

## Affinity Water: Actions summary table

### Actions guidance

#### Company actions

We categorise actions that slow-track and significant scrutiny companies need to do as the following:

- **required actions** for companies which in general are required so that we can make draft determinations (or final determinations for some aspects of past delivery); and
- **advised actions** for companies to do by a specific date but that are not required for our draft determinations.

Each action has a unique reference. The prefix 'AFW' denotes the company Affinity Water. The central acronym references the test area where the action has been identified, please see the 'PR19 initial assessment of plans: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

#### Timings and required response

- **Required actions:** Slow-track and significant scrutiny companies should address all **required actions** by the date shown in the 'date required' column in the table below (the majority of these are by 10am on 1 April 2019). The response to actions should be set out by companies in their resubmitted business plans and data tables. The template action tracker should be completed with a short description of the response and relevant business plan and/or data table references and should be submitted by 10 am on 1 April 2019. We will review the response to these actions in our assessment of company submissions ahead of determinations.
- **Advised actions:** Slow-track and significant scrutiny companies should set out their response to their **advised actions** by the date shown in the 'date required' column in the table below. For advised actions due on 1 April 2019 companies should include details of their response in their actions tracker.
- **Actions tracker:** Each company must complete and submit the template action tracker by 10 am on 1 April 2019 for review. For additional guidance, please see the cover page of the template action tracker.
- **Assurance:**
  - Assurance must be provided where requested as part of an action.
  - Companies must indicate the assurance that they have undertaken for all changes to data tables.
  - Where Customer Challenge Groups (CCGs) have provided assurance this should be indicated. In some instances, we have stated where we expect companies to work with CCGs as part of their re-submission of (parts of) their business plans. Please use our PR19 methodology as the guide for where their assurance of the quality of engagement with customers may be required.
  - If additional assurance is not required, companies may still provide it if they deem it appropriate.

For all the detailed actions documents referenced in the table below, the template action tracker and glossary, please see the [initial assessment of plans webpage](#).

Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	<b>AFW.AV.A1</b>	Required	Affinity Water proposed a higher bill than what it tested with customers and it also proposed a different bill profile for the 2020 to 2025 period. The company should provide sufficient and convincing evidence that it has engaged with its customers on affordability and acceptability of its proposed bill profile for the 2020 to 2025 period. Affinity Water should demonstrate that its customers find its proposed bill profile acceptable and affordable. This should include testing of the combined water and wastewater bill. Affinity Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice.	1 April 2019
	<b>AFW.AV.A2</b>	Required	Affinity Water has provided insufficient evidence that it has engaged with customers on bills beyond 2025. For example, although it has provided a long-term view of its forecast bills for the next three asset management plan (AMP) periods to 2040, there is insufficient evidence of engagement with its customers on these long-term bill profiles after the 2020 to 2025 period. Furthermore, there is insufficient evidence of how acceptable customers find the long-term bill profile. The company should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to outline customer support for each of the profiles tested. Affinity Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice.	1 April 2019
	<b>AFW.AV.A3</b>	Required	Affinity Water has provided insufficient evidence on social tariff cross-subsidy research – little evidence has been provided on what customers were asked, the different levels of cross-subsidy they were presented with, and the levels of support these gathered. The company should undertake customer engagement on different levels of social tariff cross-subsidies and provide sufficient evidence to outline customer support for the same.	1 April 2019
	<b>AFW.AV.A4</b>	Required	Affinity Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services by 2020 but has not provided a Performance Commitment or plan on how it will do so.  The company should propose a Performance Commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020 to 2025 period.	1 April 2019
	<b>AFW.AV.A5</b>	Required	Affinity Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 2.5% in 2019/20 to 6.3% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has checked no PSR data over the past two years.  We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): The company should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to check at least 90% of its PSR data every two years.  For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.	1 April 2019

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Test area	Action reference	Action type	Action	Date required
	Advised actions	Advised	No advised actions.	N/A
Delivering outcomes for customers	<b>AFW.OC.A1-49</b>	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and outcome delivery incentive risk/return package. Please see 'Affinity Water: Delivering outcomes for customers detailed actions'.	Please see dates in 'Affinity Water: Delivering outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions	N/A
Securing long-term resilience	<b>AFW.LR.A1</b>	Required	The company should ensure that its common and bespoke performance commitments associated with operational resilience are clearly defined, sufficiently demanding for AMP7 and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	1 April 2019
	<b>AFW.LR.A2</b>	Required	The company should provide a commitment that it will, by 22 August 2019, prepare and provide to us an action plan to develop and implement a systems based approach to resilience in the round and ensure that the company can demonstrate in the future an integrated resilience framework that underpins the company's operations and future plans showing a line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework.	1 April 2019
	<b>AFW.LR.A3</b>	Required	The company should also provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019
	<b>AFW.LR.A4</b>	Required	The company's assessment of financial stress scenarios extends only to 2025. The company should commit to demonstrating that its assessment of financial resilience extends beyond 2025 in its next Long Term Viability Statement.	1 April 2019
	<b>AFW.LR.A5</b>	Required	Please explain: <ul style="list-style-type: none"> <li>• how the company will achieve the planned reduction of gearing to 70% referred to in the plan;</li> <li>• how the company will maintain Baa1/BBB+ credit ratings if its planned gearing reduction does not proceed as planned; and</li> <li>• the company's assessment of the impact of the gearing outperformance mechanism for PR19 on its financial metrics in case the planned gearing reduction is not achieved.</li> </ul>	1 April 2019

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	Advised actions	Advised	No advised actions.	N/A
Targeted controls, markets and innovation	<b>AFW.CMI.A1</b>	Required	The company should ensure that the business plan sets out the potential strategic supply options that it has assessed and explain how it will engage with interested parties and other stakeholders to progress these options. We also expect the business plan to align with the revised water resources management plan.	1 April 2019
	<b>AFW.CMI.B1</b>	Advised	The company should explore sharing resources to form common research outcomes and innovations, aligned to the common challenges that the company and others face.	1 April 2019
Securing cost efficiency	<b>AFW.CE.A1</b>	Required	We have provided our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: <ul style="list-style-type: none"> <li>the need for investment is not compelling; or</li> <li>there is no need for a cost adjustment claim beyond our existing cost baseline.</li> </ul>	1 April 2019
	<b>AFW.CE.A2</b>	Required	Strategic regional solution development - We have identified from the plans that at least one strategic supply solution is required over the next 5-15 years to secure drought resilience in the south-east. The strategic regional solution development allocation is to allow the delivery of consistent and transparent investigations, planning and development of strategic options with the overall aim of optimum solutions being construction ready by 2025.  The company's allocation is made on the basis of having clear deliverables and customer protection for the gated delivery of the development of Abingdon reservoir, a regional transfer from Thames Water, and an eastern regional solution/transfer. The following actions are required to ensure the efficient delivery of this development programme: <ul style="list-style-type: none"> <li>In conjunction with the other companies involved, jointly propose methods for collaborative working including setting up the joint working group for individual schemes, and how consistent assumptions and decisions will be made within these groups and between them.</li> <li>Provide more detail on the gated process, the deliverables, timings and expenditure allocations at each gate</li> <li>Propose ODI-type mechanisms to allow allocated funding to be recovered by customers in the event of the scheme not progressing through each gate and for the non-delivery or late delivery of outputs.</li> </ul>	1 April 2019
	<b>AFW.CE.A3</b>	Required	We require further clarity on the company's proposals for a cost adjustment mechanism for the Amber WINEP schemes included in its investment programme. The company should therefore advise how the sustainability reductions and 28 river morphology projects referred to in section 10.19 of Appendix 10 map on to the 13 Amber schemes listed in WINEP3. The company should also provide a breakdown of the expenditure (capex and opex) allocated for these 13 schemes between lines in Tables WS2. We also need clarity on how the volumes and costs set out in the tables in section 10.19.1 relate to the corresponding data in the table on p68 of Appendix 6. Finally, the company should explain why it considers it appropriate to propose a single unit cost for supply and demand-side measures rather than separate unit costs given the differing nature of the work and costs involved.	1 April 2019
	<b>AFW.CE.A4</b>	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a	1 April 2019

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Test area	Action reference	Action type	Action	Date required
			performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	
	Advised actions	Advised	No advised actions	N/A
Aligning risk and return	<b>AFW.RR.A1</b>	Required	The company should revise its business plan and associated financial modelling to be based on our 'early view' of long term CPIH of 2.0% and RPI of 3.0%, or provide compelling evidence why this is not appropriate.	1 April 2019
	<b>AFW.RR.A2</b>	Required	The company should provide further explanation to underpin the assumptions made on water trading in the RoRE analysis.	1 April 2019
	<b>AFW.RR.A3</b>	Required	The company should amend its overall assessment of RoRE outcomes, or provide convincing evidence to explain why it is reasonable to assume totex outcomes should be asymmetrically skewed to the downside for the notional company within an incentive based regime.	1 April 2019
	<b>AFW.RR.A4</b>	Required	The company should remove the uncertainty mechanism for metaldehyde or provide further evidence to demonstrate why the uncertainty mechanism is required - specifically whether the cost item will remain uncertain at the time of draft and final determinations.  The company should remove the uncertainty mechanism for sustainability reductions or provide convincing evidence that adequate protections are not already in place given totex cost sharing arrangements and scope for transitional arrangements at PR24.  If the company retains an uncertainty mechanism in its revised business plan, it should ensure the proposal is underpinned by RoRE assessment in accordance with section 10.4.3 of the PR19 methodology.	1 April 2019
	<b>AFW.RR.A5</b>	Required	The company should provide further evidence to reconcile the financial ratios set out in the business plan tables to those produced in the official financial model and explain why these are appropriate for the company's assessment of financeability.	1 April 2019
	<b>AFW.RR.A6</b>	Required	The company should assess the financeability of the notional company in relation to financial ratios produced by the official financial model for the notional company as set out in the methodology including the component parts of the early view cost of capital.	1 April 2019
	<b>AFW.RR.A7</b>	Required	The company should set out the steps taken and the assurance obtained by the board in order to assess financeability of the business plan.	1 April 2019
	<b>AFW.RR.A8</b>	Required	The company should provide further evidence to support its view that the key financial ratios are consistent with the target credit ratings including how the threshold levels for each of the ratios have been determined.	1 April 2019

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Test area	Action reference	Action type	Action	Date required
	<b>AFW.RR.A9</b>	Required	The company should set out how the approach to setting PAYG and RCV run-off rates reflects the forecast costs and the depreciation of the underlying RCV for the company for each wholesale control and provide further evidence to demonstrate that the rates are consistent with the company's approach.	1 April 2019
	<b>AFW.RR.A10</b>	Required	The company should set out the steps taken to address the concerns raised by the Customer Challenge Group in relation to the late addition of the final bill profile to the business plan, providing evidence that the annual bill profile set out in the business plan is consistent with customer preferences.	1 April 2019
	<b>AFW.RR.A11</b>	Required	The company should provide convincing evidence that its exposure to revenue variation is as wide as its RoRE risk analysis suggests, particularly with regard to the regulatory protections in place.	1 April 2019
	<b>AFW.RR.B1</b>	Advised	The company should provide a clearer link between its internal risk management and mitigation procedures and the RoRE analysis.	1 April 2019
Accounting for past delivery	<b>AFW.PD.A1-6</b>	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'Affinity Water: Accounting for past delivery detailed actions'.	Please see dates in 'Affinity Water: Accounting for past delivery detailed actions'
	<b>AFW.PD.B1-4</b>	Advised	The company should develop and provide further evidence to support the continuous improvement and deliverability of outcomes and customer complaints handling. Please see 'Affinity Water: Accounting for past delivery detailed actions'.	Please see dates in 'Affinity Water: Accounting for past delivery detailed actions'
Securing confidence and assurance	<b>AFW.CA.A1</b>	Required	The company is required to restate a forward looking Board assurance statement. Please see 'Affinity Water: Securing confidence and assurance detailed actions.'	1 April 2019

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Test area	Action reference	Action type	Action	Date required
	<b>AFW.CA.A2</b>	Required	<p>On dividend policy the company is required to confirm/explain the statement in their plan that annual dividends are not to exceed 5%, as our calculations have resulted in yield figures above 5% in some years (noting that on average yield is below 5%).</p> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	<b>AFW.CA.A3</b>	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <ul style="list-style-type: none"> <li>• Clear explanation of stretching targets and how they will be applied.</li> <li>• Commitment to report how changes, including the underlying reasons, are signalled to customers.</li> </ul> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	<b>AFW.CA.A4- AFW.CA.A6</b>	Required	<p>The company is required to provide a revised financial model (that uses the Ofwat model) and data tables on 1 April 2019 and complete actions regarding its financial model, risk and return and cross cutting themes data (water resources). Please see 'Affinity Water: Securing confidence and assurance detailed actions.'</p>	1 April 2019
	Advised actions	Advised	No advised actions.	N/A

## Securing cost efficiency

The tables below set out your performance on cost at different services and for different cost types. Costs are in £m of 2017-18. We index wholesale controls with consumer price inflation (CPIH). We do not index retail controls.

### Costs by control

Costs	Water resources	Network + (water)	Residential retail	Company level
Business plan totex (£m)	262.0	1,176.7	169.0	1,607.8
Our view of totex (£m)	224.6	1,069.5	138.9	1,433.0
Efficiency challenge (£m)	37.4	107.2	30.2	174.8
Efficiency challenge (%)	14.3%	9.1%	17.8%	10.9%

### Costs by residential retail and water

Costs	Residential retail	Wholesale water	Company level
Business plan totex (£m)	169.0	1,438.7	1,607.8
Our view of totex (£m)	138.9	1,294.1	1,433.0
Efficiency challenge (£m)	30.2	144.6	174.8
Efficiency challenge (%)	17.8%	10.1%	10.9%

### Costs by base, enhancement and residential retail

Costs	Wholesale base costs	Enhancement costs	Residential retail	Company level
Business plan base/enhancement costs (£m)	1,049.2	389.5	169.0	1,607.8
Our view of base/enhancement costs (£m)	972.1	322.0	138.9	1,433.0
Efficiency challenge (£m)	77.1	67.5	30.2	174.8
Efficiency challenge (%)	7.3%	17.3%	17.8%	10.9%

Efficiency challenge (%) = efficiency challenge (£m) divided by business plan totex.

Note, the costs in the tables do not include pension deficit repair costs (for which we make an allowance in accordance with our policy set out in Information Notice 13/17) and third party costs. The costs are gross of grants and contributions.

Key areas where we disallow enhancement costs.

- **Wholesale water:** Supply-demand balance -£24m; metering -£16m; and WINEP water framework measures -£16m.

We make an additional allowance of £52m for development of strategic regional water supply solutions.