quality, although it falls short of being ambitious and innovative.</p> <p>The plan covers a wide range of risks and uses both qualitative and quantitative approaches to assess them. The company also reflects on its past performance, providing a comprehensive review of past failures and stating how it has learnt from these to improve their approach to risk management and resilience. There is sufficient evidence that the company is developing an improved understanding of asset health and implementing an asset management system in line with good practice. The company presents clear links between risks prioritised in the plan and the solutions developed to mitigate these. There is sufficient evidence that a high quality range of mitigation options are provided for each of the identified risks, including coverage of the 4Rs of resilience and reviewing the best value approach available. The overall range of engagement with third parties, particularly for ecosystem service approaches, is high quality and well evidenced through a range of case studies.</p> <p>The plan demonstrates a high quality and convincing assessment of financial resilience supported by both board and third party assurances. The company provides convincing evidence that risks to financial resilience that are specific to its circumstances are assessed and has processes that will</p>	LR1	B

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		<p>allow it to manage and mitigate financial risks. The company's approach to incorporate the natural environment and ecosystem services through natural capital valuation is considered as high quality and well evidenced through the number of initial pilot studies. There is good evidence of customer involvement in the development of mitigation options, particularly catchment options. The overall range of engagement with third parties, particularly for ecosystem service approaches is also high quality and is well evidenced through a range of case studies.</p> <p>While the plan provides sufficient and convincing evidence in most aspects of operational, financial and corporate resilience, it falls short of high quality in the following areas:</p> <ul style="list-style-type: none"> • There is insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or cascading impacts of one system to another should be considered. • The company does not assess financial resilience scenarios beyond 2025. • The company has identified options that have multiple resilience benefits, although these are only developed at a high level and do not consistently integrate the approach across the water and wastewater activities. • The company's plan does not demonstrate sufficient evidence of stretching improvements in PCs, consistent with past spend, to increase operational resilience. 	LR2	B
Targeted controls, markets and Innovation	B	Overall, United Utilities provides a high quality plan across most areas of Targeted Controls, Markets and Innovation. However, it is not sufficiently ambitious and innovative to be exceptional.	CMI1	A
		<p>The company's plan includes strong evidence of ambitious and sector leading ideas across all drivers on innovation. Innovation is clearly integrated throughout the culture of the company and it includes a number of innovative suggestions which are not seen in the sector, for example involving customers through the SPIGIT app and how innovation is integrated in performance management. The approach proposed for gaps and voids, including the use of financial incentives, is ambitious and innovative. Similarly there is strong evidence of the use of markets including partnerships and catchment strategies across network plus for both water and wastewater, with an ambitious long term strategy proposed for water network plus. The company's Bid Assessment Framework meets all best practice recommendations. In most respects, the company provides convincing evidence that it has considered DPC as part of its investment programme. Whilst the quality of the technical assessments for the schemes rejected is insufficient, the technical assessment and value for money assessment for the Manchester and Pennines resilience scheme which is taken forward is supported by convincing evidence.</p> <p>The company only convincingly demonstrates a commitment to using market led solutions in certain aspects of its plan.</p> <p>Regarding water resources, the company's plan overall is high quality. It demonstrates a good level of engagement with third parties and is proactively exploring water export options. Issues raised by Ofwat to the draft WRMP have been resolved. However, there are some weaknesses - for example the strategy for bilateral markets is unconvincing.</p> <p>There is a lack of supporting evidence included for the company's bioresources strategy and related market engagement methodology. We remain concerned that the proposed water resources RCV allocation has not been fully justified.</p>	CMI2	B
			CM3	B
			CMI4	C
			CMI5	C
			CMI6	B
			CMI7	B
Securing cost efficiency	B	<p>Overall, United Utilities' costs are relatively efficient. At the company level its costs are about 3% above our view of efficient costs. In wholesale water (ie water network plus and water resources) and retail its costs projections appear efficient, in line with our own view of efficient costs. The company's projection in wastewater are 7% above our view of efficient costs, largely due to high base costs in wastewater services.</p> <p>The company proposes five cost adjustment claims. Overall the claims are of good quality. However, for two of the claims (surface water runoff and distance to land bank) we are not convinced by the evidence and the need to raise the claim. These claims fail. The other three claims receive either a pass or a partial pass. This gives the company a grade of C in the cost adjustment claim test.</p>	CE1	B
			CE2	C
			CE3	B
			CE4	C
Aligning risk and return	C	Despite some aspects of United Utilities' plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support its approach in the area of aligning risk and return.	RR1	B

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		<p>The following areas of the plan are high quality:</p> <ul style="list-style-type: none"> It is based on our Final Methodology 'early view' cost of capital and retail margins. It contains a clear board statement that the plan is financeable under its actual and the notional financial structure, with appropriate evidence to support this. There is convincing evidence to support the company's choice of PAYG rates. <p>There are two main areas where the plan falls short of high quality. It does not provide sufficient and convincing evidence:</p> <ul style="list-style-type: none"> To support its RCV run-off rates, in particular around reconciling average asset lives implied by the run-off rates and the expected economic life of the assets. In respect of risk and risk mitigation measures in the RoRE assessment for the notional company as these are discussed only at a high level. 	RR2	C
			RR3	B
			RR4	C
Accounting for past delivery	B	<p>Overall, United Utilities' business plan demonstrates high quality accounting for past delivery, with sufficient and convincing evidence both in support of PR14 reconciliations and on deliverability of the 2020-25 plan given past performance.</p> <p>In the round, we do not have concerns with the evidence for deliverability for the 2020-25 plan.</p> <p>The plan is high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> While the company forecasts to overspend on costs it demonstrates a good understanding of the drivers of its performance, identifies lessons learnt and has implemented appropriate measures to address performance. We therefore do not have concerns with the evidence for deliverability of the planned costs. While the company had two major water quality incidents, it demonstrates a good understanding of the drivers of its performance, identifies lessons learnt and the plan includes appropriate measures to improve performance. We therefore do not have concerns with the evidence for deliverability of improved performance in relation to major incidents. The company is already meeting CCWater's 2020 household customer complaints target of resolving 95% of customer complaints at stage one. Although the company provides insufficient evidence on lessons learnt and measures to improve performance, in the round the company's current performance provides sufficient confidence that customer complaints performance will be maintained in 2020-25. We therefore do not have concerns with the evidence for deliverability of customer complaints handling performance. <p>The plan falls short of high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> The company has delivered or is forecast to deliver 73% of its PCs with financial ODIs in 2015-20. It provides some evidence of its plans to meet future PCs, but this evidence is insufficient in some areas. We therefore have some concerns with the evidence for deliverability of outcomes. <p>There is sufficient and convincing evidence for seven out of eight PR14 reconciliation areas and insufficient evidence for ODIs. There is only a marginal difference (within 0.05% of 2019-20 revenue) between expected and proposed reconciliations. In the round we consider that this supports the accounting for past delivery test area score.</p>	PD1	B
			PD2	B
Securing confidence and assurance	B	<p>Overall, United Utilities' business plan provides sufficient evidence to demonstrate high quality in the securing confidence and assurance test area. The company's business plan provides evidence of high quality:</p> <p>On evidence of a fair balance between customers and investors:</p> <ul style="list-style-type: none"> On executive pay, the company demonstrates sufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear commitment to publish the final policy and evidence of how changes will be signalled to customers. On dividend policy, there is sufficient evidence of the company's intention to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear Board commitment to signal changes in dividend policy to stakeholders. The company proposes a bespoke voluntary benefits sharing mechanism that contributes to its community fund and additional shareholder contributions to financial support schemes, which we assess could have a combined value of £14.2m per year. United Utilities' proposals for voluntary benefits sharing are ambitious and high quality in the context of its size as a company. 	CA1	C
			CA2	C

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		<ul style="list-style-type: none"> • However the Board does not provide a compliant assurance statement that its plan will enable customers' confidence through high levels of engagement on its corporate and financial structures and there is insufficient evidence of transparency with customers on its corporate and financial structures and how they relate to its long term resilience. • On gearing outperformance benefits sharing: While gearing is forecast to be below 70% in 2020-25 and the company does commit to sharing benefits with customers if gearing exceeds 70%, it does not explicitly commit to our default mechanism. <p>In our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company has minor concerns in 1 area, it exceeds expectations in 3 areas and meets expectations in 5 areas.</p> <p>Additionally, the company's business plan provides sufficient and convincing evidence that overall, its PR19 business plan tables are consistent, accurate and assured.</p> <p>However, the plan falls short of high quality in the following areas:</p> <p>The company's Board does not provide statements of assurance in many of the requested areas to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable and that it has challenged management to ensure this is the case. This reduces our overall confidence in the Board's ownership of the plan.</p> <p>The company's Board provides only a partially compliant statement of assurance to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.</p> <p>The company's Board also provides only a partially compliant statement of assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes.</p>	CA3	A
			CA4	B
			CA5	B
			CA6	B