

Wessex Water: 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	B	C	C	B	C	D	B	C

Wessex Water - 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 Wessex Water's business plan is high quality with convincing evidence in the areas set out below. There is some evidence of ambition and innovation, but not sufficient for the business plan to be 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"> The effective use of a wide range of customer engagement techniques including immersive events. Innovative ongoing customer engagement approaches, with business data used to identify areas for future engagement. A clear two-way dialogue with customers, for example, keeping members of the online panel informed through newsletters and using interactive games at roadshow events. Use of comparative information to provide context for customers through the use of Discover Water data and shadow reporting of common service measures. Approach to adopting the four themes of customer participation as set out in the 'Tapped In' report (including interaction with customers through roadshow and the water citizenship project, co-creation of solutions to real business problems together with its young people panel and 500 of their class-mates, an online water calculator tool and a leak detection program) with techniques used across a broad range of customers including community/school events, campaigns, online and social media. <p>However, the business plan falls short of high quality with insufficient evidence, in the following areas:</p> <ul style="list-style-type: none"> While the company provides evidence of high quality triangulation it does not demonstrate evidence of customer support for its largest value performance commitment (PC), Event Risk Index, and sets cost-based outcome delivery incentive (ODI) rates that are not based on customer valuations. It provides insufficient evidence of customer research to test long term bill profiles (beyond 2025) and does not include the impacts of ODIs in customer acceptability testing research. 	EC1	B
Addressing affordability and vulnerability	B	<p>Overall Wessex Water's business plan demonstrates high quality with convincing evidence that covers its approach to affordability and vulnerability as it proposes:</p> <ul style="list-style-type: none"> an ambitious and innovative approach to helping customers who cannot afford to pay their bills, including a high quality approach to increasing financial resilience of customers and improving accessibility through partnership working; a high quality approach to helping customers in vulnerable circumstances, including a relatively strong target for increasing priority service register membership to 5.9% and an innovative approach to partnership working through its digital hub; and 	AV1	C
			AV2	C

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		<ul style="list-style-type: none"> a 3.5% real bill reduction for the 2020 to 2025 period. <p>The business plan falls short of high quality in two areas because:</p> <ul style="list-style-type: none"> It submitted insufficient evidence on customer bill acceptability and affordability. The company proposed a relatively large bill increase of 7.2% for the 2025 to 2030 period. It did not engage sufficiently with customers on this aspect of its plan. 	AV3	A
			AV4	B
Delivering outcomes for customers	C	<p>Across the delivering outcomes for customers test area, the evidence Wessex Water provides to support its proposed PCs and ODIs falls short of high quality and the evidence is insufficient or unconvincing in some areas.</p> <p>The plan does provide some evidence of a high-quality approach, with appropriately stretching targets for some of its PCs, which are upper quartile for the level of external sewer flooding and per capita consumption that will be achieved by 2025.</p> <p>However, the plan does not provide evidence of a high-quality approach for a selection of important PCs and associated ODIs. Key areas where the business plan falls short of high quality are:</p> <ul style="list-style-type: none"> The target for a drinking water quality PC, Event Risk Index (ERI) is not stretching and has potentially significant outperformance payments. The company applies a top-down allocation method to calculate the ODI rates for ERI, which forms a significant proportion of the ODI package. The company provides insufficient evidence to support the use of outperformance payments for its ODIs. In particular its plan suggests that it has used outperformance and underperformance payments as a default, rather than supporting the use of outperformance payments based on customer benefits. The company fails to propose a bespoke PC for a water quality sub-category where it performed poorly in the past and has proposed a bespoke drinking water quality PC that focuses on an area where it has previously performed above average. The company has previously failed to meet its commitments for a PC that included both areas. 	OC1	B
			OC2	D
			OC3	C
Securing long-term resilience	C	<p>Overall, Wessex Water's plan falls short of high quality and the company does not provide sufficient and convincing evidence of securing long term resilience in certain areas.</p> <p>The plan provides sufficient evidence in some areas. The company's Entrade platform to enable markets approach to environmental outcomes is an innovative environmental resilience solution. The company also provides sufficient evidence of customer engagement on resilience risks and options. The company undertakes a comprehensive flood risk assessment aligned to the National Planning Policy Framework (NPPF) and presents a commitment to carry out an independent maturity assessment as an annual tool to assess resilience and prepare detailed Resilience Action Plans based on the deficiencies.</p> <p>The plan provides sufficient evidence for some aspects of financial resilience assessment and risk management including financial stress scenarios that build on the long term viability statement included in the company's annual performance report, and a targeted credit rating that is consistent with long term financial resilience. However, there is insufficient or unconvincing evidence in other areas.</p> <p>We consider that the company's plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas:</p>	LR1	C

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		<ul style="list-style-type: none"> The company provides insufficient evidence of a systems-based approach to resilience necessary to demonstrate resilience in the round. The plan provides insufficient and unconvincing evidence that the company has considered the interdependencies between the resilience themes. The company provides a baseline resilience maturity assessment of operational and corporate resilience but the assessment provides no evidence beyond 2022. There is also insufficient evidence of the methodology to prioritise the resilience risks considered in the multiple hazards approach. The plan provides little evidence to convince us that the assessment of risks to resilience is appropriate due to the lack of transparency and clarity and there is insufficient evidence of the company's process for selecting mitigation options. The proposed resilience focused PCs are not sufficiently evidenced to link the outcomes to the resilience assessment framework. Overall, the plan provides little convincing evidence of how its proposed options were selected and how these are linked to a resilience in the round assessment. There is insufficient evidence that the company has considered the impacts of all risks in its assessment of financial resilience. In particular, the company's business plan is underpinned by a higher cost of capital than our 'early view' and the company has not assessed its financial resilience applying our early view cost of capital. 	LR2	C
Targeted controls, markets and Innovation	B	Overall, Wessex Water's plan is of high quality across the Targeted Controls, Markets and Innovation test area.	CMI1	C
		<p>The company's plan is high quality and ambitious and innovative in the use of market based solutions in some areas, particularly the use of Entrade and catchment strategies across both network plus water and wastewater. Similarly, for water resources, the company shows good evidence of their engagement with third parties on supply and demand-side options, including water trading in the West Country. The plan references trialling an Open Systems Coordinator approach (covering customers, environment, circular economy and networks function) which will bring direct procurement into the centre of the company's procurement strategy and embed third-party engagement into company's culture. For RCV Allocation the evidence is complete.</p> <p>The plan provides insufficient evidence that the company had considered the risks and impacts of the future opening of the bilateral market in England. The company's plan only provides high level evidence that it has considered the use of markets to treat indigenous sludge. Whilst there is evidence of delivering further change through innovation, the company's plan falls short of high quality in demonstrating a line of sight between strategic challenges, innovation activity and its focussed management of innovation culture and capability enablers. The company's plan provides a good commentary and supporting assurances that it has considered potential DPC schemes. It falls short of high quality in this area because there is insufficient detail of how schemes with values close to the DPC threshold have been evaluated due to a lack of supporting evidence. The company provides a bid assessment framework generally in line with best practice and the key principles of transparency, non-discrimination and proportionality. However, the plan has insufficient detail to be able to conclude that the framework is sufficiently transparent.</p>	CMI2	B
			CM3	B
			CMI4	C
			CMI5	B
			CMI6	C
			CMI7	C
Securing cost efficiency	C	<p>Overall we do not consider Wessex Water's projected costs for 2020-25 to be efficient. At the company level its costs are around 14% above our view of efficient costs. Its retail costs, and wholesale water base and enhancement costs, are inefficient. In wholesale wastewater its base costs are efficient. However, the company has high wastewater enhancement costs which outweigh the base efficiency and mean that its wastewater costs overall are around 15% above our view of efficient costs.</p> <p>Wessex Water proposes six cost adjustment claims, all of which were of reasonable quality and score "partial pass", which gives the company a grade of C.</p>	CE1	C
			CE2	C
			CE3	C
			CE4	C
Aligning risk and return	D	<p>Overall, the company's plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting some of the most material aspects of aligning risk and return.</p> <p>The following area of the plan is high quality:</p> <ul style="list-style-type: none"> There is sufficient and convincing evidence to support the company's choice of PAYG and RCV run-off rates. <p>There are three areas of major concern where the plan falls significantly short of high quality. The plan provides insufficient or unconvincing evidence in the following areas:</p> <ul style="list-style-type: none"> There is limited and unconvincing evidence in support of the company's proposed uplift to the 'early view' cost of capital or that the company's customers support the uplift, or will benefit from it. 	RR1	D
			RR2	C
			RR3	D

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		<ul style="list-style-type: none"> We have concerns that the financial metrics used to support the Board's assessment of notional financeability are valid. It is not possible to reconcile these ratios with the submitted PR19 Financial Model and there is not sufficient evidence to support it target credit rating for assessing financeability. We have some concerns about inconsistencies in data in its RoRE assessment for the notional company. 	RR4	B
Accounting for past delivery	B	<p>Overall, Wessex Water's 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"> It has delivered or is forecast to deliver 86% of PCs in 2015-20 and provides sufficient evidence that it includes appropriate measures to deliver the performance in its plan. The company is forecast to underspend against its cost allowance for 2015-20 and provides evidence of measures to deliver the performance in its plan. The company is already meeting CCWater's 2020 household customer complaints target of resolving 95% of customer complaints at stage one and has low household customer complaints. It also demonstrated senior leadership team ownership of the complaints process. The company had one major pollution incident, and a relatively low number of category one and two pollution incidents per 10,000km of sewer. It provides sufficient evidence on measures to address this performance. We therefore do not have concerns with the evidence for the deliverability of performance in relation to major incidents. <p>There is sufficient and convincing evidence for six out of eight PR14 reconciliation areas and insufficient evidence for totex and residential retail. There is only a marginal difference (-0.5% 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	C	<p>Overall, Wessex Water's business plan falls short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area.</p> <p>The company's business plan provides some evidence of high quality since it provides sufficient and convincing evidence that overall, its PR19 business plan tables and the assurance and commentary provided are consistent, accurate and assured.</p> <p>The company's plan falls short of high quality in the following areas:</p> <p>The company's Board provides the majority of the requested assurance statements to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable. However, an insufficient number of them have supporting evidence of the Board's challenge and assurance process and a number of statements are partially compliant.</p> <p>On providing evidence of a fair balance between customers and investors:</p> <ul style="list-style-type: none"> The company meets two of the key requirements of the 'Putting the sector in balance' document. It proposes a base dividend yield of less than 5% and whilst the company is not highly geared and forecasts gearing below 70% during the 2020-25 price control period, it states it will apply our default benefit sharing mechanism should gearing rise above this threshold. Additionally, the company proposes a bespoke voluntary benefits sharing mechanism which we estimate could have a value of £1.4m per year. We consider that the company's proposals are high quality in terms of voluntary sharing, when considering its size. On executive pay, the company demonstrates insufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is insufficient evidence of how the targets will be stretching and aligned with delivery to customers. Also, there is no reference to the policy for 2020-25 and how it will be rigorously applied and monitored or evidence as to how changes will be signalled to customers. On dividend policy, there is insufficient evidence of the company's intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is insufficient evidence of how the dividend policy in 2020-25 takes account of obligations and commitments to customers for the dividend policy that is applied in 2020-25 and when determining dividends. 	CA1	C
			CA2	D
			CA3	C
			CA4	D

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	C	<ul style="list-style-type: none"> Although the company provides a compliant statement of assurance that its plan will enable customers' trust and confidence through engagement on its corporate and financial structures, there is insufficient evidence of the Board's assurance process. However, the company's business plan refers to its Annual Performance Report in which it provides sufficient evidence of transparency on its corporate and financial structures. <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 meets expectations in 7 areas, it has minor concerns in 3 areas.</p> <p>The plan falls significantly short of high quality in the following areas:</p> <ul style="list-style-type: none"> The 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. The plan provides little or no 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. 	CA5	C
			CA6	B