

Wessex Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	B	EC1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	B	<p>Overall Wessex Water's business plan is high quality with convincing evidence in the areas set out below. We find some evidence of ambition and innovation, but not sufficient for the business plan to be considered exceptional. We find insufficient evidence of customer research to test long term bill profiles (beyond 2025) and the final performance commitments (PC) and outcome delivery incentives (ODI) were not directly tested with customers.</p> <p>The company provides sufficient evidence of effective use of a wide range of customer engagement techniques including in-depth interviews, focus groups, workshops, online/telephone surveys, hall test and immersive events. There is evidence of high quality ongoing customer engagement, with business data used to identify areas for future engagement with customers. There is convincing evidence of 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. The company has used comparative information to provide context for customers through the use of Discover Water data and shadow reporting of common service measures. The company provides sufficient evidence that it has adopted an objective, well-reasoned and transparent approach to triangulation, using a range of data sources including stated preference, online games, revealed preference, online surveys and hall tests. The CCG flags that the company has made assumptions on customer preferences for some PCs and while the company provides evidence of high quality triangulation, it does not provide sufficient evidence of customer support for its largest ODI (Event Risk Index). As such the results of its engagement with customers are not incorporated into high value elements of its business plan.</p> <p>The company demonstrates a high quality approach to customer participation and convincing evidence of adopting the four themes of customer participation as set out in the 'Tapped In' report. This includes interaction with customers through roadshows and its water citizenship project, in which the company engaged on the impact of current behaviour on future environmental issues, such as river water quality, plastics use and sewer abuse. The company co-creates solutions to real business problems together with its young people panel and 500 of their class-mates. It also encourages customer ownership of water use through an online water calculator tool and a leak detection program. There is also convincing evidence regarding the customer participation techniques used across a broad range of customers including community/school events, campaigns, online and social media.</p> <p>The company provides convincing evidence of having engaged with customers to understand their preferences on service levels (using both quantitative and qualitative approaches) through its willingness to pay, leakages and resilience research. However, the CCG has also highlighted that the company has made assumptions about customer preferences in place of customer valuations with respect to certain PCs (including the Event Risk Indicator ODI) such that its package of ODIs does not reflect engagement in all areas. The company demonstrates the use of creative approaches to engaging with customers on long-term issues (such as immersive research and the use of scenarios to explore the potential longer-term impacts of climate change, population growth and cyber-crime. However, there is limited evidence of engagement with customers on an explicit bill profile or long-term bill impacts. The company does not include the impacts of ODIs in customer acceptability testing research.</p>

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Addressing affordability and vulnerability	B	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	C	<p>Wessex Water provides insufficient evidence in relation to its approach to deliver bills that are affordable and provide value for money from 2020-25.</p> <p>The company is proposing a real bill reduction of 3.5%. The CCG is assured on the engagement approach and there is evidence of a consistently high level of acceptability and perception of affordability from the company's customers, which is also shown in CCWater data.</p> <p>In its ODI research, the company found that "ring-fencing the money" from outperformance payments was important to its customers. The company has addressed this by proposing to ring-fence 20% of outperformance payments and directly reinvest this back into the community. Despite this, there are some concerns that customers are not sufficiently protected from large ODI outperformance payments.</p> <p>The company also has an industry leading tailored assistance programme ('tap') which offers a range of support to customers (e.g. payment holidays, flexible payment plans, free water meters).</p> <p>There is however insufficient convincing evidence that the company understands affordability and drivers of issues with affordability in its area (for example where other companies have identified areas to target or region-specific factors such as unemployment). It appears that most acceptability testing and the results of this were tested with customers in terms of the plan overall, rather than of the bill specifically. Moreover, although the company found that customers prefer bills without peaks and troughs it appears that the company is decreasing bills to 2021/22 then increasing them again (in real terms). The company also has a highly inefficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	C	<p>Wessex Water falls short of high quality with insufficient and unconvincing evidence of its approach to addressing affordability of bills beyond 2025. In particular, it is proposing to increase bills by 7.2% over the 2025 to 2030 period; the second highest increase over this period in the sector. In addition, there is insufficient evidence of testing of a bill profile for the 2025 to 2030 period with customers.</p> <p>However, the company is not using financial levers, and there is evidence in the business plan of the company looking to improve its customer's long-term affordability resilience through its community fund.</p>
		AV3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?	A	<p>Wessex Water demonstrates a high quality, ambitious and innovative approach with sufficient and convincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, its social tariff is growing by over 50% in the 2020 to 2025 period, and this is supported by a stretching PC.</p> <p>In addition, it has demonstrated an innovative approach to affordability support by offering 20% discounts to customers who receive pension credit. The company has proposed a PC on successful applications to tap from third parties which will motivate the company to improve accessibility. The company is the only company proposing this type of PC. We consider that this is innovative and demonstrates a targeted and effective approach to supporting customers that struggle to pay or who may be at risk of struggling to pay.</p> <p>We note that the company's engagement with customers who struggle to pay and with customers about the social tariff cross subsidy was high-quality, but not innovative.</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?	B	<p>Wessex Water provides sufficient and convincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, the company proposes a target to sign-up 5.9% of its customer base to the priority services register (PSR) by 2024/25, this is relatively strong reach.</p> <p>In addition, it has proposed a stretching PC to achieve the BSI standard for 'fair, flexible and inclusive services' in the 2020 to 2025 period.</p> <p>Furthermore, the company has co-created a digital "Partner Hub" to improve two-way digital engagement with third parties and increase opportunities for self-serve. We consider this to be an innovative approach.</p> <p>Finally, the company has a high-quality approach to using data to understand and support vulnerable customers, however this is not innovative, and it has not checked any PSR customer data in the past two years.</p> <p>In the round, we consider that the company demonstrates a high-quality approach to vulnerability.</p>

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Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	<p>Overall, the evidence that Wessex Water provides demonstrates that its PCs are appropriate, well-evidenced and stretching, which makes for a high-quality plan, although not sufficiently ambitious or innovative to be considered exceptional.</p> <p>We have confidence in the evidence that, in general, the company's PC levels are stretching because:</p> <ul style="list-style-type: none"> • the current and proposed performance for per capita consumption (PCC) and external sewer flooding are both beyond upper quartile (UQ); • the company's proposed levels are stretching for the "delivering to customers in vulnerable circumstances" PC; and • there are no material issues identified for bespoke PCs. <p>We note that the proposed service levels for the Event Risk Index (ERI) and sewer collapses PCs are not stretching.</p> <p>We have confidence in the evidence that its performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> • The company provides sufficient and convincing evidence that its PC reporting will be robust. • It is transparent in comparing its present performance with other companies. • The company supports the use of comparative tables to increase the reputational impact of ODIs and suggests greater use of the Discover Water website. • The company proposes the use of multiple digital channels – Facebook, Twitter, YouTube and a downloadable customer magazine. • The company proposes a customer-friendly annual review summary: 'Delivering for our customers', in addition to the APR and publishing a twice-yearly customer magazine. <p>An area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology requirements because:</p> <ul style="list-style-type: none"> • The PC "Customer contacts (Appearance)" is a subset of the previous PR14 measure which included odour and taste. The proposed measure has insufficient explanation why these aspects have not been included, which is particularly significant in light of the company's poor performance on this measure in PR14. • The PC "Working with catchment partners to improve natural capital" is not transparent and the evidence provided is insufficient to understand possible overlaps with other PCs.

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	D	<p>Overall, we have substantial concerns over Wessex Water's proposed approach to providing a well-evidenced package of ODIs. We have concerns over its approach to setting ODI rates, which in some cases are based on a top-down approach without sufficient justification. This is a material concern for ERI where the outperformance payment rate is significantly larger than the underperformance payment rate. We have a number of material concerns with the company's approach to determining the financial ODI type, where it proposes outperformance and underperformance payments by default. Although it has proposed few caps and collars and deadbands, we have some concerns over the justification of its deadbands, which could dampen its incentives to deliver. We have concerns over its proposed enhanced ODI outperformance payments which exceed its own customers' willingness to pay evidence.</p> <p>We have a number of material concerns where the company proposes outperformance payments with insufficient evidence. The company justifies setting the outperformance payments based on a default methodology, rather than providing specific justifications for its outperformance payments for each PC.</p> <p>We have the following concerns with the company's ODI rates:</p> <ul style="list-style-type: none"> • The company applies a top-down allocation method to calculate the ODI rates for ERI, which forms a significant proportion of the P90 for the ODI package (c.40%). P90 is the level of outperformance payment that it expects there is a 10% chance of meeting or exceeding each year. • It does not provide sufficient evidence to justify why outperformance payments outweigh underperformance payments to such an extent for this ODI, or provide direct evidence that customers are willing to pay the proposed amounts. This top down allocation is not directly formed from customer valuations or forecast efficient marginal cost. • The company does not estimate willingness to pay (WTP) in some cases; as such some ODI rates are calculated based upon marginal cost alone. • In some cases, the company assigns a multiplier of 1.2 to marginal cost and consequently outperformance payments in the calculation of ODI amounts. The company does not provide sufficient justification for the application of this scaling factor. <p>Although the company is not proposing individual caps and collars and instead proposes an overarching cap and collar on the ODI package, we do not have confidence that the company has a sufficiently-evidenced approach to ODI deadbands, caps and collars due to the following material concerns.</p> <ul style="list-style-type: none"> • We consider three deadbands (all except water quality compliance) to be unconvincingly justified. • In particular the level of the ERI underperformance deadband is particularly concerning, as it allows for substantial deterioration against current and historical performance to be achieved without incurring an underperformance payment. This significantly dampens the company's incentive to improve its performance. • The deadbands proposed contribute to an asymmetric P10/P90 range, which is tilted in favour of outperformance. The estimated P90 for ERI is large relative to the company's other ODIs. <p>We have the following concerns with the company's approach to enhanced outperformance and underperformance payments:</p> <ul style="list-style-type: none"> • its target thresholds, where applicable, generally do not correspond to the expectation of where the frontier is likely to be in the 2020-2025 period; and • the proposed enhanced ODI outperformance payments, where applicable, exceed their own customers' willingness to pay.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, Wessex Water falls short of high quality and does not sufficiently demonstrate an appropriate and high quality approach to its focus on service performance in its risk and reward package. The company does not provide sufficient evidence that it has tested its overall ODI package with customers, or demonstrated that it has fully considered and addressed its past asset health performance challenges. There is some evidence of high quality; for example the company provides sufficient evidence on how its ODI package incentivises the company.</p> <p>We have material concerns that the company meets our expectations for the overall ODI package because:</p> <ul style="list-style-type: none"> • Some of the methods used by the company to estimate its P10/P90 estimates are unclear. • The company does not provide sufficient evidence that its ODI package is supported by robust customer engagement and valuations. Although the company has built its PCs and RORE based on customer engagement, it has not fully tested these outputs with customers. <p>The company has insufficient evidence to support its proposals that four asset health and one environmental improvement PCs that have end-of-period regulatory capital value (RCV) adjustments.</p> <p>We have concerns that the company does not meet our expectations for ODIs for asset health PCs because:</p> <ul style="list-style-type: none"> • The company does not demonstrate that it understands and has addressed its asset health past performance challenges; the company does not have an appropriate PC and ODI on water quality contacts. • The company does not demonstrate high quality customer engagement on asset health. • The CCG challenged the company's approach to asset health and was not satisfied with the responses. • The company does not demonstrate customer support for its outperformance payments. <p>We have concerns with the evidence that the company provides to demonstrate that it is protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> • The company proposes to carry forward any net payments greater than +/- 2% RORE until the end of the period and affect RCV on 1 April 2025. Despite short run bill smoothing, this approach does not deliver sufficient customer protections in the long-run. • While it proposes to consult the CCG, it is not clear on how this consultation will affect its decision and whether the decision of the CCG is binding. • The company does not provide details on what measures the re-investment will cover. <p>We have some confidence in the evidence that the company is protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> • The company states that, if outperformance is in excess of 2% of RORE in a single year, it will consult the CCG to consider if events rather than management action drove outperformance. • The company proposes to smooth in-period bills for customers. • The company states that it would re-invest 20% of any outperformance payments through the Wessex Community Foundation.

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	C	LR1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	C	<p>Wessex Water's business plan falls short of high quality with insufficient and unconvincing evidence of how the company has assessed risks and consequences to its systems and services. It has not assessed how it will maintain its financial resilience to the PR19 early view cost of capital.</p> <p>The company provides sufficient evidence that it has undertaken a baseline resilience assessment aligned to the BS65000 Organisational Resilience standard. However, we consider that it is unclear how this assessment has informed the company's plan. The company provides evidence of an additional resilience assessment of its water treatment works using a multiple hazards approach and also undertakes a comprehensive flood risk assessment aligned to the National Planning Policy Framework (NPPF).</p> <p>However, the company's resilience assessment falls short of high quality and provides insufficient evidence of an integrated and systems-based approach to resilience. The resilience maturity assessment of the company is limited to its current and short-term maturities, insufficiently built into the business plan and lacking long-term aspirational maturity levels and plans to achieve such levels. In addition, the company provides inconsistent evidence about short-term maturity, between the main body of the business plan and the third party report on resilience that contains the detailed assessment. There is also insufficient evidence of the methodology to prioritise the resilience risks considered in the multiple hazards approach. The company provides limited evidence of considering risks to the delivery of the plan.</p> <p>There is insufficient evidence that the company has considered all of the financial resilience scenarios relevant to its circumstances, but there are some elements of high quality in its plan. The company's board has made a statement that if the business plan is accepted in full, the company remains financially resilient in the long term. The company has assessed the prescribed financial stress and a range of company-specific/combined scenarios, underpinned by its internal risk assessment. The company has presented the results of its assessment as annual impacts on adjusted interest cover through to 2030. However, the company's business plan is underpinned by a higher cost of capital than set out in our early view for PR19, and the company has not considered a scenario that tests its financial resilience under the early view cost of capital.</p>
Securing long-term resilience		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?	C	<p>Wessex Water's business plan falls short of high quality. The company provides evidence of customer engagement and provides evidence of a good overall approach to environmental resilience. However, the company provides insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides sufficient and convincing evidence for its natural capital approach to environmental resilience. The Entrade markets approach is an innovative resilience solution. The company provides evidence of using participatory customer engagement techniques for resilience discussions such as gamification. However, these high quality elements are in isolation of each other and the overall resilience approach. The company also provides evidence that it has considered corporate resilience mitigations. It also proposes skills capability mitigations as part of its People Programme.</p> <p>However, we consider that the company provides insufficient evidence that it has applied a systems-based approach to resilience and therefore has not taken account of interdependencies between systems to address resilience risks. The company provides an insufficiently detailed line of sight between its multiple hazards assessment and its resilience interventions. In addition, the company provides insufficiently convincing evidence that the resilience-focused PCs are linked to the resilience assessment.</p> <p>The financial stress tests that the company has carried out indicate that it should be able to maintain the key ratios required for an investment grade credit rating over the long term, including adjusted interest cover (AICR) and funds from operations to debt (FFO/debt) and its target gearing level of 67-68%. However, this appears to be underpinned by the company's assumed cost of capital rather than the cost of capital set out in our early view.</p> <p>There is evidence that the company has considered a range of mitigation measures. The company refers to its flexible dividend policy and variation of maintenance expenditure over the short term as examples of mitigation measures available to it. However, there is insufficient evidence to demonstrate how the company intends to meet its financing requirements for the period to 2025 or its overall approach to managing risks associated with access to finance. The fact that the company has not assessed its financial resilience to the early view cost of capital, set alongside the lack of compelling evidence to underpin its proposed cost of capital (assessed in the risk and return IAP test question) is of particular concern.</p>

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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?	C	Wessex Water's business plan falls short of high quality with insufficient evidence to demonstrate that it has the right culture for innovation. The company runs specific open innovation challenges, but there is limited evidence provided to demonstrate that it actively identifies its business challenges and communicates them to its employees. The company's open system model will be developed to move it towards a whole system approach from 2020. Its illustrated open systems structure demonstrates that the regulators, and customer representatives continue to set the outcomes/ policy objectives with no evidence that the company proactively identifies or communicates its own challenges to employees and the supply chain. It states that it will have a culture that allows risks to be taken where appropriate and will embed innovation into regular practices. However, there are no further details or evidence that it has an appetite for risk, has a process that it follows to deal with the risk of failure, or is prepared to learn from innovation failures. It has an employee suggestion scheme (Eureka) that gathers and implements original ideas and then offers a reward depending on their success. It also has open innovation challenges, set by its directors, to which anyone in the company can respond. However, there are limited evidence to demonstrate that employees are rewarded or recognised for their efforts and achievements. Further evidence on how the rewards are linked to innovation is needed in a high quality plan. It has an inter-departmental innovation and technology forum, as well as online platforms such as Yammer to encourage the sharing of innovation work from across functions. However, there are limited examples/evidence to demonstrate the internal collaborations between different teams in the organisation. It states that its small innovation team monitors the full cross-section of work and builds links within and outside the company, but there are no examples/ evidence provided to demonstrate the internal collaborations between different teams in the organisation.
		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, Wessex Water provides a high quality plan in relation to this test question. The company has a high quality plan for managing gap sites and voids – this is particularly strong on relation to gap sites where it plans to introduce financial incentives. Regarding the use of markets, catchment management and partnership working for delivery services related to water and wastewater network plus, The company provides an innovative and ambitious plan with a notably strong approach to the use of markets. However, the company provides insufficient evidence of looking for lessons learned and innovation adopted from the business retail market and how they plan to adopt a similar approach in non-contestable markets.
		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	Wessex Water provides a high quality plan on its long-term strategy for water resources incorporating the use of markets to this purpose. Overall, the company is graded as a 'B' in this test question. The company shows good evidence of their engagement with third parties regarding water trades and other schemes related to demand reduction such as water efficiency and water re-use schemes. The company has set up arrangements for cross-border trades with Southern Water and South West water and it is also exploring export opportunities with Thames Water. On-demand side solution, while the company does not as of yet have a third-party delivering a demand-side scheme, it demonstrates sufficient evidence that it is actively engaging and exploring opportunities, providing evidence of bids ran for water efficiency schemes. The company is also 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 SX's procurement strategy and shall in practice embed third-party engagement into company's culture. On the future deployment of bilateral markets, the company does not go beyond providing the required business table Wr6. The company has submitted a high quality plan for its long-term strategy for water resources and outstanding past issues on leakage and water trading have been solved. There is still room for improvement regarding PCC reduction and metering ambition.

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		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	C	Wessex Water has an insufficiently well-evidenced long-term strategy for delivering bioresources services, and falls short of a high quality approach in certain key areas. The company provides a convincing plan for the use of markets. It has done a detailed assessment of the opportunities for the use of markets. Although it is clear that engagement with third-parties is taking place, more detail could have been provided on this to make it high quality. In other areas, there is insufficient evidence or poor evidence. While the company provides a split between fixed and variable revenue, the plan lacks a well evidenced rationale for the split. The plan lacks any evidence about transfer prices for the use of appointed assets or how the benefits would be shared with customers.
		CMI5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided?	B	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals for bioresources in September 2017 and for water resources in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocations appear appropriate.
		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?	C	Wessex Water provides a bid assessment framework (BAF) that meet the best practice recommendations, and largely reflects the key principles. In places, the detail is limited, such that there is not sufficient evidence to conclude that the framework is transparent. For example, there is no indication of what information parties might have to prepare if they wish to bid. On non-discrimination, the company commits to assessing all bids using the same criteria and intends to have the bids assessed by a team that excludes staff involved in delivery. It also includes a commitment to treat materials provided under the BAF as commercially sensitive and limited to those who need to see the material to assess bids.
		CMI7	To what extent has the company clearly demonstrated that it has considered, whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	C	Wessex Water clearly identifies that it had considered DPC in its business plan. It identifies a process to review all of its projects and highlights its top two schemes neither of which met the threshold. The company then brought in a third party to assure its work. This is a good process that is not supported by sufficient evidence in some areas to be categorised as high quality.

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Securing cost efficiency	C	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	C	Wessex Water's wholesale water costs are around 10% above our view of efficient costs. The company's projected wholesale water base costs are more than 5% above our view of efficiency base costs. Where we have benchmarks the company's enhancement costs are efficient, apart from in the area of supply demand balance leakage unit costs. The company does not plan to reduce leakage to achieve upper quartile performance levels or by more than 15%. Therefore we are not making any associated enhancement expenditure allowance.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	C	Wessex Water's wholesale wastewater costs are around 15% above our view of efficient costs. The company's wholesale wastewater base costs are efficient, at 1% less than our view of efficient base costs. On wastewater enhancement, the company appears inefficient in its costs for a number of the wastewater WINEP programmes where we can compare with industry benchmark costs. The company's information about its WINEP phosphorus removal schemes is well evidenced and we recognise the work it is doing in promoting innovative approaches to managing nutrients. However overall we find that the investment Wessex requests to deliver the programme is less efficient than other companies.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	C	Wessex Water's retail costs are around 13% above our view of efficient retail costs.
		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	Wessex Water proposes six cost adjustment claims, all of which are of reasonable quality and score "partial pass". However, we do not make an allowance for the company's performance related claims. We consider that any enhancement beyond 2019-20 upper quartile will be funded by the ODI mechanism, and the investment to catch up with 2019-20 upper quartile is funded from base expenditure without needing a special cost adjustment.
Aligning risk and return	D	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?	D	<p>Wessex Water's business plan falls significantly short of the required standard, as there is no convincing evidence that the business plan is underpinned by a cost of capital which is supported by evidence on market conditions in 2020-25, and insufficient evidence that its proposal is justified in terms of customer benefits.</p> <p>The company's retail margin proposal is aligned with our Final Methodology 'early view'. The company has however proposed an Appointee cost of capital of 2.7% on an RPI-stripped basis, which is 30bps higher than our 'early view'. The company has provided no convincing evidence to support its higher proposal. While the company states that it has chosen a cost of capital at the top end of our Appointee 'plausible range', its point estimate is above the 2.2 - 2.6% cited in our Final Methodology. The company's justification for its higher cost of capital is based on rating agency comments that the sector has become less stable and predictable. However the company has not provided analysis quantifying the impact of this risk and linking it to its overall proposal. Moreover, where it has used cost of capital parameters which differ from those used in our 'early view', it has not supplied evidence justifying its own alternative parameters.</p> <p>The company's business plan contains no evidence that the company has linked its proposal for a higher WACC to offsetting customer benefits which might justify the increased cost to customers - or any evidence that its own customers support the proposed uplift.</p>
		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	Whilst Wessex Water's business plan demonstrates evidence of high quality in some areas, there is insufficient evidence to explain the basis for the financial values in App26 of its business plan data tables that are used in the calculation of RoRE risk ranges. Whilst the company's assessment is supported by a third-party report and considers all of the prescribed scenarios, including water trading, there are some inconsistencies between the third-party report and the business plan data that are not sufficiently explained. The company has proposed an uncertainty mechanism for unconfirmed WINEP requirements, which we have assessed separately as part of our IAP tests on cost assessment.

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	D	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?	D	<p>Overall, Wessex Water’s business plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting some of the most material aspects of the assessment of financeability.</p> <p>Although the Board of Wessex Water has provided a clear statement that the company’s business plan is financeable on both its actual and the notional capital structure, significantly more evidence is required to support this statement.</p> <p>There are three areas of major concern where the plan falls significantly short of high quality.</p> <ul style="list-style-type: none"> • We have concerns about the presentation of the financeability of the plan on a notional basis. In assessing notional financeability, the company has set out a table titled financial ratios with notional gearing of 60% at 1 April 2020. There is insufficient evidence that the ratios are based on the full notional company structure including the cost and mix of debt as it has not been possible to reconcile the financial ratios provided with the financial model submitted. • While the company has obtained third party assurance of the business plan data tables, there is insufficient evidence of the steps taken by the board to make its assessment or to provide assurance. • The company does not set out how its target credit rating of “a robust investment grade” relates to its investment needs over the period, the approach of the credit rating agencies, its current rating or the licence requirement to maintain a minimum investment grade credit rating. As a result, there is insufficient evidence to support its proposed target credit ratings on the notional and its actual structure. <p>The company’s business plan is underpinned by a higher cost of capital than set out in Ofwat’s early view which will result in higher financial ratios.</p> <p>The company has not identified a financeability constraint on the notional or actual structure.</p>
			RR4	How appropriate are the company’s PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers’ expectations both now and in the longer term	B

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
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>Wessex Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal at -0.5% 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, totex and wholesale revenue forecasting incentive mechanism.</p> <p>Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and our independent checks of the reported ODI underperformance and outperformance payments are identical to those reported by the company for all PCs.</p> <p>For most areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for but for four of the 21 PCs, residential retail and totex there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>

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		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.</p> <p>There is good outcomes performance as the company has or is forecast to deliver 86% of its PCs with financial ODI in 2015-20. The company provides sufficient evidence that it understands the drivers of its performance and learnt lessons from that performance, although we would like to see a greater level of understanding for per capita consumption. The company is proposing stretching PCs for per capita consumption, but the plan provides sufficient evidence that it includes appropriate measures to improve its performance. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of outcomes.</p> <p>There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20 for wholesale water and wastewater. However, the company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides some evidence of improvement measures to deliver planned costs. For example, the company outlines efficiency initiatives relating to catchment management, procurement and automation in customer provision, but fails to quantify how much these initiatives will save and how they will be delivered. However, the company's current performance provides sufficient confidence that cost efficiency performance will be maintained in 2020-25; we therefore do not have concerns with the evidence for deliverability of the planned costs.</p> <p>We have some concerns around past performance on major incidents. The company had one major pollution incident, although it had below average number of category one and two pollution incidents per 10,000km of sewers and has an EA performance rating of four stars. It had no prosecutions from the EA or DWI but had one enforcement action and one formal caution from the EA. The company provides insufficient evidence it understands the drivers of its performance and has learnt lessons from major incidents. For example, it fails to provide sufficient evidence of how it deals with customers during major incidents. However, the plan provides sufficient evidence that it includes appropriate measures to improve performance in relation to major incidents, such as installing a digital incident manager, live data monitors and a new Customer Relationship Management System to manage communications 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. It has a below average number of complaints per 10,000 connections in 2017-18 but this is increasing. The company provided sufficient evidence it understood the drivers of its performance and learned lessons, such as avoiding the use of call centre scripts. The plan provides sufficient evidence that it includes appropriate measures to improve its performance, such as installing a new contact interface system, installing a new billing system and extending the opening hours of its contact centre. We therefore do not have concerns with the evidence for deliverability of customer complaints handling performance.</p>

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Securing confidence and assurance	C	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	C	<p>Wessex Water's business plan falls short of demonstrating 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 thirteen compliant statements, ten of which have sufficient supporting evidence and three partially compliant statements.</p> <p>For statements on the topic of business planning, the Board provides two compliant statements from the four we request in the PR19 Final Methodology. The Board's statements are partially-compliant 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; and whether it has collectively owned the overall strategy and direction of the plan in the long term.</p> <p>For statements on the remaining topics, the Board provides eleven compliant statements from the twelve we request. The Board's statement is partially-compliant on whether large investment proposals are robust and deliverable, a proper assessment of options has taken place, and the option proposed is the best one for customers.</p> <p>For statements on the topic of business planning, we require the Board to demonstrate how it had challenged management and satisfied itself prior to making its statements. The Board assurance statement provides details of 'PR19 non-executive meetings' which were attended by executive directors and company senior managers. This evidence sufficiently covers one of the compliant statements, on whether the overall strategy for data assurance and governance processes delivers high quality data.</p> <p>For statements on the remaining topics, we ask in the PR19 Final Methodology that Boards demonstrate how they satisfied themselves. The Board advises why it is satisfied prior to making each statement. This evidence sufficiently covers the topics of nine of the compliant statements. The evidence is insufficient to demonstrate the Board's satisfaction process on outcomes and whether the company's business plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.</p>
		CA2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?	D	<p>Wessex Water's business plan provides little evidence that its full Board demonstrates that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long-term.</p> <p>High quality assurance means that the Board provides a compliant statement, supported by suitable supporting evidence.</p> <p>The Board's assurance statement advises that "The board of Wessex Water confirms that, in our collective view, the company's ongoing governance processes are fit for purpose and will enable us to hold company management to account for the delivery of this business plan."</p> <p>The plan falls significantly short of high quality as it does not include a suitable statement of assurance and we found no relevant evidence of the Board's assurance process in this area.</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>	C	<p>Overall Wessex Water's business plan falls short of providing 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 company's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> • The company proposes a base dividend yield of less than 5%; and • The company is not highly geared and forecasts gearing below 70% during the 2020-25 price control period but states it would apply our default benefit sharing mechanism should gearing rise above this threshold. <p>The company proposes a bespoke voluntary benefits sharing mechanism that will donate 20% of net ODI outperformance to a community fund. Assuming outperformance similar to 2015/16 and 2016/17, we assess this could be equivalent to £1.4m per year. We assess the possible value of the company's proposal as being high quality in terms of voluntary sharing, when considering its size.</p> <p>However the company's dividend policy and executive pay proposals fall short of high quality since both lack detail in some key areas.</p> <p>On dividends, the plan falls short of high quality with insufficient evidence that the company's proposed dividend policy takes account of delivery of obligations and commitments to customers and other stakeholders. There are, however, elements of high quality. The company clearly sets out its proposed dividend policy. The proposed policy refers to all of the required elements from the 'Putting the sector in balance' position paper, but the company provides no evidence on how the elements will be taken into account when determining dividends. However the company commits to reporting each year on how each of the factors in its dividend policy has been taken into account when determining the level of dividend as well as any policy changes.</p> <p>On executive pay, the plan falls short of high quality with insufficient evidence that The company takes full account of all of the required elements set out in our putting the sector in balance position statement in respect of its performance related executive pay policy for 2020-25. The company states it has updated the principles for rewarding executives to make it clearer that bonuses are paid primarily to their success at delivering for customers and the environment. The remuneration strategy includes, having stretch incentive/bonus plans to drive the right behaviours and reward top performers. The company sets out that executive bonuses are designed to ensure that customer and environmental performance has the greatest weighting of all measures. However, there is insufficient evidence as to what these measures are and the level of weighting attached to each. The company also states that bonuses each year will be explicitly tied to measures associated with stretching delivery for customers and the environment. It states any payment above target will only be made if the company has outperformed stretching PR19 targets, but insufficient evidence is provided around how stretching delivery targets will be set. The company states that the remuneration committee review the individual and company performance at the end of each financial year when awarding bonuses, and it will report each year on how it has met these principles. However, there is no reference as to how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports.</p> <p>On Board assurance the plan falls short of high quality. 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 but there is no 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>

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)?	D	<p>Wessex Water's business plan provides 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.</p> <p>The plan falls significantly short of high quality as the Board did not provide a statement of assurance within the Board Assurance Statement that it will monitor delivery of its outcomes and PCs.</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	<p>Wessex Water falls short of sufficiently demonstrating a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>There are elements of high quality:</p> <ul style="list-style-type: none"> • Overall, the company's business plan tables report performance and financial data consistent with previous data submissions, with only minor inconsistencies in the area of cost assessment which do not materially affect our assessment. • The company sufficiently describes its data assurance, governance and audit processes within its business plan. <p>However, in our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company meets expectations in 7 areas, it has minor concerns in 3 areas. Also, the company does not reference its status in the 2017 Company Monitoring Framework and does not advise on the interventions it has implemented to address the weaknesses identified.</p>
		CA6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?	B	<p>Overall, Wessex Water's 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 some issues within our assessments of the data tables in the policy areas of risk and return and financial modelling, but these do not materially affect our overall assessment.</p>