



Affinity Water

Your local supply, on tap

Annual Performance Report

2012/13

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Who are we?

Our name, Affinity Water, is new and brings together our three previously separate companies following the purchase of our water business from Veolia Water during summer 2012.

At Affinity Water, we understand the trust and confidence our customers place in us to supply high quality drinking water every day. Our business has been fulfilling this vital role in the communities we serve for over 100 years.

What service do we provide?

We supply high quality drinking water to communities within the southeast of England. We:

- Supply 877 million litres of water a day to around 3.5 million people, and 1.4 million properties;
- Operate over 100 water treatment works to ensure that our water is of the highest quality;
- Distribute our water through a network of mains which is around 16,500km long;
- Bill on behalf of sewerage companies for the services they provide (except in our southeast region);
- Provide a wide variety of ways for customers to contact at us about their water service, including over the phone, online and using social media; and
- Charge on average £174 a year for our water service compared to an industry average of £182

Purpose of this report

This purpose of this report is to give customers a summary of our performance for the period April 2012 to March 2013.

This is a new report that we have introduced this year and brings together our three previously separate companies. We start by providing a high level performance summary, explain how we measure our performance and then give further information to support and explain our assessment of our performance for different parts of our business.

Our performance in 2012/13

We have continued to make significant steps to improve the performance and effectiveness of our business during the year. The improvements we have made help to ensure the service customers receive is reliable, trustworthy and resilient. As a result customers have less reason to contact us and when things do go wrong we are much better at resolving problems first time.



How we measure our performance

We measure performance against a set of key performance indicators that has been prepared according to guidelines set by our regulator, Ofwat, and reviewed by independent auditors. The indicators provide our customers, regulators and investors with an overall picture of company performance which is set out in the table below.

We report the indicators at the Affinity Water company level where this is appropriate. Some indicators are reported at a regional level that corresponds with the three separate former companies that were unified in July last year.

Key performance indicators		Central region	East region	Southeast region	Affinity Water Limited
ENVIRONMENTAL IMPACT					
Greenhouse gas emissions	ktCO ₂ e				120
RELIABILITY AND AVAILABILITY					
Serviceability water non-infrastructure		Stable	Stable	Stable	
Serviceability water infrastructure		Stable	Stable	Stable	
Leakage	MI/d	178	4.2	7.1	
Security of supply index	Score	100	100	100	
CUSTOMER EXPERIENCE					
Service Incentive Mechanism	Score	80	85	83	
Interruptions to supply	Hrs/prop	0.35	0.04	0.10	
FINANCIAL PERFORMANCE					
Post tax return on capital	%				5.54
Credit rating (Class A)					A- / A3
Gearing	%				77
Interest cover	X				2.5

Meeting your expectations

Our aim is to provide a water service which meets four key expectations of the customers and communities we serve. These expectations are:

- Making sure our customers have enough water
- Supplying high quality water you can trust
- Minimising disruption to you and your community
- Providing a value for money service

Making sure our customers have enough water

We aim to make sure that our customers have enough water now and in the future. To do this we need to balance the demand for water against the supplies available.

Security of supply

	Central Region	East Region	Southeast Region
Security of supply index score (out of 100)	100 	100 	100 

Each company in England and Wales prepares a security of supply index to measure whether there is an adequate amount of water between the proven capacity of its water sources and the levels of demand expected in warm, dry weather conditions. We achieved an index score of 100 in each of our regions over the last year. This is the maximum score possible. As we experienced higher than average rainfall during the year, underground water levels returned to normal so we currently have no concerns about having enough water in the coming year.

Our Key Challenge

In the longer term, our key challenge is ensuring that our customers continue to have enough water whilst leaving more water in the environment.

We are planning to reduce our daily water abstraction over the next 5 years by 55 million litres per day and over the next 25 years by 77 million litres per day. This represents nearly 6% of our water available for use. We believe this is necessary to reduce the environmental impact our current abstraction has on certain chalk streams and river catchments. There is more information about water resources, the options for managing them and how much this may cost in our Draft Water Resources Plan and Business Plan Consultation.

During 2012/13 we supplied 877 million litres of water per day (Ml/d). To help manage demand we encourage customers to have a water meter because evidence shows that metered customers use on average 10 per cent less water than those without meters. In the last 3 years we installed more than 45,000 meters, against our regulator's expectation of 37,270. Over 47% of the households we supply now pay metered charges.

To help customers reduce demand we promote water efficiency through education and information campaigns and by issuing free and subsidised water efficiency devices. During 2012/13 we carried out activities that correspond to water savings of 2.25 Ml/d, beating our regulatory target.



Leakage

	Central Region	East Region	Southeast Region
Total leakage (megalitres per day)	178 (target 185)	4.2 (target 5.1)	7.1 (target 7.7)

Controlling leakage from our pressurised network and from customers' pipework is one of the ways we ensure we have enough water to satisfy demand. In each of our regions we beat the regulatory target for the year. These targets are total losses from the water supply system, including customers' pipework.

We try to get the right balance between the amount we spend to renew pipes and repair leaks compared with the value of water saved by fixing them. The amount we are currently spending on repairing pipes is reducing leakage beyond the cost effective level.

Supplying high quality water you can trust

We are committed to supplying high quality drinking water, which we achieve by diligent operation of our water treatment works and our water distribution system. We check that our water is the right quality by collecting samples and testing them in our laboratory. In 2012, we carried out over 210,000 tests on water leaving treatment works, at service reservoirs and at customers' taps as part of our regulatory monitoring programme. We report our results to the Drinking Water Inspectorate (DWI).

Drinking water quality

	Central Region	East Region	Southeast Region
Water quality - mean zonal compliance	99.94%	99.91%	100%

In calendar year 2012 our mean zonal compliance with drinking water quality standards was 99.95%. 'Mean zonal compliance' is the principal measure used by the Drinking Water Inspectorate and involves 39 separate parameters tested to establish the quality of water. We investigate cases when water quality samples do not meet the standards set. Of the few samples that did not meet the standards, none was likely to have been harmful to human health.



Minimising disruption to you and your community

We continue to provide a reliable water service by managing the condition and performance of our assets so that our water supply system is stable over time. We achieve this by carefully operating our water supply system and by investing sufficient money in replacing and renewing the infrastructure. This year, for example, we renewed 138.5km of water mains. When disruptions do occur, such as when a water main bursts, our community-based teams respond rapidly to minimise the consequences. Through proper maintenance programmes we can also prevent events that cause disruptions from happening in the first place. During such times it is important that we keep customers informed. Customers can access information on our website, using our mobile phone application or by telephoning us.

We measure whether we are succeeding by analysing the trends in customer service and infrastructure serviceability indicators that include measures of asset performance. If these differ dramatically from the levels achieved in the past, it can indicate that we need to act. The performance of our assets tells us that we are maintaining and renewing them appropriately.

Infrastructure (underground) assets

	Central Region	East Region	Southeast Region
Infrastructure serviceability	Stable 	Stable 	Stable 

In 2011/12 in our Central region we made sure the number of mains bursts was back to the target level. We said that we would need to see a second year of performance in line with this level to confirm that the service level was stable. We are pleased to confirm that all of the indicators are again within target reference levels established by Ofwat. We take this as evidence that we have returned our underground assets in Central to stable. We are committed to maintaining this performance into the future.

Non-infrastructure (above ground) assets

	Central Region	East Region	Southeast Region
Non-infrastructure serviceability	Stable 	Stable 	Stable 

We have no significant concerns about any of the indicators used to track the performance of above ground assets as all are within target reference levels established by Ofwat. Accordingly we confirm that our above ground assets have been stable this year.

Water supply interruptions

	Central Region	East Region	Southeast Region
Supply interruptions (minutes per property)	21 	2 	6 

We aim to keep supply interruptions to a minimum. The total number of properties where supply was interrupted for more than 3 hours was 72,346. Of these, 38% were planned interruptions to carry out essential maintenance work and customers received at least 48 hours prior notice in these cases. The number of properties experiencing an unplanned (emergency) interruption to supply greater than 3 hours was 44,533; this is 3% of all customers.

Only 218 customers suffered an unplanned interruption longer than 12 hours, compared to 1,305 in 2011/12. To reduce risks further we are specifically investing in the mains network in 'hotspots' where we know that if the water main were to burst, disruptions affecting large numbers of customers are likely to last for a long time.

Providing a value for money service

Customer Experience

	Central Region	East Region	Southeast Region
Service Incentive Mechanism (score out of 100)	80	85	83

We want to provide an excellent proactive customer experience, which reduces the need for customers to contact us. When customers do call we aim to be helpful and knowledgeable. We have a culture of understanding and learning to help us continuously improve.

Each water company in England and Wales measures its customer experience performance through a comparative measure called the Service Incentive Mechanism (SIM). SIM has two elements. The first qualitative element is produced by independent market research surveys of customer satisfaction from a sample of customers who have contacted us. The second is a score based on the number of 'unwanted' phone calls we receive, combined with the number of complaints we receive and our effectiveness at resolving those complaints. Unwanted calls are those where customers express any dissatisfaction with the service, including customers who hang up while waiting in call queues, plus any calls that could have been avoided if our service had fully met customer expectations.

In 2012/13 we achieved SIM scores of 80, 85 and 83 out of 100 in our Central, East and Southeast regions respectively. This compares to last year where we achieved scores of 78, 84 and 80. The combined score for our unified business was 80.

Complaints

We try to reduce the number of complaints by aiming to understand the causes of dissatisfaction and improving how we do things to eliminate them. During 2012/13 we received 2,176 written complaints; the number of complaints has consistently fallen every year since 2008/09. Since the start of this five year period, 2010 to 2015, our written complaints have fallen by 25% and escalated written complaints by 40%.

Guaranteed Standards Scheme (GSS)

We guarantee a number of aspects of our service, some of which are required by law, whilst others are voluntary. We promise that if we fail to meet the standards we will make a payment, typically £20, to recognise the inconvenience to customers that we cause. In the majority of cases we make the payments automatically. Last year there were 1,884 statutory GSS events. The majority arose in two categories; 1,005 for supply interruptions and 733 missed appointments.

Social and environmental performance

Greenhouse gas emissions

	Affinity Water
Greenhouse gas emissions (kilo tonnes of CO ₂ equivalent)	120

About 95% all of our carbon emissions are the result of using energy generated by others to abstract, treat and distribute water to customers. We measure our performance by how much carbon dioxide it takes per megalitre of water put into our network. We reduced our carbon intensity to 348kg CO₂e/MI compared to 357kg CO₂e/MI last year. Our total operational emissions were 120 kilo tonnes, which is within the levels we set out in our business plan for 2010 to 2015.

Safety and employees

The number of 'near miss and hazard' reports (the process by which we improve safety at our sites) increased again this year from 734 to 763. Compared to last year the total number of accidents fell from 85 to 77 and the number of accidents resulting in more than three days lost time fell from 13 to 8.

Our investments

The table below provides a summary of our key outputs covering the first three years of the period 2010 to 2015 compared to the output established by Ofwat's Final Determination. These are in addition to the eleven key performance indicators set out earlier.

Item	Units	FDog output ¹	Actual
Base service water efficiency target (cumulative)	MI/d	4.05	5.77
Length of mains renewed (cumulative)	Km laid	425	444
Optional meters installed (cumulative)	Nr	28,740	35,824
Customer contacts discolouration per 1,000 population	Nr	0.50 by 2015	0.34

Financial performance

During the year, our financial performance in terms of operating efficiency has improved significantly. We reduced the cost of our operations by £6m in the year and our annual operating costs are now £12m lower than at the start of this current regulatory price control period. This includes £0.9m of efficiencies achieved from the unification of our businesses. Our customers will benefit from these cost savings in price limits from 2015. We also incurred one off operating costs in the year relating to the rebranding, the unification of the business and management of the drought. Overall our operating costs for the year remained in line with last year.

In order to continue to improve our service to customers, we have invested £6m more than we were funded during the first three years of the current price control period, including an additional 18km of mains renewed. Furthermore, customers are already benefiting from the operational efficiencies we have achieved to date through the decrease, in real terms, of average bills.

We need to operate our business in a way that enables our investors to earn a reasonable rate of return on their investment. If this did not happen we would have difficulty obtaining the funds we need to invest in our water supply system. The post tax rate of return on capital was 5.54%.

	Affinity Water
Post tax rate of return (%)	5.54%

We are required by our operating licence to maintain investment grade credit ratings. Our ratings are A- with Standard & Poors and A3 with Moodys, both of which are investment grade.

	Affinity Water
Credit rating (Class A)	A-/A3

We are financed by both lending (debt) and shareholders (equity). The ratio of net debt to RCV at the year end was 77%.

	Affinity Water
Gearing % (Debt/RCV)	77%

It is important that we can pay the interest due on the money we borrow. Our capability to meet these interest payments is indicated by our interest cover ratio, which was 2.5. This means we are able to maintain credit ratings of at least investment grade.

	Affinity Water
Interest cover ratio	2.5

¹FDog refers to the Final Determination set by Ofwat 2009 price review.

Future Performance Reporting

For the remainder of this five year period 2010 to 2015 we will report annually in a way that is consistent with this report. Beyond 2015 the way we measure our performance will change. We will establish measures of our performance and set out performance commitments to allow you to assess how well we are doing. These measures and commitments will be key parts of our future plans.

Future Plans

We continue to engage with our communities to ensure that our future plans meet customer expectations. More information on our plans is contained in our **Draft Water Resources Plan** and **Business Plan Consultation** publications.

In December 2013, we will be submitting our Business Plan to our regulator, Ofwat. In this plan we will propose the level of investment which we are seeking for the period 2015 to 2020, along with our commitments of performance. Our proposals are focused on achieving the right balance between the service you receive, the price you pay and the pace at which we invest.

For more information on how to be involved please visit: www.affinitywater.co.uk/futureplans

