Bristol 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	C	C	C	C	C	C	D	C

Bristol Water - test area results

Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	B	Overall Bristol Water's business plan is high quality with convincing evidence in the areas set out below, but not sufficiently ambitious or innovative to be considered exceptional. The company provides sufficient evidence of a high quality approach in the following areas: • A robust, balanced and proportionate evidence base has been used, and the company has demonstrated a clear line of sight from the results of its customer research and engagement to the outcomes its business plan will deliver for customers. • A wide range of techniques were used effectively including a mix of traditional and innovative approaches such as longitudinal engagement, co-creation, and gamification. • Effective use of customer data, such as through development of a customer dashboard to pull together business as usual data to ensure this is used on an ongoing basis and so that trends can be identified. • Effective engagement with its customers on both the business plan and on longer-term issues, including the formation of a youth board and deliberative events to engage with its customers and stakeholders on resilience. However, the business plan falls short of high quality with insufficient evidence, in the following areas: • There appear to be limitations in the company approach to triangulation with a lack of adoption of industry best practice guidance. • The company conducted customer segmentation to better understand different customer needs and preferences, but gained insight from stakeholder groups rather than primary research with a diverse range of vulnerable customers.	EC1	B
Addressing affordability and vulnerability	C	Overall Bristol Water's business plan falls short of high quality with insufficient evidence of its approach to affordability and vulnerability. The plan demonstrates some aspects of high quality in the following areas: • it proposes to make a 6% cut to real bills in the 2020 to 2025 period and support for the affordability of the bill is relatively high although acceptability of the bill is low; and • has a high quality approach to helping customers who cannot afford to pay their bills because it offers a good range of schemes and undertook high quality engagement with customers on its approach. The business plan falls short of high quality in two areas because the company: • proposes a low quality approach to addressing vulnerability, including weak reach for its priority services register; andplans to increase bills by 2.1% in the 2025 to 2030 period but did not engage customers sufficiently on its approach to long term affordability.	AV1 AV2 AV3 AV4	B C B C

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<tr><td rowspan="3">Delivering outcomes for customers</td><td rowspan="3">C</td><td rowspan="3">Overall, across the outcomes test area the evidence Bristol Water provides to support its proposed performance commitments (PC) and outcome delivery incentives (ODI) in its plan falls short of high quality and the evidence is insufficient or unconvincing in some areas.

The plan provides evidence of a high quality approach to its PCs with appropriately stretching PCs – in particular its service levels for 2020 to 2025 are forecast upper quartile for supply interruptions and leakage.

However, the evidence to support its package of ODIs is insufficient and there is unconvincing evidence that it had an appropriate focus on service performance of its overall risk/return package.

Key areas where the business plan falls short of high quality are:
• the company proposes deadbands for a large number of its PCs with insufficient evidence including asset health PCs and per capita consumption. It also proposes penalty collars without convincing justification. These all potentially limit the incentives for service delivery; and
• The company provides insufficient evidence for how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs.</td><td>OC1</td><td>B</td></tr>
<tr><td>OC2</td><td>C</td></tr>
<tr><td>OC3</td><td>C</td></tr>
<tr><td rowspan="2">Securing long-term resilience</td><td rowspan="2">C</td><td rowspan="2">Overall, the plan falls short of high quality and Bristol Water does not provide sufficient and convincing evidence of securing long term resilience in certain areas.
The company provides sufficient evidence that it has engaged with customers on a range of resilience risks and its preferred mitigation options. The plan presents sufficient evidence of customer collaboration through a range of approaches, including gamification. The plan is supported by a well-defined and stretching package of resilience focused PCs.
We consider that the company plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas:
• There is insufficient evidence that the company has followed an integrated and systems-based approach to resilience, where interdependencies or cascading impacts of one system to another should be considered.
• The company's resilience maturity assessment is not sufficiently evidenced to enable an understanding of where and why the company's level of resilience has been assessed as insufficient.
• The company presents limited convincing evidence about how the long list of resilience risks has been prioritised.
• There is little convincing evidence that the company provides an integrated approach which incorporates how the natural environment underpins the company's ability to deliver resilient services to customers. For example, we consider that the company provides limited evidence of utilising environmental valuation techniques as part of its decision making.
• The company has requested a company specific cost of debt adjustment, but the methodology does not guarantee such adjustment would be made and the company does not set out the steps it could take to address its financial resilience, especially with respect to additional equity investment, in the absence of the adjustment.
• While the company has only a small financing requirement in 2020-25, there is insufficient evidence that the has company has adequately considered the risks around targeting a credit rating one notch above the minimum requirement for the investment grade in the context of maintaining financial resilience in the long term.</td><td>LR1</td><td>C</td></tr>
<tr><td>LR2</td><td>C</td></tr>
<tr><td rowspan="6">Targeted controls, markets and Innovation</td><td rowspan="6">C</td><td rowspan="6">Overall, Bristol Water's plan falls short of high quality across the Targeted Controls, Markets and Innovation test area and evidence is insufficient and/or unconvincing in some areas.

The company provides high quality evidence of its approach to enabling innovation, its evidence on RCV allocation is complete and its strategy for water resources is aligned with the WRMP. The company provides good evidence generally on its approach to gaps and voids (although on business gap sites the evidence was not high quality).

The company provides insufficient evidence to demonstrate that it has a high quality approach to the use of water catchment management or alternative 3rd party options for water resources. The only evidence of applying retail market learnings is in relation to gap sites and voids. Alternatives to Gloucester-Sharpness canal abstraction are not set out in depth. Data tables on bilateral markets for water resources are submitted, however the associated evidence related to water trades rather than bilateral markets. The company's bid assessment framework meets best practice recommendations but omits details on what information bidders might have to provide, and its approach to protecting 3rd party commercially sensitive</td><td>CMI1</td><td>B</td></tr>
<tr><td>CMI2</td><td>C</td></tr>
<tr><td>CM3</td><td>C</td></tr>
<tr><td>CMI4</td><td>N/A</td></tr>
<tr><td>CMI5</td><td>B</td></tr>
<tr><td>CMI6</td><td>C</td></tr>
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Test area	**Overall test area grade**	**Overall test area summary assessment and rationale**	**TQ#**	**Test question grade**
		information. The company provides high level evidence of a process to assess DPC as part of its business planning process but provides limited justification why no scheme met the £100m totex threshold.	CMI7	D
Securing cost efficiency	C	Bristol Water's AMP7 cost projections in wholesale water activities are 15% above our view of efficient costs and 12% above our view in residential retail. As such we do not consider the company's cost projections to be efficient, despite a marked improvement relative to its PR14 business plans where the inefficiency gap was above 30%. The company proposes four cost adjustment claims. Except for one claim which passes our assessment, we consider that the rest of the claims relating to the company's unique circumstance are reflected in our cost allowance. Two of the claims lack compelling evidence and fail our quality assessment. This gives the company a score of D for its cost claims.	CE1	C
			CE2	N/A
			CE3	C
			CE4	D
Aligning risk and return	C	Despite some aspects of Bristol Water's plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support its approach in the area of aligning risk and return. The following area of the plan is high quality: • There is convincing evidence to support the company's choice of PAYG rates. There are four main areas where the plan falls short of high quality. It does not provide sufficient and convincing evidence: • to support the requested company specific cost of debt adjustment. The evidence in support of the level of the uplift is not convincing and there is insufficient evidence that customers would be adequately compensated for the cost of the uplift, or that the company's own customers support funding it. • to support the choice of target credit ratings for the notional and actual structures (Baa2 Moody's) and additional assurance is required that the plan is consistent with achieving the proposed target credit rating on its actual structure, in the context of weak forecast credit metrics. • to support its choice of RCV run-off rates, in particular the determination of current cost depreciation • in respect of risk and risk mitigation measures in the RoRE assessment for the notional company which is discussed only at a high level. Further evidence is required in respect of the company's proposed uncertainty mechanism, but this has not affected the overall grade.	RR1	C
			RR2	C
			RR3	C
			RR4	C
Accounting for past delivery	D	Overall, Bristol Water's business plan falls significantly short of the required quality in accounting for past delivery. In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan. The plan is high quality for deliverability in the following areas. • There is good actual and forecast performance for costs and we do not have concerns with the evidence for deliverability of the planned costs. • There is good performance for major incidents and we do not have concerns with the evidence for deliverability of performance in relation to major incidents. The plan falls short of high quality for deliverability in the following areas.	PD1	C

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		• There is poor past performance on outcomes as the company has delivered or is forecast to deliver 64% of PCs with financial ODIs in 2015-20. The company provides insufficient evidence that it understands the drivers of past performance. The evidence included in the plan on measures to address performance is insufficient to give us confidence of delivery of the 2020-25 plan outcomes. We therefore have substantial concerns with the evidence for deliverability for outcomes. • The company has a high and increasing number of complaints per customer, and is not yet meeting CCWater's' 2020 household customer complaints target of resolving 95% of customer complaints at stage one. But the business plan does not acknowledge this issue and so does not provide sufficient evidence on lessons learnt or measures to improve performance. We therefore have substantial concerns with the evidence for deliverability in relation to customer complaints handling. There is sufficient and convincing evidence for four out of the eight PR14 reconciliation areas and insufficient evidence for ODIs, residential retail, service incentive mechanism and totex. There is a minor difference (2.6% of 2019-20 revenue) between expected and proposed reconciliations. In the round, the evidence for the PR14 reconciliations is not sufficient to raise the accounting for past delivery test area score.	PD2	D
Securing confidence and assurance	C	Overall, Bristol Water's business plan falls short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area. The company's business plan provides some evidence of high quality: On demonstrating evidence of a fair balance between customers and investors: • The company's proposals on gearing benefits sharing meet the expectations of the 'Putting the sector in balance' position statement. • On executive pay, the company demonstrates sufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear explanation of how targets will be stretching and evidence of how changes will be signalled to customers. • On dividend policy, there is sufficient evidence that the company's intnetion to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear Board commitment to publish detail on dividend policies annually and to signal changes in dividend policy to stakeholders. • There is sufficient evidence of transparency on its corporate and financial structures and how these relate to resilience. However the Board does not provide a compliant assurance statement that its plan will enable customers' confidence through high levels of transparency and engagement on its corporate and financial structures. • The company proposes a voluntary sharing arrangement to reinvest the claimed company specific cost of debt adjustment if it does not meet a committed level of customer satisfaction. However, we have not accepted the company specific cost of debt adjustment and so we have ascribed zero customer value from the arrangement in our IAP assessment. The company has not put forward any other voluntary benefits sharing mechanism or any shareholder contribution to social tariffs or hardship funds. However, voluntary sharing measures are not a requirement of the PR19 methodology, so this does not impact our overall assessment of this test area. There is sufficient and convincing evidence that overall, the company's business plan tables and the assurance and commentary provided are consistent, accurate and assured. The company's business plan falls short of high quality in the following areas: The company's Board does not provide compliant statements of assurance in many of the requested areas to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable and that it has challenged management to ensure this is the case. This reduces our overall confidence in the assurance of the plan and the Board's ownership.	CA1	C
			CA2	D
			CA3	B
			CA4	C
			CA5	C

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		The company's Board provides a compliant statement of assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes. However, the company provides insufficient evidence to support this statement. 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 exceeds expectations in 1 area and meets expectations in 6 areas, it has minor concerns in 3 areas. The company's business plan falls significantly short of high quality in that the company's Board provides a non-compliant statement of assurance to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.	CA6	B