Affinity Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	C	EC1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	C	Overall Affinity Water's business plan falls short of high quality with insufficient evidence in the areas set out below. Whilst the company delivered customer engagement via a multi-phased approach, and used a wide range of methods, there is evidence of limitations in some of the qualitative research it conducted such as the use of small sample sizes. The CCG has also flagged the ineffective use of research stimulus in qualitative research. There is also little evidence of innovation in research methods used. In this regard, the company highlights ethnography and the formation of a customer community, as the main indicator of its innovative approach (both of which have been widely used across companies at PR19). The company conducted triangulation of the results of its research after each phase of customer engagement but this appears to take the form of a synthesis of key messages with insufficient evidence of critical evaluation of the quality and limitations of underlying data sources. The company has not conducted primary willingness to pay research and has instead relied exclusively on external values (from other companies' PR19 stated preference research). No evidence could be found of the company having assessed the applicability of these values for its own customer base or in having applied an objective and well-reasoned approach to triangulating between external values. While there is evidence of the company having analysed customer contacts and social media data it has provided insufficient detail on the insights obtained from this analysis nor how they have been incorporated into its business plan. The company demonstrates an awareness of what customer participation entails, but there is insufficient evidence in the plan and supporting documents to demonstrate the company's efforts to fully adopt or start taking into account the four themes of customer participation, as expressed in the Tapped In report. For example, there is sufficient evidence that the company involved customers in strategic planning and service design and that they sought to promote behaviour change via education programmes. However, there is no evidence indicating that the company gave customers increased control of water in their home and/or their service experience. Whilst the company recognises it needs to do more to move to active customer participation, it does not explain why this has not happened to date and how it aims to achieve this. There is insufficient evidence of the company's approach to engagement with future customers (in the form of two qualitative research exercises) and customers with experience of resilience issues (appears to be limited to a very small number of customers such that it is not likely to yield robust insight). Customers' preferences on service levels are not fully reflected in the business plan due to a lack of primary willingness to pay research. The company has also failed to demonstrate customer support for the acceptability and affordability of its business plan due to testing being carried out using different bill impacts to those associated with the final version of the business plan.

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Addressing affordability and vulnerability	C	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	D	Affinity Water provides insufficient and unconvincing evidence that its bills will be affordable and provide value for money for the 2020-25 period. In particular, the company made late changes to the bill which meant that customers were not been engaged on the proposed bills or bill profile. In addition, it has not tested the affordability of bills, or the acceptability of combined bills. The company proposes a 3% increase in real bills over the 2020-2025 period. This is the second highest bill increase proposed for the 2020-2025 period across the sector. The bill profile included in the business plan is both higher than consulted on with customers, and follows a different profile. In addition, the CCG has commented that it does not know why the company has expressed so many different 2019/20 average bill values, which suggests poor quality engagement with the CCG throughout. Changes to the bill profile also present challenges with the extent to which customers can be considered to support the bills, asthey were not shown the final bill profile as part of business plan testing. In addition, the data provided in relation to affordability and acceptability of bills is historical data that has been forecast forwards, and does not reflect customers' views of acceptability and affordability for the proposed 2020-2025 bill profile. The company has also not engaged with customers on the combined bills. Whilst the company has shown that bills are set to fall as a proportion of real disposable income in the region, the use of mean real disposable income will likely skew this calculation to the higher end of the income spectrum. Therefore, it is unlikely to reflect the most accurate view of customers incomes (compared to using another measure such as median income). The company also has a highly inefficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	D	Affinity Water provides insufficient and unconvincing evidence of a high-quality approach to addressing affordability of bills beyond 2025. In particular, there is insufficient evidence of testing a bill or bill profile for the 2025 to 2030 period with customers, and so there is also insufficient evidence of customer support for its plans. Although there was insufficient evidence of a bill profile being shown to customers, it proposes to increase bills by 3% over the 2025 to 2030 period, and we are not satisfied with the company's use of financial levers.
		AV3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?	B	Affinity Water provides sufficient and convincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. Although the company is proposing to grow its social tariff by under 50%, it is providing additional support to customers through a new company-funded hardship fund, which we consider to be a high quality approach. The company proposes a diverse range of affordability support and provides evidence of a targeted approach to promoting affordability support via home visits to 5,000 customers per year. However, the company has not demonstrated a high-quality approach to engagement or gathering customer support for affordability assistance for those that struggle to pay. In particular, we consider there was insufficient evidence of a high-quality approach to engaging customers on the social-tariff cross subsidy. Furthermore, whilst the company have proposed two performance commitments (PC) for affordability, we do not consider either of these to be stretching. In the round, we consider that the evidence that the company's support will be effective is sufficient to consider its overall approach to affordability for customers who are struggling to pay to be high-quality.

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		AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	B	Affinity Water provides sufficient and convincing evidence of a high-quality approach to vulnerable customers in its business plan. For example, by the end of the 2020 to 2025 period, it is proposing that 6.3% of its customer base will be registered to its Priority Services Register (PSR). This is relatively strong reach. The company demonstrates a thorough use of internal and external data to understand the extent of vulnerability in its region. In addition, it is investing in a new priority services platform which will, amongst other offerings, contact a nominated third party when a vulnerable customer is affected by a supply incident. The company demonstrates high-quality work with external organisations, such as partnering with BSI to obtain its 'inclusive services' standard before 2020. It has also run co-creation sessions with other third parties such as Dementia UK and Samaritans. However, we consider that both of the company's bespoke vulnerability PCs are not stretching. For instance, its PC on satisfaction of vulnerable customers is not stretching because it is targeting 82% by 2024/25, which is the lowest target of any company who has proposed a vulnerable customer satisfaction PC. Its second PC on vulnerable support scheme helpfulness is not stretching because it is targeting a score of 4.8/10, which is less than 50%. We consider this to be too low to be stretching. In the round, we consider the company has provided sufficient evidence of a high-quality approach via partnership working and also consider that it has made effective use of data.
Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	C	Overall, Affinity Water's plan falls short of high quality, with insufficient evidence that it has selected appropriate PCs and its PCs demonstrate stretching performance. However, there are elements of high quality within the plan. The company does not meet our expectations for complying with the PR19 Final Methodology requirements because: • the company proposes a small number of bespoke PCs which are low in ambition with insufficient evidence that the package reflects its customers' preferences or the issues that affect its operating area; and • in particular, it does not include any resilience PCs despite the water resource challenges that the company faces. We have identified the following concerns with the evidence that the company's PC service levels are stretching because: • the evidence to support the proposed service level for leakage is insufficient; and • the company proposes a deterioration in asset health measured by the level of mains repairs in the 2020 – 2025 period due to the expected increase in active leakage control, but provides insufficient evidence to support the proposed level. We note that: • the company is proposing a target reduction for per capita consumption (PCC) with the biggest percentage reduction amongst the industry; and • we have no material concerns with the service levels of bespoke PCs. We have confidence in the evidence that its performance reporting structures are robust, ambitious and innovative because: • convincing evidence that it has processes in place to ensure that its PC and outcome delivery incentive (ODI) reporting will be robust; • it proposed to provide a customer-friendly monthly one-page community-level dashboard on water supply issues (the four PCs that customers say most concern them, including leakage); • it proposes to build on the approach taken in the 2015 – 2020 period to report performance regularly at community level; and • it proposes to provide data in a way that is accessible (eg most up-to-date digital methods).

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	D	Overall, we have substantial concerns over Affinity Water's package of ODIs. The plan falls significantly short of the required quality in many areas. In particular, we have substantial concerns over its approach to justify ODI rates, which are predominately based on secondary information. There are instances where the company selects values with insufficient evidence that these are impartial and without bias. We also consider that it provides insufficient evidence to justify a number of outperformance payments. We also have concerns over the level of collars and use of deadbands. The company provides insufficient evidence to support the types of ODIs it proposes because: • it has insufficient evidence of adequate customer engagement to support outperformance payments; and • It has insufficient evidence that outperformance will deliver benefits to customers in a number of instances. We have material concerns over the company's approach to setting ODI rates because: • The company does not demonstrate sufficient evidence of an appropriate approach to the triangulation of marginal benefits. In particular, the company has not commissioned any willingness to pay (WTP) research of its own, and uses values from the industry wide report. It has insufficient evidence of a robust approach to marginal benefit estimation or that triangulated values are representative of the company's customer base. • Tor low pressure incidents, the company provides insufficient evidence to justify the selection of two external values to formulate its marginal benefits, an approach that does not take into account lower alternative valuations that were also available. We have concerns over the evidence to support its use of deadbands caps and collars because: • there is limited robust evidence of customer engagement on use of caps and collars; • we have concerns regarding the level of collars for common PCs including leakage, mains bursts and water supply interruptions, as well as the company's approach to outperformance caps (both usage and non-usage); • we have a concern over the outperformance deadband applicable to water supply interruptions, which could reduce the company's incentive to achieve upper quartile performance; and • we have a concern about the level of the collar proposed for water quality compliance, which results in a very small gap between the deadband and collar, thereby significantly constraining the underperformance payments that can be accrued.

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	Overall, Affinity Water falls short of high quality with insufficient evidence that it applies an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company provides insufficient detail as to how its package will align the interests of shareholders and customers or that is has considered customer protection measures if ODI payments turn out to be larger than expected. It has insufficient evidence that it has engaged customers on its past asset health performance challenges. However, there are high quality elements within the plan, including sufficient evidence that it proposes to align the timing of ODIs with its service performance. The company does not meet our expectations for the size of the overall ODI package because: • The company does not provide specific details on how the package will increase management focus. Even though the large underperformance payments associated with the package should increase the focus of management and its shareholders to at least meet its PCs, there is little incentive for the company go beyond these. • There is lack of evidence of robust customer engagement in supporting the ODI package, as the main referenced report has not been submitted. We note that the ODI package is aligned with company challenges and the company's understanding of its customer priorities. The company does not meet our expectations for ODIs for asset health PCs because: • the CCG challenged the company's approach to asset health and was not satisfied with the responses; • the company has not demonstrated high quality customer engagement on asset health; and • the company has not demonstrated customer support for its outperformance payments We note that: • the company has demonstrated that it understands and has addressed one of its asset health past performance challenges, as it has an appropriate PC and ODI on low pressure; and • we consider that the nature and magnitude of the overall package of asset health ODIs, in terms of RoRE exposure (in absolute terms and as a proportion of total RoRE exposure), is sufficient to incentivise the company to meet its asset health challenges and protect customers. The company has not met our expectations for protecting customers against higher than expected ODI payments because: • the company provides insufficient evidence on its approach to bill smoothing; and • the company proposes a small number of caps to protect customers from strong outperformance. We note that the company has a relatively low ODI RoRE range which reduces the risk to customers. The company's overall approach to bring payments closer in time to the performance that generated these is in line with our expectations, as it has applied all of its financial ODIs as in-period.

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Securing long-term resilience	D	LR1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	C	Affinity Water presents a business plan that falls short of high quality and provides insufficient and unconvincing evidence of how the company has objectively assessed and prioritised the diverse range of risks and consequences of disruptions to its systems and services. While the company provides a detailed assessment of the resilience maturity of its systems now and in the future, the company has provided limited evidence of the kind of systems-based approach to resilience we expect inform a high quality plan, where interdependencies and interactions between internal and external systems would be included. The plan presents an assessment of risks before and after mitigation and future projections up to 2035; however, the company presents limited evidence of how and why the different risk scores are assigned and the RAG codes allocated, which determine the level of concern for each risk. There is also a lack of consistency in the categorisation of risks across the plan, which affects the robustness of the method used. It is also unclear if the maturity profile has informed the self-assessment of risks undertaken by the company and how the different assessments relate to each other. The plan provides a description of its systems and processes to identify and assess risks to resilience (including asset management and asset health issues), which appear appropriate as a framework and these are standardised and assured by third parties. The company also provides a deliverability risk assessment that identifies programmes at risk within the plan and proposes mitigations to ensure successful delivery. The plan takes account of and prioritises a wide range of risks to resilience, however, the company makes limited use of collaboration to identify and assess risks, and provides insufficient quality in its approach to assessing risks (e.g. lack of environmental valuation and quantitative analysis). In addition to this, there are important concerns regarding the company's customer engagement on resilience (confirmed in the CCG report), which lacks the depth and scope required for the proposed level of investment and, as a consequence, falls significantly short in providing clear messages and informing the plan. The company's assessment of financial resilience contains some elements of high quality, but it does not present the results of its own stress test scenarios. The Board confirms in its assurance statement that it has reviewed the financial resilience of the business and taken steps to satisfy itself that the business plan is financeable. The company has modelled the prescribed financial stress test scenarios and shows the impacts on its key financial ratios for the period from 2020 to 2025. The company makes reference to the results of its own stress tests which it says are equal to or more challenging than the prescribed tests and are used in its annual report, however, the results of these scenarios have not been set out in the plan. The company sets out that, even without mitigating action (adjusting investment profiles or restructuring debt), it would remain financially viable under all of the outcomes, measured against its debt covenant requirements. There is insufficient evidence to show that the company has considered risks beyond 2025.

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		LR2	How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?	D	Affinity Water presents a business plan that falls significantly short of high quality and provides insufficient and unconvincing evidence to objectively assess the full range of mitigation options and select the solutions that represent the best value for money over the long term. The plan proposed by the company includes a range of options, including soft infrastructure (i.e. catchment management and biodiversity measures) and behavioural change interventions. However, the plan relies on infrastructure reliability options (interconnectivity and the development of new resources) and demand management, with less emphasis on response and recovery measures. The plan lacks efficient options that account for multiple risks or future uncertainty; in this sense, the approach used by the company to develop options is limited in its treatment of uncertainty, given the challenges faced now and in the future (e.g. sustainability reductions, population growth). There are some examples of collaboration presented in the plan, with an emphasis on the promotion of water trading schemes and the development of regional water resources (Thames reservoir by 2037). On a more general note, there are concerns around the robustness of the company's water resources management plan and how this supports the company's resilience strategy. There are significant concerns around the way customers have been consulted about options to improve resilience, highlighted by the CCG (e.g. customer engagement has not informed the company's resilience strategy). While the company demonstrates some commitment and plans to reduce demand and this is reflected in some outcomes (e.g. PCC), there is insufficient improvement in three main PC that affect long-term and day-to-day resilience: leakage, the percentage of population at risk of severe restrictions, outage levels and mains bursts projected now and in the future. In this sense, there is a lack of alignment between the resilience challenges faced by the company (e.g. supply resilience) and the outcomes package proposed in the plan (e.g. levels of stretch and bespoke resilience PCs limited to low pressure and environmental innovation projects). In this sense, the company does not propose direct bespoke resilience PCs in the business plan. Additionally, the company shows some commitment to develop natural capital strategies as part of its Lee Catchment pilot and to continue to expand its catchment management programme, presenting a number of links to environmental obligations and government strategy; however, these are limited in scope and mostly reliant on positive statements rather than actual plans. There is insufficient evidence in some aspects of the company's business plan regarding its ability to demonstrate financial resilience in the long term. Whilst the company provides assurance that it should be able to meet its financing requirements for the period from 2020 to 2025 and comply with its debt covenants, it does not provide sufficient assurance that it will be able to achieve the stated reduction in gearing from around 78% to around 70%, in the context of its objective to maintain targeted Baa1/BBB+ credit ratings in the period from 2020 to 2025. It is not clear that the company has taken account of our illustrative mechanism for sharing financing outperformance for companies with actual gearing levels of 70% and above in its financial risk analysis. The company provides evidence of its risk mitigation and risk management arrangements. It sets out details of the risk management exercise facilitated by a third party which considered risk impacts and mitigation measures in respect of its investment programme. The company also sets out its cash and standby facilities and that its defined pension benefit scheme is in surplus on an accounting basis. The company's refinancing requirement in 2020-25 is only £14.2m and the company provides evidence on the spread of debt maturity dates in subsequent periods.
Controls, markets and Innovation	C	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	D	Affinity Water business plan is of substantial concern in terms of providing evidence of the company's capability to innovate. The plan falls significantly short of the required quality in this area and has little evidence to demonstrate that the company has a culture embedded in its systems, process and people to deliver results through innovation. The company provides little or no evidence that it actively identifies and sets out its business challenges for its employees and supply chain through e.g. Big Conversations' sessions, TapChat or Tap4Ideas; Tap4Ideas relies on existing staff to raise ideas which may not be innovative. There is no evidence that the company has an appetite for risk, a process that it follows to deal with the risk of failure or that it is prepared to learn from innovation failures. It provides little or no evidence to demonstrate that employees are rewarded or recognised for efforts and achievements that lead to generating or implementing innovative ideas. Even though the company has a reward and recognition framework in place, there is insufficient evidence that its focus is on innovation and is embedded in the appraisal process. While the company plans to have in place by 2020 an innovation portal (TapChat) and has implemented an Innovation Portal (Tap4Ideas) to internally crowdsource ideas for innovation and provide a structure to implement these, there is limited evidence to demonstrate that the company actively promotes and encourages staff at all levels to participate in innovation. The company also provides insufficient evidence that the company's vision is cohesive. While it plans to have in place by 2020 an innovation strategy, the company does not provide any further details about it. Given that an innovation strategy is not yet in place there is no evidence to demonstrate that senior executives, business partners and customers all have a clear understanding of the company's innovation goals and strategy to address innovation challenges.

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		CMI2	How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term?	D	Overall, Affinity Water's plan falls significantly short of high quality in relation to this test question. The company provides no significant evidence related to looking for lessons learned and innovation adopted from the business retail market and how it plans to adopt a similar approach in non-contestable markets. Although the company's proposals to manage residential voids are acceptable, there is significantly insufficient evidence regarding business voids, residential gap sites and business gap sites. Regarding the use of markets, catchment management and partnership working for delivery services related to water network-plus, elements of the plan are high quality, but there is generally limited evidence.
		CM3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?	D	Affinity Water's business plan falls significantly short of high quality on its strategy for a long-term resilient and sustainable water resources incorporating markets. Therefore, the plan is given an overall grade of D in this test question. The company provides limited evidence of use of markets for water resources. While the company states that it recognises the importance of trading and third-party collaboration to meet its supply-demand balance, the company has provided limited evidence to support delivery of their revised water resources strategy. On-demand side, the company has identified a financial incentive mechanism for retailers which has the potential of reducing non-household demand by 13Ml/d. This scheme is at early stages of development and is yet to marketed, hence further details is required in order to gauge the likely success of the scheme in gathering sufficient attention from retailers and result in the benefit of customers. Regarding the deployment of the future bilateral market, the company has not gone beyond providing the required business plan tables Wr6 and Wr7 and the quality of these data tables was poor. We have serious concerns relating to the deliverability of the and the optimisation of the proposed WRMP due to the lack of evidence. Furthermore, there is a lack of clarity over preferred large supply options where the business plan is based on joint development of the Upper thames reservoir, whereas the company's statement of response does not fully align. The company may not know what the best strategic option is at this stage, but we would expect to see a clear coordinated route to determining. This is not clearly apparent in the statement of response, other than general reference to continuing to work with WRSE, neighbouring companies and third parties. We expect this to be addressed in the revissed WRMP.
		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	N/A	
		CMI5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided?	B	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocation appears appropriate.

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		CMI6	To what extent has the company produced a company bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations?	B	Affinity Water provides a bid assessment framework (BAF) that reflects the key principles of transparency, proportionality and non-discrimination, and the best-practice recommendations. The framework sets out sufficient and convincing evidence how it has strived to adopt a non-discriminatory approach, applying the same standards to in-house bids as to third parties. It also details how it will protect commercially sensitive information. The proposed process is transparent, although in places the company provides relatively little detail now, instead committing to provide details when it issues ITTs, e.g. in relation to communication with bidders or the appeals process. The company identifies the need for proportionality as being critical and identifies ways that it might realise this goal – standardised procurement processes and the possibility of phasing evaluation processes to reduce the burden on bidders with no prospect of winning – but there is little specific guidance on what information parties will have to provide.
		CMI7	To what extent has the company clearly demonstrated that it has considered, whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	D	Affinity Water provides minimal evidence that it has considered DPC in its own business plan. It does not describe its approach to considering the relevance of DPC, so there is no evidence that the company has considered whether any of its schemes have met the cost threshold. The company has included a TMS scheme in its APP21 table, which has been identified as potentially being suitable for DPC. The SESRO is a TMS project that has been agreed could meet some of the company's need for more resources and it has been agreed that this could be a shared resource scheme under DPC. In summary, the company's submission is low quality showing little or no evidence of an assessment of its own plans for suitability for DPC.
Securing cost efficiency	C	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	C	We do not consider Affinity Water's wholesale costs to be efficient. The company's wholesale water costs are about 11% higher than our view of efficient costs. Its base costs are around 8% more than our baseline, and for enhancement costs where we have industry benchmarks such as metering and lead reduction, the company is more expensive than its peers. We have not made any leakage enhancement allowance because the company does not propose either upper quartile performance or a reduction greater than 15%. The company's non-leakage supply-demand balance unit costs are marginally less efficient than the industry benchmark. The company has provided limited evidence to justify the significant expenditure for its 'Supply 2040' programme so we are not allowing all these costs.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	N/A	
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	D	Affinity Water's residential retail costs are about 22% higher than our view of efficient costs.

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		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used are cost adjustments well evidenced, efficient and challenging?	D	Affinity Water submitted four cost adjustment claims. Three of these are not of high quality and one of them is of sufficient quality but we did not need to make an adjustment for it because our econometric model includes the parameter the company claims is increasing its costs.
Aligning risk and return	D	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	C	Affinity Water's business plan falls short of high quality, as there is insufficient evidence that the business plan is based on a cost of capital which is supported by evidence on market conditions in 2020-25. The business plan is based on our 'early view' Appointee and wholesale cost of capital on a nominal basis, and net margins for household retail. However, the company's choice of a different long-term inflation assumption means that its CPIH and RPI-stripped cost of debt and equity is higher than our early view cost of capital (in the latter case by around 40 basis points). The evidence provided by the company in support of its different inflation assumptions is not convincing as it is based on the historic data; there is no compelling evidence to explain why this is preferable to forward projections. For example, the company's assessment of the wedge between RPI and CPIH is based on data since 2005; it does not incorporate consideration of the Office for National Statistics' 2010 change to inflation measurement which has led to a structurally higher (RPI-CPI) 'wedge' going forward. Further, the company has not taken account of other evidence on the forward-looking RPI/CPIH wedge (for example, taking account of the Office for Budgetary Responsibility's evidence on the long term wedge between RPI and CPI). The company sets out that the choice of assumption affects the timing of its return, not the quantum. However, there is insufficient evidence that the consequential impact of higher bills in 2020-25 is supported by customer preferences.
		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	D	Affinity Water's business plan falls significantly short of the required quality in respect of its RoRE analysis and assessment of associated risks. The company shows the impact of the P10/P90 range of outcomes and a 'more plausible P25/P75 option' but this is underpinned with little supporting evidence. The company has included a scenario on water trading but with no supporting evidence. A summary chart is produced with upsides and downsides shown but no percentages shown separately for each factor. The economic assumptions underpinning each scenario are either briefly or not discussed. Whilst there are references to AFW's risk management approach in its wider business plan, there is insufficient evidence on risk management and risk mitigation in the context of its RoRE assessment. There is insufficient evidence to demonstrate why it is appropriate to assume that totex outcomes should be asymetrically skewed to the downside, or to support the wide range of potential outcomes on revenue risk. AFW has proposed two possible uncertainty mechanisms. These relate to a possible sustainability reduction in its Brett region and metaldehyde treatment costs. Whilst potential costs have been referred to in the business plan, possible impacts have not been considered in its RoRE assessment in App 26. There is also insufficient evidence to demonstrate that the sustainability reduction should be included as an uncertainty mechanism for 2020-25. For the proposed metaldehyde treatment uncertainty mechanism, further evidence is required to allow us to determine whether the mechanism is necessary and an item that will remain uncertain at the time of draft and final determinations – this proposal has not affected the overall score for this test.

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		RR3	Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence?	D	Overall, Affinity Water's business plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting some of the most material aspects of the assessment of financeability. Although the Board of the company has provided a clear statement that the company's business plan is financeable on both its actual and the notional capital structure, significantly more evidence is required to support this statement. There are three areas of major concern where the plan falls significantly short of high quality: • The financial ratios provided to support the board's assessment for the notional structure are not in line with the PR19 financial model and cannot be relied upon to support the assessment. The company states that it has used a financial model built by a third party to calculate the financial ratios but does not set out details of the calculations or a reconciliation to the PR19 financial model. • The business plan provides insufficient evidence to support the target credit ratings of Baa1 (Moody's) for the notional company structure and Baa1/BBB+ family credit rating for its actual structure and that the plan is consistent with maintaining the target credit ratings for the notional and actual structures. The company does not set out thresholds for the financial metrics that are consistent with the target credit rating and the adjusted interest coverage ratio appears weak on both the notional and actual company structure in the Ofwat financial model. • The company has provided insufficient evidence of the steps taken to assess financeability or to provide assurance over the assessment. The company's business plan is underpinned by the Ofwat early view of the cost of capital on a nominal basis. However, the company has used a different inflation assumption to our early view which has an impact on the real cost of capital and on the company's financial metrics. The company has not identified a financeability constraint on the notional or actual structure.
		RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	D	Overall, Affinity Water's business plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting the company's choice of PAYG and RCV run-off rates and no evidence that the resulting bill is supported by customer preferences. There are four areas of major concern where the plan falls significantly short of high quality. • The business plan does not set out the basis for setting PAYG rates or how the rates reflect the underlying forecast costs. The same PAYG rates are proposed for both water controls despite significantly different cost profiles. • There is insufficient evidence to support RCV run-off rates. There is no evidence to demonstrate how the chosen run-off rates reflect the economic reality of the underlying RCV or how the average asset lives of new assets have been determined. • It appears that the bill profile presented to customers, which includes the impact of the transition to CPIH, was different to the final bill profile in the plan. The bill profile in the customer engagement exercise was flat across all years of the price control, whereas the final bill profile presented in the plan shows an increase to 2023-24 before reducing in the final year and subsequently increasing again in 2025-26. The company sets out that bills increase by 2.07% overall or 0.41% per year which does not take account that bills increase materially higher than this during the period. The company has not demonstrated how the bill profile differs from one which assumes no transition to CPIH. • The CCG also raised concerns regarding its ability to review and challenge the plan including the final bill profile as the final bill proposal was presented only shortly before business plan submission and appeared to show the proposed bills for 2020/21 and 2024/25 only.

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Accounting for past delivery	C	PD1	How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?	B	Affinity Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall. There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal (within 0.05% of the 2019-20 PR14 allowed revenue). The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments. We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor consistency issues between the submitted tables and the submitted annual performance report data for residential retail and totex. Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and our independent checks of the reported ODI underperformance and outperformance payments are identical to those reported by the company. For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for seven of the eight PDs, land sales, residential retail, totex and wholesale revenue forecasting incentive mechanism there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.
		PD2	How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?	C	In the round we have some concerns with the evidence for deliverability for the 2020-25 plan, particularly for outcomes and customer complaints. There is good outcomes performance as the company has or is forecast to deliver 90% of its PDs with financial ODIs in 2015-20. However, the company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. The plan provides insufficient evidence that it includes of appropriate measures to deliver planned performance. For example, only for supply interruptions does the company present a clear plan for delivering improved performance. Although the proposed level of stretch in the plan is limited, there is insufficient evidence that the company understands and has learnt lessons from its performance means that we have some concerns with the evidence for deliverability of outcomes. The company is forecasting to perform broadly in line with cost allowances for 2015-20. The company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides sufficient evidence that the plan includes appropriate measures to improve performance. Taking into account the proposed level of stretch in the plan, we therefore do not have concerns with the evidence for deliverability of the planned costs. The company has good performance on major incidents. It had no major incidents. It had no prosecutions or enforcement actions from the EA or DWI. The company provided sufficient evidence it understands the drivers of its performance and has learnt lessons on incidents, such as identifying the need to improve data collection and alternative water distribution. The company provides sufficient evidence the company has measures in place to improve performance in relation to major incidents, such as improving real-time analytics and visualisation during incidents and offering the capability for vulnerable customers to nominate a third-party contact. We therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents. The company is not yet meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is falling. It has a below average number of complaints per 10,000 connections in 2017-18 and this is declining. The company provides insufficient evidence it understood the drivers of its performance and learned lessons. For example, while it reviews general customer service performance, it does not address complaints performance in sufficient detail. The plan includes measures to improve its performance, such as overhauling its digital channels and improving its data capabilities. However, the company's current performance provides insufficient confidence that customer complaints performance will improve in 2020-25. We therefore have some concerns with the evidence for deliverability of customer complaints handling performance.

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Securing confidence and assurance	C	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	C	Affinity Water's business plan falls short of providing sufficient and convincing evidence that its full Board provides comprehensive assurance to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable and that it has challenged management to ensure this is the case. High quality Board assurance statements include compliant statements as set out in the PR19 Final Methodology which, in general, are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. While the company's Board provides twelve compliant statements nearly all with supporting evidence, two statements are partially compliant and two are non-compliant. On business planning, the Board provides the four compliant statements as set out in the PR19 Final Methodology. For the assurance statements on the remaining topics, the Board provides eight compliant statements from the 12 requested. The Board provides partially compliant statements on affordability and; whether large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and the option proposed is the best one for customers. The Board provides non-compliant statements on whether the company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and how this has been incorporated into its plan; and whether the company's business plan has been informed by customers' views about managing resilience. For the assurance statements on business planning, we ask in the PR19 Final Methodology, that Boards demonstrate how they challenged management and satisfied themselves prior to making their statements. The company established a 'Regulatory Working Group [RWG] comprising board directors (including independent non-executive directors) and senior executives … to support the Board's oversight, scrutiny and challenge of this Plan' which is supported by a record of meetings of the Regulatory Working Group. The meeting records provide sufficient evidence that the Board had challenged and satisfied itself prior to making each of its compliant statements. For the remaining statements, Boards are asked to demonstrate how they satisfied themselves. For six of the eight compliant statements provided, the company provides details of Board and RWG meetings which satisfactorily cover the topics of the statements made. There is insufficient evidence of how the Board satisfied itself prior to making its statements the company's plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long term best interests and; that the risk mitigation and management plans it has in place are appropriate.
		CA2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?	C	Affinity Water's business plan falls short in providing sufficient and convincing evidence that its full Board has been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long-term. High quality assurance means that the Board provides a compliant statement, supported by suitable supporting evidence of how the Board satisfied itself. The Board's assurance statement advises that 'We are satisfied that this Business Plan will deliver operational, financial and corporate resilience over AMP7 and the long term through our governance and assurance processes, taking account of our track record of performance'. This is a suitable statement of assurance, however the company provides insufficient evidence of how the Board satisfied itself.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA3	To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?	B	Overall Affinity Water's business plan provides sufficient evidence that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of transparency and engagement on issues that matter to customers, such as its corporate and financial structures. The company's plan contains sufficient evidence that the company will commit to adopt the expectations out in the 'Putting the sector in balance' position statement: • The company proposes a base dividend yield of less than 5 %. • The company is geared above 70% and provisionally forecasts gearing above this threshold during the 2020-25 price control period. It confirms it will apply our default gearing benefit sharing mechanism in years where this is the case. • The company's proposals on executive pay are high quality. The Board assurance statement confirms that the Board has considered the revised executive remuneration policy which has been revised by its remuneration committee for 2020-25. The company is committed to be open and transparent with regard to its executive pay packages. It confirms it will produce a separate report from 2019 and review the policy every three years. The revised policy for 2020-25 is weighted 40% Financial, 40% Customer service and stakeholder commitment (e.g.CMEX, Leakage, Consumption, Water Quality) and 20% personal for annual bonuses. The Long Term Incentive Plan (LTIP) will be weighted 50% Customer service and commitment (similar measure to Annual Bonus), 40% Financial and 10% People and employee commitments. The company sets out provisions for stronger links to delivery for customers and provision for no bonus payments should key metrics not be met. The company states targets will be linked to stretching commitments in the AMP7 Business Plan. While the company has not clearly referenced that any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports, the company's business plan demonstrates high quality in the round, in respect of its proposals around performance related executive pay. • The company's proposals on dividend policy are high quality. The company provides sufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders over the period of the price control and demonstrates high quality in the round. The proposed dividend policy stated in the business plan refers to all of the required elements from the 'Putting the sector in balance' position paper. It provides sufficient and convincing evidence in all key areas on how the elements will be taken into account when determining dividends. The company makes a specific commitment to publishing dividend distributions in the Annual Performance Report, how these payments relate to the policy and identifying and explaining changes to this policy. Affinity Water did not put forward proposals for a bespoke voluntary benefit sharing mechanism, but commits to making voluntary contributions to social tariffs and hardship funds averaging £0.5m per year. We assess the company's proposal as being high quality in terms of voluntary sharing, when considering its size as a company. The Board provides a compliant statement of assurance that its plan will enable customers' trust and confidence through engagement on its corporate and financial structures. However, the company's business plan provides insufficient evidence of transparency on its corporate structure. The plan comments on changes to the company's financial structures but there is insufficient evidence of transparency on this matter.
		CA4	To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?	B	Affinity Water's business plan provides sufficient and convincing evidence that its full Board has provided comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes. The Board provides assurance that it will monitor delivery of its outcomes and PDs and advises how it will monitor delivery. The Board says that "We recognise it is essential that the information we report on our PDs is reliable and robust and, in the case of the common PDs, prepared on a consistent basis with other companies. Our Audit Committee will continue to take a leading role in assuring that this is the case" and "As a Board, we will monitor delivery of our PDs through our regular meetings and challenge management to ensure that our delivery plans are the best they can be. We will take ownership for reporting how well we are doing, building on the approach we have taken in AMP6 to report performance regularly at a community level."

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		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	Affinity Water falls short of sufficiently demonstrating a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans). There are elements of high quality in that the company sufficiently describes its data assurance, governance and audit processes within its business plan and adequately references interventions it has implemented as a result of the company's 'Targeted' status in the 2017 Company Monitoring Framework assessment. However, the plan falls short of high quality as we identify material inconsistencies between the data submitted in the company's Annual Performance Report and its business plan tables in the area of cost assessment. And in our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company meets expectations in 7 areas, it has minor concerns in 3 areas.
		CA6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?	D	Affinity Water's business plan falls significantly short of providing sufficient and convincing evidence that overall, its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. The plan falls significantly short of high quality as we identify material issues within our assessments of the data tables in the policy areas of cost assessment, risk and return, financial modelling and cross cutting themes (water resources). For example: • In cost assessment, there were material variances in one table which had not been prepared in accordance with our guidance and definitions; • In risk and return, the financial ratios included in one of the business plan tables were materially different and in some cases higher, and we were unable to verify how they had been calculated; • In financial modelling, the company's submitted financial model includes a material adjustment for 'Allowed revenue' which is not included in the data tables; and • In cross cutting themes (water resources), the company did not follow the definition of bilateral entry capacity and confuses it with bilateral trades.