AFW Accounting for Past Delivery

Evidence Document

March 2019

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1   High level response to Ofwat Feedback

1.1   Summary

We understand that we have more to do to provide further evidence to Ofwat to address some of its concerns in relation to deliverability of the 2020-25 plan, when considering past delivery performance. We will focus on providing more evidence in relation to drivers of current performance (excluding supply interruptions, where Ofwat has confirmed these were adequately addressed in our September Plan) and meeting CCWater's household complaints target.

Nevertheless, we welcome that Ofwat acknowledges that the September Plan does provide sufficient evidence of deliverability in the following areas:

- Ofwat does not have concerns with the evidence of deliverability of planned costs and our forecast overspend given the September Plan and allowance includes a relatively low efficiency challenge from PR14; and

- Ofwat does not have any concerns with evidence demonstrating our ability to respond to major incidents.

We are disappointed that having provided convincing evidence for six out of eight PR14 reconciliation areas, we fell short on two; land sales and Totex. This document specifically addresses these actions to close the 0.05% difference between expected and proposed reconciliations. In our Revised Plan (see response to AFW.PD.A5), we have provided more detail and explanation to support the forecast performance for 2018-19 and 2019-20 on the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM), including our proposal to take into account the excess contributions we have received from unexpectedly high demand for new connections.

In responding to Ofwat's IAP feedback for this test area we have primarily focussed on four actions that have 'required' status and a deadline for response of 1 April 2019 as well as two actions that have a deadline of 24 May 2019. We have enclosed Ofwat's additional leakage request for information as an appendix to this document.

We will provide a further submission to Ofwat by 24 May 2019 to complete two further actions and address the final two actions in our Annual Performance Report (APR) submission on 15 July 2019. These four actions primarily relate to confirmation of 2018-19 outturn performance and provision of further evidence and action plans on monitoring performance, identifying drivers of performance, lessons learned, measures to improve and ensuring continuous improvement.

2 Detailed response to Ofwat feedback actions

2.1 AFW.PD.A1

Overview of test area action

Table 1: Action details for AFW.PD.A1

Action Ref.	Action
AFW.PD.A1	PR14 Land sales: Affinity Water is required to provide sufficient evidence to support the forecast trajectory in table App9.

Nature of adjustment: action completed

Our response

In our Revised Plan, we have reforecast our land sales for AMP6, reducing the amount of land to be disposed and therefore the value from our previous forecast. We forecast to dispose of £0.9m of land in 2018-19 and £1.6m of land in 2019-20.

During 2018/19 we established our Land Group. All information relating to the potential disposal of sites is evaluated by our Land Group, which holds bi-monthly meetings. The Land Group has responsibility for our land and property strategy which has been fully revised. The land sale estimates are based on current market conditions and are subject to change. The Land Group works with our land agent to monitor the value of potential disposal sites, with a view to prioritising high value sales in the medium term over low-medium value sales in the short term.

The full review of our Land Strategy has resulted in the revision of forecast sales which were reported in our September Plan of £11.2m. This comprised £8.6m for 2018/19 and £2.6m for 2019/20. Three sites with a total estimated sale value of £6m account for most of this change. The main reasons for the change are;

- The removal of some candidate sites for disposal as following a detailed review, we want to retain them as they continue to offer operational, ecological and resilience benefits or have the potential to offer these benefits in the future

- Delaying some disposals as we review our operating model across our regions as we develop our detailed AMP7 delivery plans

- Changes in valuations with our new land agent using current market value

- Differing some disposals as we will be able to achieve greater proceeds with further work on site or where we believe that we will be able to achieve greater proceeds with different timing of disposals.

The £1.6m budgeted sales for 2019/20 is based on thirteen properties with a total guide price of £2m. We have allowed in our budget that some sales may not complete. Of this £1.3m is currently under offer. The properties are shown in the table below;

Table 2: 2019/20 Planned Property Disposals

Property	Signed off	Planning Work	Ready to Sell	Status
Tonwell Tower	Y	Y	Y	Under Option
Low Welwyn	Y	N	Y	Legals progressing
Land at Maidstone	Y	N	Y	Negiotation
Naildown Close	Y	Y	Y	Under Option
Ashwell	Y	Y		Under Option
Wallington	N	N		Capping works
Castle Knoll	N	N		Land registration
Widdington	N	Y		Retained area to be confirmed
Land at Widford	N	Y		Borehole location needed
Sacombe Park	N	N		
Aston Tower	Y	N		Awaiting case law
Felsted Tower	Y	N	Y	Legal pack being prepared
Markyate Tower	Y	Y	N	Surveys needed

2.1.1 Implications across the plan

Not applicable.

2.1.2 Assurance

Our revised land sales projections for 2018-20 have been assured by PwC through our data tables assurance process.

2.1.3 Evidence

Table 3: Evidence to support the response to AFW.PD.A1

Appendix	Description
PD.A1.1	PwC (financial) Data Table Assurance Report

2.2 AFW.PD.A2

2.2.1 Overview of test area action

Table 4: Action details for AFW.PD.A2

Action Ref.	Action
AFW.PD.A2	PR14 Outcome delivery incentives: Affinity Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments. We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for: W-A2: Average water use W-A3: Water available for use W-B1: Compliance with water quality standards (mean zonal compliance) W-B2: Customer contacts for discolouration W-C2: Number of burst mains W-A1: Leakage W-C1: Unplanned interruptions to supply over 12 hours

Nature of adjustment: action due later

2.2.2 Our response

We will be addressing all aspects of this action in our work to update our performance forecast for 2019-20 and report our outturn performance for 2018-19 as part of our Annual Performance Return (APR), this will be submitted on 15 July 2019, in line with the action deadline.

2.3 AFW.PD.A3

2.3.1 Overview of test area action

Table 5: Action details for AFW.PD.A3

Action Ref.	Action
AFW.PD.A3	PR14 Residential retail: Affinity Water is required to clarify what the correct number of unmetered water customers in 2016-2017 is; and clarify the justification for its table R9 2019-2020 forecast which departs from the previously observed trends.

Nature of adjustment: action completed

2.3.2 Our response

2.3.2.1   Correct number of unmetered water customers in 2016-17

The correct number of unmetered household water customers in 2016-17 is 659.818 (thousand properties). This figure has not changed since the September Plan, where it was submitted in table R9, line 13.

We acknowledge that there is a difference between the number reported in our 2017-18 Annual Performance Return (APR) of 659.818 and our September Plan of 659.614. The difference is due to the methodology for correctly classifying household and non-household properties. This was triggered by the opening of the non-household retail market. The APR and September Plan methodologies are explained below:

- 2017-18 APR methodology: Our APR property count is calculated by taking the average of the household property numbers at the end of the current year, and the household property numbers at the end of the prior year.

- September Plan methodology: During 2016-17 we followed the above APR methodology. However, during the data cleanse exercise in readiness for non-household (NHH) market opening in Apr-17, 409 unmeasured properties that we previously viewed as NHH were identified as ineligible for the NHH market. As these properties were not in the household numbers reported in our 15-16 APR, the methodology resulted in this number being halved as the average between 0 and 409.

- In both our 2018 Final Report and Accounts and September Plan, we took the view that to use the standard methodology for calculating averages in this instance could be misleading and the definition change should be applied to the whole year or not at all. We therefore reported all 409 non-household customers in our average count in our Final Report and Accounts and September Plan.

Following advice from our auditors Atkins, we have confirmed that the September Plan methodology is appropriate and robust (659.818 unmeasured and 698.276 measured), see appendix PD.A3.1. We have adopted this methodology for our APR and our Revised Plan for measured and unmeasured.

In summary, we will retrospectively apply Ofwat's market definition of non-household in 2016-17 in our APR because this was the year that we performed our data cleanse in readiness for the market opening. We will not apply this methodology retrospectivity to the years prior to 2016-17 as we used the applicable methodology at the time.

2.3.2.2   Justification for our table R9 2019-2020 forecast

In our September Plan, there was a change from previously observed trends for number of unmetered water-only customers. Since September, we have revised our forecast for number of unmetered and metered water-only customers. We have updated tables R9 (lines 13 and 16). Our revised forecast is represented graphically in Figure 1 below compared to our forecast in the September Plan.
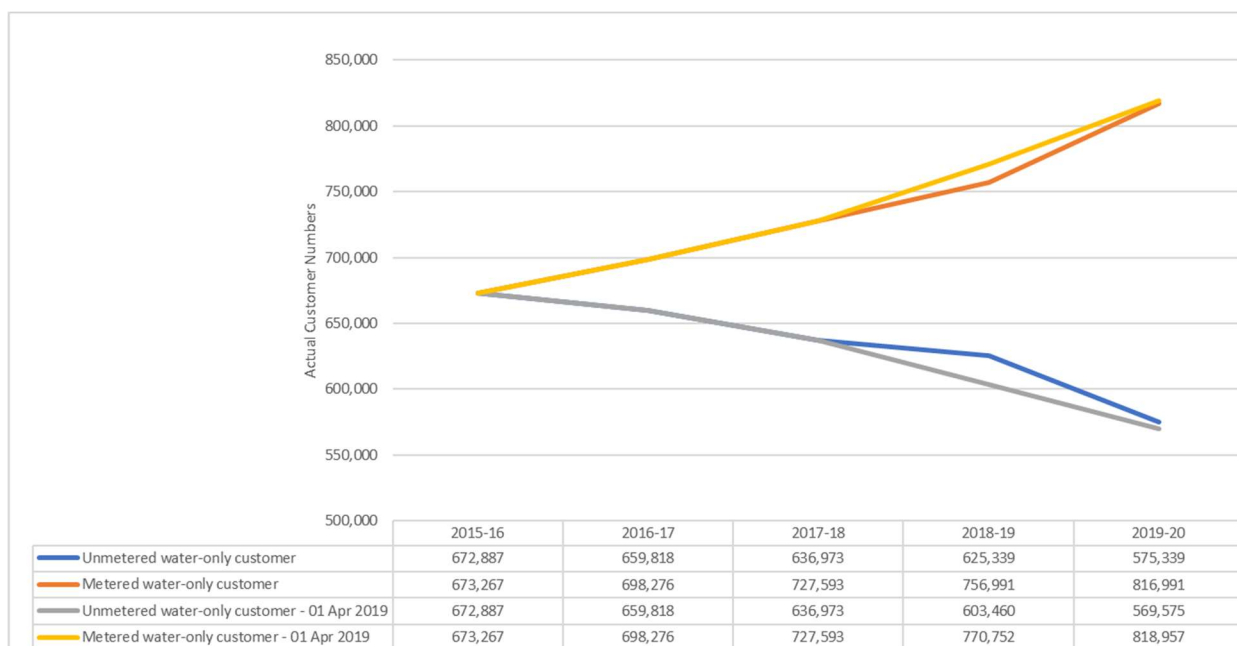

	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water-only customer	672,887	659,818	636,973	625,339	575,339
Metered water-only customer	673,267	698,276	727,593	756,991	816,991
Unmetered water-only customer - 01 Apr 2019	672,887	659,818	636,973	603,460	569,575
Metered water-only customer - 01 Apr 2019	673,267	698,276	727,593	770,752	818,957

Figure 1: Actual and forecast number of metered and unmetered water-only customers – September Plan and Revised Plan.

Figure 1 shows that the number of metered customers is increasing faster than previously observed trends. This is linked to our Water Savings Programme of selective metering. Under this programme, customers may elect to continue with unmeasured charging for up to 2 years after meter installation, as part of transition to metered charging. During 2018-19 and 2019-20, the 2-year transition will expire for a significant number of customers, who will be transferred to measured charging automatically, having not chosen to move onto a measured within the 2-year transition period. The impact of the automatic transfer is shown in the 2018/19 and 2019-20 forecasts as well as the underlying effectiveness of encouraging customers to switch to measured charging within the 2-year transition period.

2.3.3 Implications across the plan

The implications across the Revised Plan are minimal, reflecting the small shift in forecast movements between metered and unmetered water only customers. We have taken this into account in our PCC forecasts as the increase forecast in measured customers will help achieve our year five Performance Commitment. The updated forecast has been reflected consistently across the following data tables as part of the Revised Plan:

- Table R1 (line 16) used to calculate our retail cost to serve.

- Table WS3 aligned with forecast numbers used in the revised draft Water Resources Management Plan

2.3.4 Assurance

Table R9 has been assured by Atkins through our data tables sign-off process, as set out in appendix PD.A3.1.

2.3.5 Evidence

Table 6: Evidence to support the response to AFW.PD.A3

Appendix	Description
PD.A3.1	Atkins Technical Assurance Report March 2019

2.4 AFW.PD.A4

2.4.1 Overview of test area action

Table 7: Action details for AFW.PD.A4

Action Ref.	Action
AFW.PD.A4	PR14 Totex: Affinity Water is required to provide an explanation on why 2017-18 expenditure values differ in the annual performance report and the submitted business plan table WS15 making corrective changes as appropriate in its annual performance report data or business plan table WS15 data; and provide a detailed and numerically supported explanation to accompany its forecasted performance for years 2018-19 and 2019-20.

Nature of adjustment: action completed

2.4.2 Our response

2.4.2.1   Explanation for why 2017-18 expenditure values differ in the annual performance report and the submitted business plan table WS15

The expenditure value submitted in our Annual Performance Report 2017-18 was £255.578m. However, in our September Plan (table WS15, line 9), the expenditure value was £255.569m.

Our September Plan number was incorrect by £9,000 due to a rounding difference. We have now corrected WS15 line 9 to match our 2017-18 APR.

2.4.2.2 Explanation for forecasted performance for years 2018-19 and 2019-20.

Summary of forecasted performance

We have taken the opportunity to provide the detailed and numerical explanation to accompany our revised forecast performance for years 2018-19 and 2019-20 as well as actuals for 2015-16 through 2017-18 (see table 1 below).

Table 8: Actual and forecast Totex – September Plan and Revised Plan

Totex Actuals and Forecasts at 01 April 2019

Year End	2015-16	2016-17	2017-18	2018-19	2019-20	AMP6 Total
Ofwat PR14 determination	£ 259.55	£ 267.64	£ 241.68	£ 222.17	£ 211.53	£1,202.57
AMP6 Actuals/budget	£ 229.36	£ 268.73	£ 255.58	£ 244.56	£ 234.84	£1,233.07
AMP 6 out (under) performance	£ 30.19	-£ 1.09	-£ 13.90	-£ 22.39	-£ 23.31	-£ 30.50
Totex %	13.2%	-0.4%	-5.4%	-9.2%	-9.9%	-2.5%

Totex Actuals and Forecasts at 03 September 20189

Year End	2015-16	2016-17	2017-18	2018-19	2019-20	AMP6 Total
Ofwat PR14 determination	£ 259.55	£ 267.64	£ 241.68	£ 222.17	£ 211.53	£1,202.57
AMP6 Actuals/budget	£ 229.36	£ 268.73	£ 255.58	£ 247.28	£ 226.90	£1,227.84
AMP 6 out (under) performance	£ 30.19	-£ 1.09	-£ 13.90	-£ 25.11	-£ 15.37	-£ 25.28
Totex %	13.2%	-0.4%	-5.4%	-10.2%	-6.8%	-2.1%

In our September Plan, we were forecasting outturn nominal Totex of £247.278m for 2018-19 and £226.901m for 2019-20. While we were forecasting an overspend of our PR14 allowance (by 10% in 2018-19 and 7% in 2019-20) this amounted to an overall AMP6 overspend of 2.1% or £25.3m. Ofwat acknowledges that in our IAP response, it does not have concerns with the evidence of deliverability of planned costs given that plan and allowance included a relatively low efficiency challenge from PR14.

We have revised our forecasts in table WS15 and they now show 2018-19 outturn nominal Totex of £244.561m (a reduction of approximately £2.7m and 2019-20 of £234.842m (£7.7m increase). These changes in our forecast mainly relate to increase spend on leakage and a £5m move of capital expenditure from 2018/19 to 2019/20.

Our revised forecast results in an overall AMP6 overspend of 2.5%, £30.5m. This is an increase from our September Plan of 0.4% or £5.2m. This revised forecast remains well within the efficient cost baseline assessed by Ofwat when setting allowed revenues for AMP6.

Although we are £30.5m overspent on Totex compared to our allowance the amount we expect customers to fund through the sharing mechanism is only £2.782m (in 17/18 prices) as per data table WS15. This is primarily due to pension deficit cost, discussed below, and offsetting the financing cost of the underspend in the first few years.

We have managed our expenditure on a Totex basis over the AMP, rather than a focus on Opex and Capex This has enabled us to be more efficient with our costs and deliver a better outcome. For example, on IT this has enabled us to move away from a traditional Capex led data centre approach to a cloud based infrastructure and software. Through this move we have eradicated the system issues that caused service and operational issues on a daily basis at the start of the AMP. It has also enabled us to put in place a sector leading cyber security.

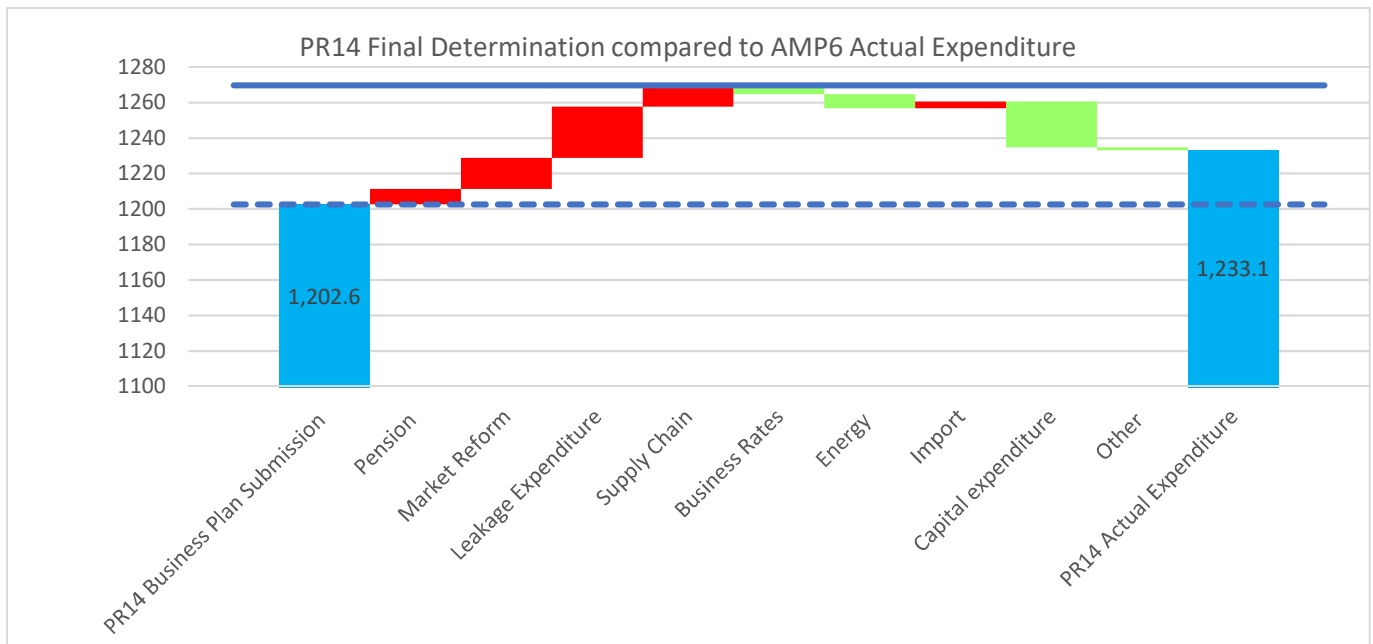The main variances on Totex are shown in the graph and discussed in detail below;

Figure 2: PR14 final determination compared to AMP6 actual expenditure

Pension Cost

Our PR14 Final Determination allowed £3.4m in outturn prices (£3.0m in 12/13 prices) of pension deficit cost. Our actual total AMP6 pension cost is £12.1m, giving an overspend of £8.7m. In our internal plan we set to pay more into the pension scheme than our PR14 allowance. This has been done to take the scheme to a fully funded basis on a self-sufficiency basis. Through working with the trustees and careful management of the scheme we have achieved the self-sufficiency level eight years ahead of our plan. In making these extra contributions we understand that they are outside of the cost sharing mechanism and therefore have been full at the Company's expense.

Market Reform

We understand that the cost of preparing for Market Reform for Non-Household has been higher than planned across the industry. We spent an additional £17.4m than originally planned to develop the systems, cleanse the data put in the processes and to ensure that we were fully compliant. Our expenditure in this area did result in full compliance and has enabled our performance as a wholesaler to be upper quartile.

Leakage Expenditure

One of our significant challenges this AMP has been on reducing our leakage. This has particularly been the case in the current year and we expect some of this expenditure to continue into next year. We have invested £7.3m in new technology to improve our leakage detection. We have brought in additional resources dedicated to analysis, finding and fixing leaks. The exceptional hot summer and winter have added to the pressure making our challenge of leak reduction even more difficult. All this has resulted in an additional cost of £29m which we have incurred during this AMP.

Supply Chain Management

We have incurred additional costs of £12.0m in our supply chain for operation activities. During 2017/18 our main supplier terminated their contract with us. In order to maintain continuity of service and cause least disruption to customers we put in place temporary contracts with the second-tier suppliers to deliver the services under our contract. We insourced the management services that were provided by our main supplier. This switching of the supply chain and the

nature of the temporary contracts has driven an increase in our costs. In parallel we have developed our supply chain strategy for the next AMP and beyond, with the support of external advice and taking into account best practice. We are now completing the procurement process and plan to have our new supply chain in place and fully-mobilised ahead of the start of AMP7.

Business Rates

We have seen a saving in Business Rates of £5.0m mainly driven by the revaluation review of the rateable values for all business properties in England. Revaluation was done to maintain fairness in the system by redistributing the total amount payable in business rates, reflecting changes in the property market.

Energy

Through procuring and locking into favourable base rate prices for our energy usage we have realised saving on our energy costs. We have run an energy optimisation programme over the AMP to reduce our energy usage across our production sites. We have also developed an activity based costing model that has helped us understand in more detail the costs of production and in particular the energy costs. In total, we have been able to achieve savings of £8.0m throughout this AMP on energy.

Import (Bulk Supply)

We rely on imports from Anglian Water, Grafham reservoir and Thames, Fortis Green to meet the supply needs. At times of high demand, we utilise these as we are limited in the volume of water we can produce from our works especially the ground water sites. This imported water is at a much higher marginal cost than the water produced through our own sites. We have seen increased imports especially during the summer of 2018/19 to meet the higher peak demands. This has increased costs by £3.8m more than our allowance.

Capex efficiencies and timing

We have delivered savings in our lead programme through unit rate and benefited from our targeted approach to mains and trunk mains replacement which has maintained our bursts rates below our reference level. We have also been able to realise savings in our central services and have experienced a delay in our metering programme. In total these savings have delivered a saving of £25.8m.

2.4.3 Implications across the plan

The implications of the revised Totex forecasts have been factored into financial modelling that has informed our Revised Plan.

2.4.4 Assurance

Tables WS13 has been assured by PwC through our data tables sign-off process.

2.4.5 Evidence

No additional evidence

2.5 AFW.PD.A5

2.5.1 Overview of test area action

Table 9: Action details for AFW.PD.A5

Action Ref.	Action
AFW.PD.A5	PR14 Wholesale revenue forecasting incentive mechanism: Affinity Water is required to provide an explanation to support the table WS13 forecasted performance for years 2018-19 and 2019-20.

Nature of adjustment: action completed

2.5.2 Our response

We provide an explanation that supports the WS13 forecasted performance for the years 2018/19 and 2019/20. There are two principle factors driving WRFIM performance in 2018/19 and 2019/20 in table WS13:

- o Contributions for new connections
- o The effects of metering as part of our Water Savings Programme

Contributions for new connections

As shown in line 24 of table WS13, at PR14, capital contributions were expected to be stable in real terms at about £8m per year alongside a broadly stable volume of new connections. Our experience has been far different. From 2016/17 onwards, actual contributions have grown so that they materially exceed the amounts assumed in the Final Determination 2014.

Table 10: Grants and capital contributions for AMP6

			2015/16	2016/17	2017/18	2018/19	2019/20
24	Grants and Capital contributions (PR14 FD)	£m 12-13 prices	8.383	8.354	8.015	7.846	8.029
25	Grants and contributions (actual and forecast)	£m nominal	9.199	13.185	13.085	15.020	17.000
26	Grants and contributions variance	£m nominal	0.310	4.137	4.079	5.927	7.417

Contributions have grown so strongly because the demand for new connections has outstripped what we reasonably forecast at the last price review with volumes running at almost double that assumed in 2014. The evidence below shows that we have been the most severely affected company in the country.

We studied data contained in the IAP cost assessment growth model published on 31 January 2019 (Source: *FM_E_WW_growth_IAP – Excel – Forecast Drivers tab)*, which was not available at the time of the September Plan. Whilst there is evidence that in AMP6 most companies have experienced growth in new connections, we have found that we are comparatively, the worst affected. For instance, our average number of new connections between 2011/12 and 2014/15 was 10,993 per year. In the first three years of AMP6 this increased to 17,776 properties per year (62% increase). By contrast, over the same time periods, industry total new connection activity (excl. AFW) was 137,485 properties per year, increasing by 36% to 186,803 per year in the first three years of AMP6. These results are illustrated on the following chart which shows that growth rate of new connections has been strongest in our area.
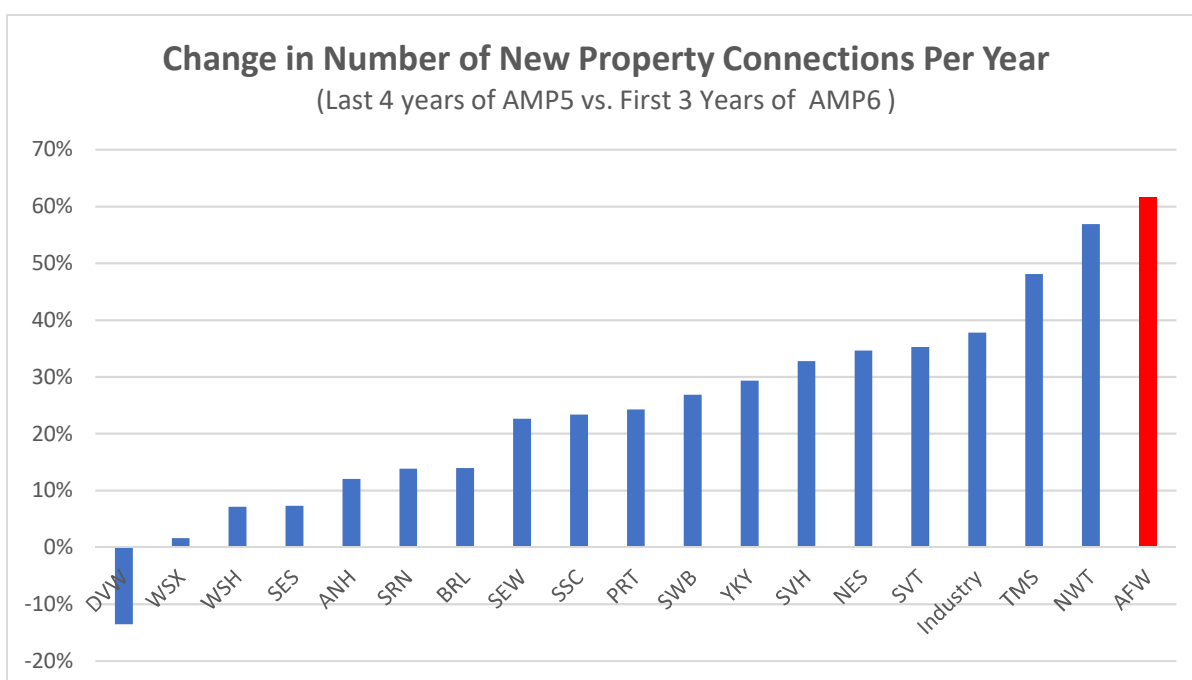
Change in Number of New Property Connections Per Year
(Last 4 years of AMP5 vs. First 3 Years of AMP6)

Figure 3: Change in number of new property connections per year

Other information that has become available to us since the preparation of our September Plan has led us to revise our projections of contributions. This is a result of work to forecast volumes, so that we could provide Board assured charges for 2019/20 and collation of management information from part year actuals to January 2019 for capital contributions. Taking into account this new evidence, we now expect contributions to be £15.0m in 2018/19 vs. £11.8m forecast in our September Plan and £17.0m in 2019/20 vs. £12.1m forecast in September 2018, as tabulated below:

Table 11: contributions for years 4 and 5 of AMP6

	2018/19	2019/20
September 2018 Forecast Grants and Contributions £m nominal	11.786	12.069
April 2019 Forecast Grants and Contributions £m nominal	15.020	17.000

As the current price control period has evolved, we have become increasingly concerned about the effects of volatility in developer contributions on water bills and we highlighted these concerns in our September Plan commentary to table WS13. Whilst higher contributions allow us to pay for the extra costs of meeting higher demand for new connections, within the single till, higher contribution receipts also depress tariff revenue, exacerbating bill instability and depleting the tariff revenue available to the company to remunerate its other operating costs.

This possibility of these effects was recognised in Ofwat's publication: *Setting price controls for 2015-20: Final price control determination notice: policy chapter A3 – wholesale water and wastewater costs and revenues (appendix A5.2 p47)*

> *"…although we have decided not to allow automatic adjustments to allowed revenues for demand variations in wholesale controls, if demand for connections is unexpectedly high then we would nevertheless consider allowing extra revenue to compensate for the loss of price control revenue on a case-by-case basis."*

The amount of excess contributions is material having reached about 7% of wholesale turnover, where it was a little below 5% in our September Plan. The body of evidence for surging new connection demand and contribution receipts is also stronger now than it was at the time of preparation of the September Plan. We have therefore completed the WRFIM Feeder Model and table WS13 for our Revised Plan, assuming that additional revenue has been allowed to compensate for the loss of price controlled tariff revenue caused by excess growth in connections revenue.

We have entered the values for revenue recovered into the WRFIM model as below, to account for the revenue variances caused by excess contributions. As a result, the WRFIM feeder model produces a revenue carry forward amount, £8.303m in 2017/18 that compensates for the loss of price control revenue caused by excess contributions.

Table 12: WRFIM model

		2015/16	2016/17	2017/18	2018/19	2019/20
Revenue Recovered Actual and Forecast	£m nominal	272.473	280.478	284.256	291.907	287.557
Less Excess Contributions (line 26 of WS13)	£m nominal	0.310	4.137	4.079	5.927	7.417
Revenue Recovered Input to WRFIM model line 36	£m nominal	272.163	276.341	280.177	285.980	280.140

Water Savings Programme of Metering

In our forecasts of wholesale revenue, measured revenue in 2018/19 is elevated as a result of the dry summer weather in 2018 that primed measured water demand.

Our projected revenues show changes in 2019/20 that appear inconsistent with trends over the previous years. For instance, we project that unmeasured residential revenue will drop by about £12m, whilst measured revenue will increase by about £8m. These are larger movements than typically seen in prior years.

This effect is caused by the operation of our Water Savings Programme of selective metering where we offer customers a 2-year transition period post meter installation, to switch to metered charging. Whilst about 20% of customers switch to metered charging in the period following meter installation, the remaining customers use the allowed transition period. At the end of the 2-year period, we transfer the customers to measured charging. From study of past meter installation jobs and records of the numbers of customers electing to switch, we can predict that there will be a cohort of 55,000 customers for whom the 2-year transition period will expire between the 2018/19 and 2019/20 charging years. Revenue from these customers would have shown as unmeasured revenue in 2018/19 but will be measured revenue in 2019/20. The discontinuity in revenue trends reflects our switching of a sizeable cohort of customers, built up over 2 years of meter installation activity, from unmeasured to measured charging as their transition arrangements expire.

This effect has not been so strongly evident in prior years because the number of meters installed in the first two years of the AMP6 period for which transition arrangements expired in years 2017/18 and 2018/19, were not as large as the numbers of customers for whom transition will expire in for 2019/20 revenue reporting.

2.5.3 Implications across the plan

The main implication of our updated forecasted performance for 2018-19 and 2019-20 is our assumption that additional revenue has been allowed to compensate for the loss of price-controlled tariff revenue caused by growth in connections revenue. This approach, to take into account the volatility in contributions - has implications for AMP7 revenue - with the WRFIM feeder model producing a revenue carry forward amount, £8.303m in 2017/18 that compensates for the loss of price control revenue caused by excess contributions.

We have taken this revenue carry forward into account in our Revised Plan and in the development of our financial modelling and AMP7 bill levels and bill profile.

2.5.4 Assurance

Table WS13 has been assured by PwC through our data tables assurance process.

2.5.5 Evidence

Table 13: Evidence to support the response to AFW.PD.A5

Appendix	Description
PD.A1.1	PwC (financial) Data Tables Assurance Report
PD.A5.1	p47 of Setting price controls for 2015-20: Final price control determination notice: policy chapter A3 – wholesale water and wastewater costs and revenues

2.6   AFW.PD.A6

2.6.1 Overview of test area action

Table 14: Action details for AFW.PD.A6

Action Ref.	Action
AFW.PD.A6	PR14 reconciliations: Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account of the actual 2018-19 performance.

Nature of adjustment: action due later

2.6.2 Our response

We will be addressing all aspects of this action in our work to update our performance forecast for 2019-20 and report our outturn performance for 2018-19 as part of our Annual Performance Return (APR), this will be submitted on 15 July 2019, in line with the action deadline.

2.7 AFW.PD.B1

2.7.1 Overview of test area action

Table 15: Action details for AFW.PD.B1

Action Ref.	Action
AFW.PD.B1	Affinity Water should produce and provide additional evidence that it has identified: • the drivers of its performance past and current outcomes performance, including financial and reputational performance commitments; • lessons learnt from good and poor past and current performance; • the performance gap between current performance and proposed performance in the 2020-25 business plan; and • measures to ensure deliverability of the 2020-25 business plan.

Nature of adjustment: action due later

2.7.2 Our response

We will work to produce and provide additional evidence as requested on performance, lessons learnt, current and proposed performance and measures to ensure deliverability is scheduled to be completed as part of our ongoing PR19 work programme, which will be submitted on 24 May 2019.

2.8 AFW.PD.B2

2.8.1 Overview of test area action

Table 16: Action details for AFW.PD.B2

Action Ref.	Action
AFW.PD.B2	Affinity Water should produce and provide an action plan that sets out: • how Affinity Water will continuously monitor performance against PR14 and PR19 performance commitments, including how this relates to section 3 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; • how Affinity Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Affinity Water will identify measures to improve performance and integrate these into its business; and • how Affinity Water will ensure that this is a continuous rather than one-off process.

Nature of adjustment: action due later

2.8.2 Our response

Work to produce and provide an action plan as requested on monitoring performance, identifying drivers of performance, lessons learnt, measures to improve and ensuring continuous improvement is scheduled to be completed as part of our ongoing PR19 work programme, which will be submitted on 24 May 2019.

2.9 AFW.PD.B3

2.9.1 Overview of test area action

Table 17: Action details for AFW.PD.B3

Action Ref.	Action
AFW.PD.B3	Affinity Water should produce and provide additional evidence that it has identified: • the drivers of its complaints handling performance both in terms of the number of complaints and how well complaints are dealt with, • lessons learnt from good and poor past and current performance; • the performance gap between current performance and proposed performance in the 2020-25 business plan; and • the measures planned or already in place to ensure deliverability of the 2020-25 business plan.

Nature of adjustment: action completed

2.9.2 Our response

2.9.2.1 *Understanding drivers of complaints handling performance*

This AMP, we have put in place initiatives that ensure we are looking critically at areas of poor complaints handling performance. Each month a decision committee, consisting of the CEO, Executive Management Team and cross-functional process owners meet to review complaints performance, and review customer insights. Through this initiative we have identified three core drivers of complaints handling performance:

- **Pain points in customer journeys:** Through root-cause and customer analysis, we identify which areas are driving the largest number of complaints. We have applied a user-centred approach to transform 12 of our key journeys including reporting a leak, bill improvements and debt recovery in AMP6 and have further plans to continuously improve in AMP7 (see appendix: PD.B3.1)
- **Organisational structure:** We identified that our Service Resolution Team's response times were being hindered by the time taken to seek information from multiple sources. We therefore decentralised the team, with individuals joining process areas as experts. This improved information-sharing has helped to achieve faster response times, from 10.6 working days in 2015/16 to 5.1 days currently (see appendix: PD.B3.2)
- **People and Training:** There was a discrepancy between the service delivered by our advisors and the service delivered by our contractors. Therefore, we rolled out bespoke customer-service and continuous improvement training to employees and customer-facing contractors. We also made changes to our reward and recognition framework, allocating a greater weight to customer service and implemented real time customer satisfaction feedback scores to motivate advisors through a gamified experience. These initiatives have helped us to improve our CSAT scores by 11.3% since April 2015 (see appendix: PD.B3.3)

2.9.2.2 *Reducing the number of complaints, and improving the way complaints are dealt with*

During AMP6, we moved from a position of having a high number of complaints and falling short of CCWater's expected target of 95% resolved at first stage - to delivering significant improvements. Overall, between Q1 of 15/16 and Q3 of 18/19, we have achieved:

- A 67% reduction in first stage complaints and a 71% reduction in second stage complaints (see appendices PD.B3.4 & PD.B3.5)
- Significant improvement in number of complaints per 10,000 properties, moving to 11.62 per 10,000 connected properties in Q3 2018/19, which is over 25% better than the industry average of 15.62 (see appendices PD.B3.6 and PD.B3.7)
- Exceeding the expected target of 95% of complaints resolved at stage one, for the last three quarters - following a consistent upward trend of improvements (see appendix PD.B3.8)

Our complaints performance has also been recognised by CCWater who state:

"It is encouraging to see such a large reduction in Affinity Water's complaints numbers especially as a large proportion of the drop seems to be around customers being happier with their bills and the service provided by Affinity Water, hopefully the trend will continue into the next quarter" (Source: CCW Affinity Water Complaints Review, Q3 2018)

2.9.2.3 Lessons learnt from good and poor past and current performance

Through root-cause analysis and workshops with customer-facing teams and customers, we identified where we are falling short of customer expectations. For example, we saw, that our telephone wait times and the way we communicate to customers in the debt recovery process required improvement.

Wait Times - We reduced wait times by extending our contact centre opening hours and introducing a "call-back in queue" function, whereby customers may elect to be called back by us at a later point instead of waiting for an advisor. We also radically improved our digital channels, moving more of our processes online and improving the digital experience. This has led to a 30% point improvement in calls answered in 30 seconds (see appendix PD.B3.9) and digital channel share increase to 46%, placing us in the top quartile of all water companies. Long wait-times are no longer a driver of complaints.

Communicating in debt recovery process - Following consultation with customers and customer-facing advisors, we made improvements to the letters that were driving complaints. We reviewed our tone of voice and acknowledged and thanked those customers who had made continuous effort to reduce their debt, whilst prompting them to set up a payment plan to clear remaining arrears. This was a key factor in reducing debt recovery by 20% and our good performance in this area has prompted us to roll out improvements to other journeys (see appendix PD.B3.10).

2.9.2.4 Addressing the performance gap between current and proposed performance

This AMP we have achieved a 67% reduction in first stage complaints and a 71% reduction in second stage complaints. The measures that we have put in place, such as detailed root-cause analysis, new specialists, changing the organisational structure to make our service resolution team specialists in their individual areas, and employee training and engagement, has put us on a positive trajectory that will only strengthen in AMP7 (see appendix PD.B3.11). We will continue to measure complaints across all channels customers interact with us on, in readiness for C-MeX and the changes to CCWater's complaint definition. We will also continue to share our complaints analysis with CCWater on a quarterly basis.

2.9.2.5 The measures planned and in place to ensure deliverability of the 2020-25 business plan

In 2020-2025, we will continue to improve our complaints performance, building on initiatives implemented to date. This includes our monthly complaints forum and a governance structure that makes process owners accountable and empowered to make customer improvements, under

an executive sponsored Customer Experience Improvement Programme (see appendix: PD.B3.11 & PD.B3.12). In order to continue to look for further opportunities to improve, we will:

- Utilise our data to better forecast incoming contact demand, through improved correlation with, customer communications, bill and metering cycles and improve our resource planning to better support at times of increased demand
- Measure all customer feedback on a 0-10 scale, to help us to measure ourselves against companies outside of our sector who deliver excellent service, and ensure consistency with customer surveying aligned to the new C-MeX metric
- Do more to celebrate brilliance and recognise people who consistently deliver outstanding customer service, building on increased focus to date and personalised performance reporting
- We will put in place a team of escalation advisors. In parallel with team leaders, this team will act as a point of contact and encourage no issues to go un-resolved. The escalation team will also proactively examine reasons for escalation and provide insight to customer improvement plans or training needs analysis.

2.9.3 Evidence

Table 18: Evidence to support the response to AFW.PD.B3

Appendix	Description
PD.B3.1	Complaints root cause analysis and action plan examples
PD.B3.2	Chart showing reduction in complaints response time for all business areas
PD.B3.3	Chart showing improvements to CSAT score Apr '15 - Jan '19
PD.B3.4	Chart showing reduction in Stage One complaints (all business areas) Apr '15 – Jan '19
PD.B3.5	Chart showing reduction in Stage Two complaints (all business areas Apr '15 - Jan '19
PD.B3.6	Volume of complaints per 10,000 properties by provider – 17/18
PD.B3.7	Volume of complaints per 10,000 properties 18/19 (Q1-Q3)
PD.B3.8	Percentage of complaints resolved at Stage One Q1 15/16 to Q4 18/19
PD.B3.9	Chart showing percentage of calls answered within 30 seconds

PD.B3.10	Case Study – Applying lessons learned from poor, good and acceptable performance in customer communications
PD.B3.11	Drivers of improvements to complaints performance
PD.B3.12	Our Journey to Zero

2.10 AFW.PD.B4

2.10.1 Overview of test area action

Table 19: Action details for AFW.PD.B4

Action Ref.	Action
AFW.PD.B4	Affinity Water should produce and provide an action plan that sets out: • how Affinity Water will continuously monitor performance, including with reference to CCWater analysis and targets, and those related to the delivery of C-Mex, including what evidence and best practice it will look for beyond itself and the sector; • how Affinity Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Affinity Water will identify measures to improve performance and integrate these into its business; and • how Affinity Water will ensure that this is a continuous rather than one-off process.

Nature of adjustment: action completed

2.10.2 Our response

2.10.2.1 How we will continuously monitor performance against CCWater analysis and targets, C-MeX and the best practice we will look for beyond ourselves and the sector.

We have developed an excellent working relationship with CCWater over the course of the AMP. Although it is no longer required (appendix PD.B4.1), we continue to share with CCWater our monthly complaints performance report, where we include analysis of any significant escalations or reductions and the actions we are planning to take to improve performance. We are also enhancing our 'voice-of the customer' feedback tool, in readiness for C-MeX, to ensure that we are capturing consistent feedback across all our channels including webchat, IVR and email, to improve our omni-channel analysis. This is in addition to our work with partners, such as the Institute of Customer Service, to better understand how we meet the unique demands of serving customers in our area. We persistently look beyond our sector to find examples of best practice and learn from failures today. This has included guest speakers from leading organisations, such as PlusNet and, attending our 'Customer Excellence Days' to inspire our employees as well as the academic and industry expertise of our Customer Challenge Group. (see appendix PD.B4.2)

2.10.2.2 Our drivers of performance and lessons learnt from good and poor performance

This AMP we have put in place many initiatives to ensure we are looking critically at areas of poor performance, and accelerating journey improvements that will have the greatest customer benefits (see appendix PD.B4.3). Additionally, by working in an agile way to improve customer interactions, we have been able to test and learn which improvements have the greatest impact, delivering positive performance, whilst adapting and applying them to other areas of the business. This can be exemplified in our improvements to customer communications which have led to a 20% reduction in debt complaints and has encouraged us to apply the same learnings to our metering, and home-mover communications (see appendix PD.B4.4)

2.10.2.3   Identifying measures to improve performance and integrating these into the business

One of our key learnings this AMP has been that the *way* we communicate and relate customer data and complaints analysis to both the Board and to frontline teams, is as crucial as the data itself. We have therefore striven not only to improve the data we have obtained but have also made key improvements to the way we bring that data to life so that it that leads to impactful customer-focused action. In AMP7 we will continue to listen, analyse, share and act on what customers tell us and strive to always improve on our performance. We will:

- Continue to utilise **speech analytics** technology to aid root cause and sentiment analysis and help advisors improve future interactions
- Extend our **voice of the customer** tool to new channels. We will enable customers to provide us feedback on the quality of our email interactions and webchat. We will also make system improvements to ensure we are capturing feedback from customers who contact us on landlines as well as mobiles. The customer feedback will be displayed to the advisor in real-time, providing instant visibility to what is resonating with customers and how they can improve on the next interaction
- Apply a 0-10 customer satisfaction scale consistently across all feedback channels to monitor **CSAT** consistently and compare ourselves to high performers outside of our sector
- Recruit a qualitative specialist during 2019 to power forward regular **customer immersion** sessions and forge a deeper understanding of the triggers of customer dissatisfaction, to support preparation for C-MeX
- Continue the **monthly complaints forum** with the CEO, Executive Management Team and key decision makers to escalate and align priorities
- Proactively prepare **a quarterly report** of complaints performance to CCWater, providing analysis of any significant peaks and troughs and an action plan for improvement
- Make certain that the right initiatives continue to be led by accountable process owners through the guidance and sponsorship of the **Customer Experience Improvement Programme**
- Apply a blend of **design and lean thinking** techniques to understand customer journey from a multi-channel, customer-centric perspective and understand the catalysts of dissatisfaction
- Continue working closely with our **CCG** to share performance and ideas.

2.10.2.4   Sustaining a continuous improvement culture now and in the future

We have created and will continue to anchor an environment that encourages continuous improvement and customer-centred thinking (see appendix PD.B4.5). As we move into AMP7 we will augment these processes further and look at new ways to innovate.

For example, we have been inspired by other leading businesses, such as E.O.N and Adobe to take customer insight off the page by implementing a regular heartbeat of 'customer immersions'

sessions in AMP7. Customer immersion sessions will take customer research forums and usability testing sessions a step forward by giving our business leaders a regular opportunity to have meaningful interactions with customers and give further impetus to act. Engaging customers will continue to be part of everything we do, ensuring we remain relevant, responsive and that our communications resonate with customers to encourage active participation.

Furthermore, we are confident that we now have agility in our systems and processes to meet evolving customer needs. This has been exemplified in our digital transformation, where technology improvements such as migrating our platforms to the cloud; and customer-journey enhancements, such as the new report-a-leak journey, have worked hand-in-hand to improve customer satisfaction. Through the growth of our employee-facing 'Tap-4-ideas' innovation portal in AMP7, we will be able to capture improvement ideas from beyond customer-facing teams and process owners, to all parts of our business. This is a strategy that has been successfully implemented by companies, such as IAG and Three UK, to harness the collective insight of the business and identify service improvements.

2.10.3   Evidence

Table 20: Evidence to support the response to AFW.PD.B4

Appendix	Description
PD.B4.1	Letter from Sir Tony Redmond, January 2018
PD.B4.2	Benchmarking best practice beyond the water sector
PD.B4.3	Table to show drivers of improvements to complaints performance
PD.B4.4	Case Study – Applying lessons learned from poor, good and acceptable performance in customer communications
PD.B4.5	Ensuring a continuous improvement process now and in the future

3 Additional Ofwat Feedback

3.1 AFW.PD.C1

CMF: Individual company report AFW p3

We noted that their post-tax return on regulated equity reported in their Annual Performance Report (APR) was not consistent with the calculation in the Regulatory Accounting Guidelines (RAG's). However, the error was not material and was not considered to have had an impact on the overall confidence in the information presented.

3.1.1 Our Response

Ofwat acknowledged that the error was not material and was not considered to have had an impact on the overall confidence in the information presented and so we have not specifically addressed the feedback for last year's publications.

3.2 AFW.PD.C2

CMF: Individual company report AFW p8

Long-term Viability Statement: there could have been further detail regarding the internal assurance process or the extent, if any, to which the company have used third party assurance to ensure the quality and robustness of their long-term viability statements.

3.2.1 Our Response

We plan to include further narrative in our long-term viability statement in our strategic report and the viability statement section in our APR for July this year, including adding in detail from our data assurance summary on the assurance procedures performed by PwC over the accuracy of the underpinning stress testing.

3.3 AFW.PD.C3

CMF: Individual company report AFW p11

Cost assessment: The company's accounting separation methodology was available, however we were concerned that many of its cost allocations are still based on management estimate and that the chosen cost allocation methods have not been properly justified. There was also no mention of the assurance that had been undertaken on the accounting separation methodology other than a statement that the accounting separation data can be traced back to the audited accounts through the company's accounting systems.

3.3.1 Our Response

Ofwat provides a hierarchy of cost drivers to be used in the RAGs. Utilisation of management estimates, as a cost driver, is permitted where information is unavailable to use the preferred cost driver. However, when this is the case, there should be a supporting commentary included in the accounting separation methodology statement to justify why the management estimate is appropriate.

There were six references to management estimates and three instances of where we consider chosen cost allocation methods were not properly justified in our 2017/18 accounting separation methodology statement. We are in the process of reviewing these cost allocations to identify potential alternative cost allocation methods or provide further detail in our accounting separation methodology statement regarding the basis for the estimate. This will be completed for our APR submission this year.

Our 2017/18 data assurance summary, published on our website, did not include detail on the external assurance procedures performed by PwC and Atkins in regard to the cost allocation tables. A section on assurance will be included in this year's data assurance summary, which will be referenced to in our accounting separation methodology statement.

3.4 AFW.PD.C4

CMF: Individual company report AFW p13

PR19 Initial assessment of business plans - data consistency: We found minor issues overall with the consistency of performance and financial data reported in the company's business plan tables with previous data submissions. This was due to material inconsistencies between the company's business plan tables and Annual Performance Report in the area of cost assessment.

3.4.1 Our Response

Inconsistencies have been addressed and underlying data table assurance procedures strengthened as part of our Revised Plan. We have adopted a three lines of defence approach to providing assurance that data tables and commentaries are accurate and consistent.

3.5 AFW.PD.C5

Ofwat email 07 March 2019 requesting information to understand how companies are performing in relation to their leakage performance commitments.

Ofwat is keen to understand to what extent companies are likely to underperform or outperform against their leakage performance commitments, how the events of the past 12 months have impacted on companies' leakage management, and what plans companies have already or intend to put in place to secure future leakage performance and resilience. This information request is due back to Ofwat by 22 March and overlaps with our responses to action items within this test area. The questions we have been asked are:

- *Please provide your best estimate of the level of leakage expected by your company by the end of 2018-19.*

- *Please identify the range of confidence that you have in the estimate provided above, providing upper and lower bounds.*

- *What factors do you currently see as providing the greatest risk to achieving the level of leakage identified above?*

- *Do you anticipate underperforming or outperforming against your leakage performance commitment for 2018-19 and, if so, to what extent? What have been the main factors that have led to this result?*

- *If you anticipate underperforming against your 2018-19 leakage performance commitment, what plans, if any, do you have to get back on track to meet your 2019-20 commitment?*

- *What are the key lessons that your company has learnt over the last 12 months in relation to leakage management and how have these informed your future plans?*

- *Please provide details as to the nature and extent of your Board's engagement with your company's leakage performance and any improvement plans that you have in place (both on an on-going basis and currently, if different)*

3.5.1 Our Response

Our response to this information request is included in appendix PD.C.1.

3.6   Implications across the plan

Implications of the additional Ofwat feedback across the September Plan are minimal. We will be providing more information on our performance as part of our 24 May and 15 July APR data submissions which include forecast 2019-20 performance in line with our end of AMP6 target.

Other CMF feedback will be addressed during the APR and Annual Report and Accounts publications later this year and do not impact on the Revised Plan.

3.7   Evidence

Table 21: Evidence to support additional Ofwat feedback response

Appendix	Description
PD.C.1	Response to Ofwat leakage information request
PD.C.2	Extract from February 2019 Audit Committee Paper

4   Appendices

All the appendices listed below for this evidence document are included in the appendices titled AFW Accounting for Past Delivery Appendix.

Table 22: Full summary of Accounting for Past Delivery appendices

Appendix	Action ref(s)
PD.A1.1 PwC (financial) Data Table Assurance Report	AFW.PD.A1; AFW.PD.B3
PD.A3.1 Atkins Technical Assurance Report March 2019	AFW.PD.A3
PD.A5.1 p47 of Setting price controls for 2015-20: Final price control determination notice: policy chapter A3 – wholesale water and wastewater costs and revenues	AFW.PD.A5
PD.B3.1 Complaints root cause analysis and action plan examples	AFW.PD.B3
PD.B3.2 Chart showing reduction in complaints response time for all business areas	AFW.PD.B3
PD.B3.3 Chart showing improvements to CSAT score Apr '15 - Jan '19	AFW.PD.B3
PD.B3.4 Chart showing reduction in Stage One complaints Apr '15-Jan '19	AFW.PD.B3
PD.B3.5 Chart showing reduction in Stage Two complaints Apr '15 - Jan '19	AFW.PD.B3
PD.B3.6 Volume of complaints per 10,000 properties by provider – 17/18	AFW.PD.B3
PD.B3.7 Volume of complaints per 10,000 properties 18/19 (Q1-Q3)	AFW.PD.B3
PD.B3.8 Percentage of complaints resolved at Stage One 15/16-18/19	AFW.PD.B3

Appendix	Action ref(s)
PD.B3.9 Chart showing percentage of calls answered within 30 seconds	AFW.PD.B3
PD.B3.10 Case Study – Applying lessons learned from poor, good, and acceptable performance in customer communications	AFW. PD.B3
PD.B3.11 Drivers of improvements to complaints performance	AFW.PD.B3
PD.B3.12 Our journey to zero	AFW.PD.B3
PD.B4.1 Letter from Sir Tony Redmond, January 2018	AFW.PD.B4
PD.B4.2 Benchmarking best practice beyond the water sector	AFW.PD.B4
PD.B4.3 Table to show drivers of improvements to complaints performance	AFW.PD.B4
PD.B4.4 Case Study – Applying lessons learned from poor, good and acceptable performance in customer communications	AFW.PD.B4
PD.B4.5 Ensuring a continuous improvement process now and in the future	AFW.PD.B4
PD.C.1 Response to Ofwat leakage information request	Additional Ofwat feedback
PD.C.2 Copy of February 2019 Audit Committee Paper	Additional Ofwat feedback