

## United Utilities: 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 United Utilities' business plan demonstrates high quality with convincing evidence in many of 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 prevent the company from being considered exceptional.</p> <p>The company provides convincing evidence of a wide range of customer engagement techniques (both on quantity of evidence and segmentation) including online surveys, co-creation events and online panels which have been utilised depending on the target audience. It has shown innovation and ambition through use of behavioural economic techniques within immersive methods such as videos, puzzles and interactive activities. It has also shown convincing evidence of innovative ways to use business as usual data to inform customer areas of priority, for example, speech analytics. In particular, the company sets out a high quality, ambitious and innovative approach to willingness to pay surveys which involved online and face to face interviews representative of its customer profile, including customers in situations of vulnerability. It also has a sector-leading communication approach with its customers, incorporating a large customer panel, Unified Messaging System, community events and marketing campaigns.</p> <p>The company also has an extensive and high quality approach to triangulation, however there were material limitations in the use of research to appropriately inform the setting of specific outcome delivery incentive (ODI) rates and informing specific cost claims, and in doing so, failure to demonstrate that customer preferences align to the company proposals. The concerns here primarily relate to limitations in the implementation of triangulation including inconsistent application of triangulation criteria, failure to provide sufficient rationale for judgements and insufficient explanations of adjustments to triangulated values. Additionally, comparative information was available in the larger scale projects, such as willingness to pay studies, but insufficient evidence was provided of the use of comparative information in smaller scale research projects.</p> <p>The company provides convincing evidence of its high quality approach to customer participation and adopts the four FACE areas of action set out in the Tapped In report. This involves: interaction with the community through its online panel regularly; research on the development of future products; promoting customers' water efficiency; and customers' preferred communication methods. There is also convincing evidence for the customer participation techniques used across a broad range of customers, including at community events, in shopping centres, online and on social media. This demonstrably enables the company to gain customers' views which inform the business going forward, for example, regarding bill preferences.</p> <p>Finally, the company demonstrates high quality engagement with its customers on longer-term issues and in its ongoing operations. This includes extensive engagement on resilience by using a detailed immersive approach incorporating scenarios using virtual videos, and interactive activities. It demonstrates best practice by involving independent experts and ensures the customer is informed when making decisions. It 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, which was all inputted into its resilience scheme.</p>
Addressing affordability and vulnerability	A	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	A	<p>United Utilities provides convincing evidence that its bills will be affordable and value for money from 2020-25. It proposes an ambitious real bill reduction of 11% from 2019-20 to 2024-25.</p> <p>The company provides convincing evidence of high-quality and at times innovative customer engagement and 75% of customers have found the plan to be value for money. The company has provided a range of approaches and examples for how it will effectively address affordability. These include offering sector leading flexible payment options and the innovative Town Action Planning approach to customer engagement. It also has a highly efficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.</p> <p>One area that the company falls short on is the proposition to discontinue its overall affordability performance commitment (PC) on value for money, but this is not significant enough to bring its score down to a B.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	C	United Utilities provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, it is proposing a 3.8% increase in bills over the 2025 to 2030 period and there is insufficient evidence of customer engagement on long-term bills.
		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?	A	<p>United Utilities provides high quality and convincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, its package of support is growing significantly in the 2020 to 2025 period and is supported by a stretching PC to lift customers out of water poverty. The company also provides evidence of increasing the accessibility of affordability assistance through targeted innovative marketing. For example, its Town Action Planning initiative involved knocking on 77,000 doors and it has provided sufficient evidence that this has been effective - 46% of the visits had a successful outcome, around 20,000 customers signed up to a payment arrangement and as of July 2018, 67% are being maintained.</p> <p>The company is making significant company contributions to the social tariff, in lieu of customer support for a large cross-subsidy. We also note that the company did persevere to ascertain a larger cross-subsidy from customers and used innovative behavioural techniques during engagement..</p> <p>In the round, we consider its approach to growing the support available for customers and the targeted approach to marketing affordability assistance to be sufficient evidence of an ambitious and innovative 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>United Utilities provides sufficient and convincing evidence of an ambitious and innovative approach to supporting customers in vulnerable circumstances. In particular, it demonstrates an innovative and sector-leading approach to establishing a successful data-sharing partnership with Energy North West. It further demonstrates an innovative approach to using external data and partnerships, by working with Salford City Council to share blue badge data, which will ensure its approach to supporting vulnerable customers will be more targeted.</p> <p>Whilst we consider that it could have proposed more ambitious reach for its priority services register through its PC, we welcome the caveat that any outperformance payment will depend on meeting the requirements for certification under BS18477 'Inclusive service provision'. In addition, whilst we consider its engagement with vulnerable customers and stakeholders was high-quality, we do not believe it was innovative. Overall, we consider that the company's' sector leading data sharing initiatives with the energy sector and Local Authorities demonstrate sufficient evidence of ambition and innovation in its approach to supporting vulnerable customers.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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, United Utilities does not provide sufficient evidence that it has selected appropriate PCs and that its PCs demonstrate stretching performance. However, there are elements of high quality within the plan.</p> <p>The company provides limited evidence to demonstrate that it meets our expectations and is complying with the PR19 Final Methodology requirements. We have identified material issues with its plan:</p> <ul style="list-style-type: none"> <li>• it is not clear how the company's reporting of two common PCs will be compliant by 2020 (unplanned outage and leakage);</li> <li>• the definitions of more than one PC are opaque; and</li> <li>• several bespoke PCs have not addressed comments from the May 2018 early submission process.</li> </ul> <p>We have identified the following concerns in relation to whether the company's PC levels are stretching:</p> <ul style="list-style-type: none"> <li>• despite the proposed reductions in leakage, the company's performance will remain in the lower quartile;</li> <li>• the forecast change of 3% in per capita consumption (PCC) is below average and the company's resulting PCC in 2025 will be in the lower quartile;</li> <li>• for external sewer flooding, the company proposes a reduction in performance in 2019-20 compared to 2017-18, has a low level of stretch relative to its historic performance and is lower than forecast upper quartile (UQ);</li> <li>• the company proposes a deterioration in asset health measured by the level of mains repairs in the 2020 – 2025 period due to the expected increase in active leakage control, but provides insufficient evidence to support the proposed level; and</li> <li>• the company has developed an assessment methodology for its proposed bespoke performance commitment 'Systems thinking capability' from which it is not clear, based on the evidence provided, what its current performance is.</li> </ul> <p>We note that the company is forecasting a stable performance below the calculated 2024-25 UQ for sewer collapses.</p> <p>We have some confidence in the evidence the company provides to demonstrate that its performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> <li>• the company provides sufficient and convincing evidence that its PC reporting will be robust;</li> <li>• the company is producing a customer-friendly version of its Annual Performance Report (APR), and this has been awarded a Crystal Mark for Plain English; and</li> <li>• targeted posts on social media are helping performance updates reach a wider audience.</li> </ul>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	<p>United Utilities' business plan falls short of high quality with insufficient evidence on the appropriateness of its package of ODIs, although we have identified some elements of high quality. We have identified concerns over its approach to justifying ODIs rates and a number of instances where it does not sufficiently justify having outperformance payments. However, it demonstrates a sufficient approach to ODI deadbands, caps and collars, and proposes an enhanced ODI rate for pollution incidents that should shift the industry performance frontier.</p> <p>We have identified a number of instances where the company does not provide reasoning or customer support for selecting outperformance only ODIs and provides insufficient justification in some other cases where it selects outperformance payments for PCs that also have underperformance payments.</p> <p>The company's business plan falls significantly short of the required quality in justifying its ODI rates. In particular, we have identified that:</p> <ul style="list-style-type: none"> <li>• The company proposes a suite of ODI rates for common and comparable PCs that are low in comparison to industry comparators. It does not provide sufficient evidence that the set of ODI rates sufficiently incentivises the company against under delivery, in particular for PCs with a greater degree of stretch.</li> <li>• Tor leakage, the company proposes a low ODI rate relative to the level of stretch associated with the leakage PC.</li> <li>• Systems Thinking: the company utilises a top-down approach to calculating ODI rates without suitable evidence of customer valuations or calibration of incentives. This method is not suitably justified and comprises a material proportion of potential outperformance payments.</li> <li>• In the case of pollution incidents, the company uses the ODI outperformance payment formula to derive its underperformance rate. The company does not provide sufficient justification for this departure from the standard Ofwat formula for underperformance penalty payments nor why symmetric rates are appropriate in this case.</li> </ul> <p>We have identified the following concerns with the company's approach to enhanced outperformance and underperformance payments:</p> <ul style="list-style-type: none"> <li>• its target threshold does not correspond to where we expect the frontier to be in AMP7; and</li> <li>• customer protection is inadequate since the threshold at which enhanced underperformance payments apply is worse than the lower quartile.</li> </ul>
		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, United Utilities provides insufficient evidence that it has applied an appropriate and high quality approach to its focus on service performance in its risk/reward package. However, there are elements of high quality within the plan.</p> <p>The company provides evidence that its ODI package aligns the incentives of management and customers. The company has brought ODI payments in-period to align with the service performance that generated them as the company applies most of its financial ODIs as in-period and those that are end of period are well justified.</p> <p>The company does not propose a package of asset health ODIs that we consider is sufficient to incentivise it to meet its asset health challenges and protect customers. However, the company demonstrates that it understands and has addressed its asset health past performance challenges in proposing its asset health PCs.</p> <p>The company does not propose sufficient measures to protect customers in the event of significant unexpected levels of outperformance. In protecting customers against higher than expected outperformance payments, the company does not propose an overall cap on its RoRE range and does not propose any caps on individual ODIs. The company proposes to smooth bills for customers in case its payments are higher than expected range and does not propose any caps on individual ODIs. The company proposes to smooth bills for customers in case its payments are higher than expected.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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>United Utilities presents a high quality plan which, although it is not sufficiently ambitious and innovative to be grade A, is supported by customer engagement, with sufficient and convincing evidence of how the company has assessed risks and consequences to its systems and services.</p> <p>The plan covers a wide range of risks associated with operational, financial and corporate issues and uses both qualitative and quantitative approaches to assess these. The company also reflects on its past performance, providing a comprehensive review of past failures and good performance and stating how it has learnt from these to improve its 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 best practice.</p> <p>In addition, 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 undertaken and planned to be rolled out further. Its understanding of the risks to environmental resilience and the potential impacts to multiple services was clearly evidenced. There is evidence provided of some innovative customer engagement techniques such as "immersive workshops" and the development of the WaterTalk online community. The plan provides evidence that customers were involved in the development of the company's plan. This includes engagement of the Board with Your Voice CCG in understanding of customer views on resilience and the engagement of the Board in risk management process and review of major schemes such as the Manchester Pennines resilience scheme.</p> <p>However, the plan falls short in providing sufficient and clear evidence that interdependencies between individual system components are fully understood, since only a limited mapping of risks impacting multiple systems is provided, with a focus on water supply interruptions. Although a review of system maturities in relation to resilience is undertaken, there is no direct link to the framework presented in the plan, and that approach presented through the business plan and the review appears as retrospective assessment of the approach the company has developed. This makes it difficult to understand how the individual sections presented within the business plan are actually integrated in a single framework.</p> <p>The company' business plan demonstrates a high quality assessment of financial resilience. It is supported by a specific Board statement on financial viability, a third party report and convincing evidence that the company has assessed the risks to financial resilience that are specific to its circumstances.</p> <p>The company provides detailed description of how it has measured financial resilience, showing the impact on key credit and financial ratios at the end of the assessment period. The financial resilience assessment is clearly underpinned by the company's own assessment of risks, starting with an assessment of the strength of the company's own financial position and setting out how it has assessed it can maintain access to debt markets.</p> <p>The company has identified and assessed severe but reasonable scenarios, informed by the detailed risk assessment process that is carried out as part of its ordinary activities.</p> <p>The assessment clearly builds on the Long-Term Viability Statement provided in the company's annual performance report. The company provides NPV impacts of the full life impact of its most significant risks, and provides detail on the maturity profile of its debt. The company does not present the results of its stress test scenarios beyond 2025, however, this is of relatively minor concern for the company, given the quality of its assessment and its approach to assessing financial resilience.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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>United Utilities presents a high quality plan which, whilst not sufficiently ambitious and innovative to be grade A, it has assessed the full range of mitigation options and provides sufficient and convincing evidence that the solutions selected represent the best value for money over the long term and are supported by customers. The company presents clear links between risks prioritised in the plan and the solutions developed to mitigate these.</p> <p>A high quality range of mitigation options are provided for each of the identified risks, including coverage of the 4Rs of resilience (i.e. reliability, redundancy, resistance, and response and recovery) and reviewing the best value approach available. There is clear evidence of linking customer views to final options chosen in the plan and inclusion of customers in the development of options, particularly catchment options. 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 major resilience expenditure presented in the company' business plan is associated with the Manchester Pennines resilience scheme, with evidence presented that there is a need to reduce the risks associated with the Haweswater Aqueduct and that this view is supported by customers and stakeholders. The customer engagement presented also shows that the option put forward in the final plan and the associated bill impact has support from customers and stakeholders. The company has identified efficient 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.</p> <p>Some areas of concern arise around past performance and how the resilience solutions presented are reflected in PCs and targets. In this sense, the company has not provided a stretching package of resilience PCs (e.g. outage and sewer flooding) aligned with its resilience challenges and strategy. These along with some of the recommendations from Arup and Jacobs reviews on resilience and asset health approach suggest there is more work to be done to ensure that the approach presented is actually integrated into practice to achieve tangible outcomes.</p> <p>The company' business plan demonstrates high quality and convincing evidence that the company is financially resilient to a range of stress scenarios. The company' has targeted gearing of between 55% and 65% and the company demonstrates that under each of the prescribed scenarios, and the company's own 'severe but reasonable' scenarios, it is able to maintain an investment grade credit rating. The company also provides evidence about its liquidity position, the maturity profile of its debt and refers to its management of its pension deficit position.</p> <p>There is compelling evidence that the company has considered a range of measures to secure its long term resilience and has provided convincing evidence about the range of mitigation measures it could take in extreme circumstances. The company provides convincing evidence of the measures it could take to increase both capital solvency and liquidity, including deferral of dividend payments and accessing new equity, and other measures that could increase liquidity in order to deal with the impact of scenarios as they arise.</p>
Targeted controls, markets and Innovation	B	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	A	<p>United Utilities' business plan is high quality and ambitious with sufficient and convincing 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 provides a wide range of high quality evidence that employees and the supply chain are continuously challenged to address business challenges now and in the future. It shows innovation and ambition through its Innovation Lab (for businesses and supply chain), SPIGIT innovation crowd sourcing app (for employees, but will be available in Autumn 2018 and extended to include customers and supply chain at a later date if successful), CEO challenge programme (for graduates only) and its dedicated innovation email inbox (for supply chain) to address business challenges in innovative ways that are ambitious and sector leading. There is strong and convincing evidence of risk tolerance that the company learns from successes and failures and from others to increase its innovation capability. It accepts that not all innovations succeed and there is much to be gained from failure. The company sets out a high quality and ambitious plan with convincing evidence around recognition. In particular, it incentivises employees through the annual appraisal and bonus process which is linked to the three core corporate values of which innovation is one of them to assess individual performance leading to pay and bonus benefits. This incentivisation has led to many employee-generated ideas. It also provides high quality evidence of collaborative work that involve a variety of stakeholders such as SMEs, other water companies, academia and the supply chain. It shows innovation and ambition through the SPIGIT innovation crowd sourcing app especially with it being planned to be opened up to customers and its supply chain too.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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?	B	Overall, United Utilities provide a high quality plan in relation to this test question. The company use of markets, catchment management and partnership working for delivery services related to water network-plus is ambitious and innovative. On the wastewater side, it provides a high quality plan. The company has an ambitious plan for managing gap sites and voids - using a mix of financial incentives and an effective in-house approach. However, 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.
		CM3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?	B	United Utilities provides a high quality plan on its long-term strategy for water resources incorporating the use of markets to this aim. Overall, the company is graded as a 'B' on this test question. The company provides good evidence on the engagement with third party providers for both water resources supply and demand options, and it has done it through a wide range of actions (events, website and publications) but not embedded enough in the company's culture. In the final list of options for consideration in the WRMP appraisal process comprised about 20% of options from third parties. On supply side, the company is seeking opportunities to export water in future. Demand options include working with industry to find innovative demand management solution that go beyond the existing detection and repair systems. Regarding the opening of bilateral markets, the company provides the required data tables Wr6 and Wr7 but there are some concerns about the impact of its proposed RCV allocation between water resources and network plus on this future market.  Regarding WRMP, all key planning metrics were consistent between the Statement of Response and the business plan. The company has addressed the issues raised by Ofwat in its letter of recommendation regarding leakage, increasing their target from 7% to 15% reduction by 2025, and water trading for which the company will continue to work with others on water trading towards the WRMP24 planning cycle.
		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	United Utilities has an insufficiently well-evidenced long-term strategy for delivering bioresources services, and falls short of a high quality approach across all areas. The company sets out a modest reduction in bioresources unit costs over the period and there is no evidence on how this is to be delivered. Most potential cost savings appear contingent on trades, although the company assumes no trades in its volume forecasting. The plan lacks sufficient evidence for the proposed split of fixed and variable revenues, the approach to transfer pricing for the treatment of sludge imports, or the strategy for trades.
		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	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, for Water Resources, more discussion is required to ascertain if the proposed RCV Allocation is appropriate. UU has made some adjustment in light of our feedback. However it has maintained its "Economic Value" method for the Water Resources RCV which still gives a high allocation to Network Plus. We consider that there remains an implication for water trading, and as such, further enquiry with the company is needed. Given the outstanding issues we are awarding an overall Grade C.  For Bioresources, we have not identified any further issues with the proposed RCV Allocation, which appears appropriate.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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	United Utilities has provided a bid assessment framework (BAF) that meets all the best-practice recommendations and reflects the key principles. The framework sets out sufficient and convincing evidence of how it has strived to adopt a transparent, proportionate and non-discriminatory BAF. The process outlined is sufficiently transparent. It offers suggestions on the criteria it might use to assess bids, with a commitment to include detailed criteria when procuring bids. It has set up a webpage dedicated to the BAF and has identified information that will be hosted on the page that third parties may find helpful. On non-discrimination, the company commits to use the same criteria to assess in-house and third-party bids, using the in-house solution as the benchmark against which other bids are assessed. It has material detailing how it will handle commercially sensitive information. The BAF includes evidence that the company will adopt a proportionate approach, including a reference to the possibility of using its Innovation Partnership Procedure.
		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?	B	<p>United Utilities 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 Manchester and Pennines Resilience (M&amp;PR) scheme, carried out a Value for Money (VfM) assessment. In the appraisal of the company DPC plan we took into account the following:</p> <ul style="list-style-type: none"> <li>• The company provides high-quality and convincing evidence that it identified all major enhancement schemes that could meet the £100 million threshold. This process is clearly explained and The company reviewed 279 schemes using both a capex and totex methodology.</li> <li>• The company carried out a reasonable technical assessment of the three schemes that passed the threshold test. The process followed the guidance and was clearly evidenced in the business plan. The level of evidence provided for M&amp;PR is sufficiently detailed and convincing to be of high quality. Analysis of the Macclesfield and Burnley WWTW schemes whilst following the guidance is not supported by sufficient evidence to be convincing.</li> <li>• The company provides a detailed and well-evidenced VfM assessment, based upon the Five Case Model structure, for the M&amp;PR scheme. It provides justification with supporting evidence for the assumptions that it used in its NPV analysis and completed a sensitivity analysis of the key drivers. The company also carried out good strategic, economic, commercial and management cases and a reasonable financial case. The decision to progress the scheme through DPC is convincing as the analysis indicated that DPC would provide better VfM.</li> </ul> <p>In summary, the company has carried out a strong DPC assessment with sufficient evidence of convincing decisions to be high quality, however there is no evidence of a sector leading strategy or innovations in relation to DPC.</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	United Utilities' wholesale water costs are close to our view of efficient costs. Its base costs are around 3% below our view of efficient costs. In enhancement areas where we have industry benchmarks, such as growth, the company's costs are efficient. However, we challenge the scope of the development requirements for the Manchester and Pennines resilience scheme which reduces our view of water costs when comparing it with the company's. The company is not proposing to reduce leakage to achieve upper quartile performance levels or by more than 15%. We therefore do not make any enhancement allowance for leakage reduction. The company's metering costs are higher than the industry benchmark.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	United Utilities' wholesale wastewater costs are around 7% above our view of efficient costs. Its wastewater base costs are around 10% above our view of efficient costs. In enhancement, the company's costs are relatively efficient in almost all areas where we have an industry benchmark. These areas include growth and phosphorus removal. Where the company is less efficient than its peers is installing additional storage to reduce spill frequency from CSOs. However, in the round we consider the company's wastewater enhancement proposals are efficient and we are allowing the full wastewater enhancement programme in our view of efficient costs.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	B	In residential retail, United Utilities' costs are in line with our view of efficient costs.



Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		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	United Utilities 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 for its cost adjustment claims.
Aligning risk and return	C	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	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 United Utilities' business plan demonstrates high quality in some areas, there is insufficient evidence for risk mitigation measures and risk management in the context of its RoRE scenarios. The company has assessed the prescribed scenarios that are relevant to its circumstances. While the plan discusses risk mitigation and mitigation measures, these are discussed at a general level; there is insufficient evidence that the company has considered risk mitigation measures for each of the modelled scenarios. 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?	B	Overall, United Utilities' 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"> <li>The company has set out the steps taken to make the financeability assessment and to provide assurance, supported by third party assurance of the procedures and calculations of the business plan data tables that support financeability.</li> <li>The business plan provides sufficient evidence to support the target credit ratings of Baa1/BBB+ (Moody's and S&amp;P) for the notional company structure and A3/BBB+ for its actual structure and that the plan is consistent with maintaining the target credit ratings for the notional and actual structures.</li> <li>The company has identified a notional financeability constraint and has proposed an uplift to PAYG rates to address this. The company has provided sufficient and convincing evidence that the adjustment achieves the objective.</li> <li>The company has not identified a financeability constraint on its actual capital structure.</li> </ul>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
	C	RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	C	<p>Despite some aspects of United Utilities' business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing sufficient and convincing evidence to support its choice of RCV run-off rates.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> <li>• The company's starting points for PAYG rates are supported by sufficient and convincing evidence. The company has proposed an increase to PAYG rates to address a financeability constraint on the notional company structure and has provided sufficient evidence to support the adjustment including evidence of customer support for the final bill profile.</li> <li>• Overall, there is sufficient and convincing evidence that the final 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.</li> </ul> <p>There is one main area where the plan falls short of high quality.</p> <ul style="list-style-type: none"> <li>• The company has not provided sufficient evidence to demonstrate that the RCV run-off rates are in line with the stated approach. The business plan does not set out how run-off rates have been calculated.</li> </ul> <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	B	PD1	How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?	B	<p>United Utilities' 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 within 0.05% of the 2019-20 PR14 allowed revenue.</p> <p>The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments.</p> <p>We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor consistency issues for residential retail.</p> <p>Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and data tables on an individual PC basis. Independent checks of the reported ODI underperformance and outperformance payments are generally identical to those reported by the company. There are two differences. For Thirlsmere there is a difference in how company performance has been rounded that leads to a difference. For retail the company has proposed a significant change in how the ODI is calculated, but has not provided sufficient evidence that the change is in the interests of customers.</p> <p>For most areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for 12 of the 20 PCs, land sales and totex 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>	B	<p>In the round we have no concerns with the evidence for deliverability for the 2020-25 plan, although we have some concerns for outcomes.</p> <p>There is average outcomes performance as the company has delivered or is forecast to deliver 73% of its PCs with financial ODIs in 2015-20. The company provides insufficient evidence that it understands the drivers of its performance and has learnt lessons from that performance. For example, we would like to see greater understanding for water quality events, the Water Quality Service Index and maintaining wastewater treatment works. The company is proposing to improve performance in its PCs for supply interruptions, per capita consumption, sewer collapses, risk of sewer flooding in a storm, internal flooding incidents, external flooding incidents, hydraulic internal flood risk resilience and keeping reservoirs resilient. The plan provides insufficient evidence that it includes sufficient measures to improve its performance. 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 poor performance on cost efficiency as the company's actual and forecast costs are above cost allowances for 2015-20 for wholesale water and wastewater. However, the company provides sufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company is proposing a high level of stretch for 2020-25 and provides sufficient evidence of improvement measures to meet that challenge, such as its use of cost-efficient market solutions. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of the planned costs.</p> <p>We have some concerns with the performance on major incidents. It had two major incidents – relating to drinking water quality. However, it had a low number of category one and two pollution incidents per 10,000km of sewers and has an EA performance rating of four stars. It had four prosecutions from the EA and the DWI, two enforcement actions and nine formal cautions from the EA. The company provides sufficient evidence it understands the drivers of its performance and identifies lessons learnt from major incidents, such as its successful use of a systems thinking approach and its management of major incidents from its internal control centre. The plan provides sufficient evidence the company has measures in place to improve performance in relation to major incidents, such as such as developing more comprehensive contingency plans, increasing staff training, and expanding its communication channels during incidents. We therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents.</p> <p>The company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is increasing. However, it has an above average number of complaints per 10,000 connections in 2017-18 and this is increasing. The company provides insufficient evidence it understands the drivers of its performance and identifies lessons learnt. For example, it cites its new web contact management system and its use of behavioural science techniques, but fails to outline specific lessons or acknowledge its current complaints performance in sufficient detail. The plan provides measures to improve its performance. For example, it proposes to advance its website and app design, but fails to provide sufficient detail on implementation. However, in the round, the company's current performance provides sufficient confidence that customer complaints performance will be maintained in 2020-25. We therefore do not have concerns with the evidence for deliverability of customer complaints handling performance.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Securing confidence and assurance	B	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	C	<p>United Utilities' business plan falls short of providing sufficient evidence that its full Board provides comprehensive assurance to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable, and that it has challenged management to ensure this is the case.</p> <p>High quality Board assurance statements include compliant statements as set out in the PR19 Final Methodology which, in general, are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. The company provides seven compliant statements, five of which have sufficient supporting evidence, seven partially compliant statements and two non-compliant statements. This reduces our overall confidence in the Board's ownership of the plan.</p> <p>On the topic of business planning, the Board provides three compliant statements from the four requested in the PR19 Final Methodology. The Board's statement on whether the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements is partially compliant.</p> <p>For statements on the remaining topics, the Board provides four compliant statements from the twelve requested in the PR19 Final Methodology. The Board's statements on affordability; outcomes; resilience; and financeability are partially compliant. The Board's statements on whether the company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and how this has been incorporated into its plan; and large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers are non-compliant.</p> <p>For statements on business planning, we ask in the PR19 Final Methodology that Boards demonstrate how they have challenged management and satisfied themselves prior to making their statements. There is sufficient evidence that the Board challenged management prior to making its statement that the all the elements add up to a plan that is high quality and deliverable. For the remaining compliant statements the Board states that it provided challenges but provides no further details. Consequently there is insufficient evidence that the Board has challenged management and satisfied itself prior to making these statements.</p> <p>For statements on the remaining topics, Boards are asked to demonstrate how they satisfied themselves. The Board demonstrates how it satisfied itself by summarising external assurance obtained. This evidence sufficiently covers the topics of the four compliant statements.</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?	C	<p>United Utilities' business plan falls short of providing sufficient and convincing evidence that its full Board has been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long-term. 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 "Uuw and its ultimate parent company United Utilities Group PLC have established, best practice governance, accountability and assurance processes that are effective in helping to avoid, cope with and recover from disruption; and to anticipate trends and variability in its business operations." This is only a partially-compliant statement of assurance.</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>	A	<p>United Utilities' business plan provides sufficient evidence that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of transparency and engagement on issues that matter to customers, such as its corporate and financial structures.</p> <p>The business plan contains sufficient evidence that the company will commit to adopt the expectations out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> <li>• The company proposes a base dividend yield of less than 5 %.</li> <li>• On dividends, the company provides sufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders over the period of the price control and demonstrates high quality in the round. The dividend policy stated in the business plan refers to all of the required elements from the 'Putting the sector in balance' position paper with the exception of an explicit reference to pension obligations. However this is not a material omission as the pension scheme is currently in surplus. The proposed dividend policy provides sufficient and convincing evidence in all areas on how the required elements will be taken into account when determining dividends. The board assurance statement contains a commitment to explain its decisions on dividend policy annually. 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 commits to explaining its decisions on dividend policy annually.</li> <li>• On executive pay, The company' business plan provides high quality with sufficient and convincing evidence that the company is committed to meeting the expectations set out in our 'Putting the sector in balance' position statement. The company's Board statement includes a commitment to bring forward its triennial review of directors' remuneration to enable consultation with shareholders and stakeholders by no later than 2020 and the business plan contains details of the scope of this review. The company provides sufficient and convincing evidence that the policies will be transparent, stretching and will be rigorously applied. Within this context, the company sets out the role and composition of the remuneration committee and its intention that its policy will include a substantial link to stretching delivery for customers, accounting for at least 60% of the annual bonus and an assessment of the PCs for long term incentives with a view to increasing the weighting of customer-focused measures beyond the current 33.3%, and a review of the balance between the annual and long-term bonuses. The company provides sufficient evidence that shareholders will be engaged on the new remuneration policy and there is commitment that the changes to the policy will be fully disclosed as part of the annual reporting.</li> <li>• The company is not highly geared and is not forecasting gearing above 65% during the 2020-25 price control period. It does not explicitly accept our default outperformance sharing mechanism but it does commit to sharing outperformance benefits should its gearing exceed 70%.</li> </ul> <p>The company' proposals around voluntary sharing are high quality and ambitious in the context of other plans and its size as a company. The company commits to spending £71m on financial assistance schemes over 2020-25. The company also proposes a bespoke voluntary benefits sharing mechanism wherein distributions above the base dividend plus 2% RORE will be matched 1 for 1 with contributions to its community fund. Assuming levels of outperformance similar to 2015/16 and 2016/17, we estimate the value of voluntary sharing from all sources could be around £14.2m per year.</p> <p>The plan falls short of high quality on demonstrating that it will enable customers' trust and confidence through engagement on its corporate and financial structures since the Board does not provide a compliant statement of assurance. However the company's business plan references its Annual Performance Report, in which it provides sufficient evidence on transparency of its financial structure but insufficient evidence on its corporate structure.</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>United Utilities' 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 a compliant assurance statement that it will monitor delivery of its outcomes and PCs, "The Board review performance against our existing PCs as part of the operational review presented to each board meeting and have undertaken detailed reviews of the proposed AMP7 commitments as part of their programme wide reviews and through a specific review in April 2018." This statement also advises how the Board will monitor outcome delivery.</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	B	<p>United Utilities sufficiently demonstrates a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>The plan is of high quality:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The company sufficiently describes its data assurance, governance and audit processes within its business plan.</li> <li>• Overall, the company reports performance and financial data in its business plan tables consistent with previous data submissions, with only a few minor inconsistencies in the area of cost assessment which do not materially affect our assessment.</li> <li>• The company refers to its 'Self-assured' category in the 2017 Company Monitoring Framework assessment, for which we identified no weaknesses in our key assessment areas.</li> </ul>
		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, United Utilities' business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. We identify no material issues within our assessment of the data tables.</p>