July 2019

Trust in water

PR19 draft determinations

Affinity Water – Delivering outcomes for customers actions and interventions

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PR19 Draft Determinations: Affinity Water - Delivering outcomes for customers actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for 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.

Table 1 below sets out the required company level actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Table 2 below sets out the required performance commitment-specific actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

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 draft determinations: Glossary' for a key to 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.

Table 3 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination. Table 4 below sets out any company changes to performance commitments that do not result in an intervention.

Each further intervention that is not resulting from an action, and company changes to performance commitments not resulting in an intervention 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 draft determinations: Glossary' for a key to these acronyms. Intervention numbers are preceded with a 'C'. Company changes to performance commitments not resulting in an intervention are proceeded with a 'D'.

In Table 3 and Table 4, we also specify the performance commitment reference number provided by the company (the prefix 'PR19AFW_' denotes the company Affinity Water), the name of the performance commitment, and the action type (for example, stretch).

For all other documents related to the Affinity Water draft determination, please see the **draft determinations webpage**.

Table 1 – Affinity Water's response to required company level actions and interventions for draft determinations

Test area	Action ref	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
Delivering outcomes for customers	AFW.OC.A1	Performance commitment (PC) definition	Appendix 2 of the PR19 methodology states "Companies must propose bespoke PCs to address their own particular resilience challenges." Therefore, the company should include resilience as part of its overall package of bespoke PCs.	1 April 2019	The company proposes several new performance commitments relating to resilience including strategic resource development, cyber security and resilience and unplanned interruptions to supply over 12 hours.	No intervention required at a company level. The company has developed several new performance commitments relating to resilience. We assess each of these performance commitments separately in table 3 below. We consider that the overall action to include such performance commitments in its proposed package is addressed.	NA
	AFW.OC.A2	Performance commitment (PC) definition	The company should consider the selection of further bespoke asset health measures that reflect the unique challenges faced by Affinity Water. This should include but not be limited to the two customer contacts measures from the asset health long list. Where the company proposes additional PCs, it should provide evidence to support the selection of these PCs and customer engagement evidence to support any associated outperformance or underperformance payments.	1 April 2019	The company proposes two new asset health measures in response to this action: customer contacts for discolouration and properties experiencing longer or repeated instances of low pressure (DG2). The company has not included a 'taste and odour' performance commitment due to its understanding that it was wastewater related.	Intervention required. The company has included two new performance commitments relating to asset health. We assess each of these performance commitments separately in table 3 and table 4 below. We consider the company should consider adding an asset health measure on 'taste and odour' as it has misunderstood it to be associated with wastewater. We will then assess combined performance at our final determination.	We recommend the company consider a measure on taste and odour since it is not a wastewater measure
	AFW.OC.A3	ODI rates	The company should provide justification for discontinuing its PR14 Value for Money PC (R-A2: Value for money survey). If sufficient justification for discontinuing the PC cannot be provided, the company should continue its PR14 Value for Money PC.	1 April 2019	The company proposes to reinstate this performance commitment but intends to change the survey it conducts. The company states that the customer challenge group will be involved in the development of the performance commitment. It states it will develop a baseline measure in year one of the 2020-25 regulatory period.	Intervention required. Performance commitment levels are necessary for our draft determination. We are setting performance commitment levels for the company based on historic trends and the Consumer Council for Water's data as the company has not set a baseline or levels for this performance commitment.	We are intervening to set the following performance commitment levels: 2020-21: 70 2021-22: 71 2022-23: 73 2023-24: 74 2024-25: 75 Units: percentage (%)
	AFW.OC.A4	ODI rates	The company should reconsider the ODI rates proposed and provide further evidence, either from its own customer base or wider industry studies, to demonstrate that the marginal benefit estimates used are reflective of its customers' preferences and valuations, or conduct further engagement to	1 April 2019	The company proposes to revise its outcome delivery incentive rates for all common performance commitments to use industry averages. The company has also commissioned additional research which it submitted to us in tranches in May and June 2019. The company states that it does not have any	No intervention required at a company level. Where the company has submitted additional evidence to us in May and June 2019, we have, subject to our capacity, considered it prior to publication of our draft determination. This consideration is included in our responses to	NA

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			develop triangulated ODI rates that are based on a broader range of customer evidence. In cases of rejection or revisions to enhancement expenditure or a cost adjustment claim, the company should consider the implications, if any, for the associated level of the PC and ODI incentive rates proposed, and provide evidence to justify any changes to its business plan submission. In cases where a scheme will no longer be undertaken, the company should consider the removal of the associated scheme-specific PC. The company should provide further evidence to detail the estimation of forecast efficient marginal costs within its ODI rate calculations, in line with our PR19 Final Methodology. In particular, the company should provide evidence to demonstrate how these marginal cost estimates relate to the cost adjustment claims or enhancement expenditure proposed by the company.		instances where a scheme will no longer be undertaken and so the removal of an associated scheme-specific performance commitment is required. The company has provided evidence on its forecast efficient marginal costs, explaining how it has used capital and operational expenditure data to calculate the marginal costs used in setting its proposed outcome delivery incentives.	specific performance commitment actions in table 2. Additional evidence relating to environmental performance commitment outcome delivery incentives was not submitted until 18 June and so we have not been able to consider this evidence for our draft determination. Where we allow a cost adjustment claim at a level different to that proposed by the company due to a different view of efficient costs, we reflect this in our responses to individual performance commitment actions in table 2 or additional interventions in table 3. The company provides sufficient additional evidence on its marginal cost forecasts used in outcome delivery incentive calculations, and how these relate to cost adjustment or enhancement claims. Where we have particular concerns about outcome delivery incentive rates these are discussed in our response to the relevant performance commitment specific actions in table 2 or additional interventions in table 3.	
	AFW.OC.A5	Overall ODI package	The company should provide further explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers or it should revise its package to do so. The company should provide further evidence, such as its initial engagement and acceptability research, to confirm that the package is aligned with both customer and company priorities or it should revise its package to do so.	1 April 2019	The company proposes several revisions to its outcome delivery incentive package. It has conducted a more detailed analysis and increased its risk exposure. The company also describes how the revised package aligns with customer priorities.	No intervention required at a company level. The company is increasing the size of its outcome delivery incentive rates to provide stronger incentives to shareholders and management to deliver good performance, which we have assessed in our responses to individual performance commitment actions. The overall package, following our interventions, is aligned to customer preferences and places sufficient incentives on the company to meet and exceed its performance targets. The largest incentives are typically placed on the outcomes which customers value most highly, based on evidence submitted up to and including May 2019. Due to the timing of submission we have not considered evidence submitted on 18 June 2019 for the draft determination.	NA
	AFW.OC.A6	Asset health ODI package	The company should increase its asset health underperformance payments in order to protect customers from poor performance or provide	1 April 2019	The company proposes to increase its asset health outcome delivery incentive payments to £3.7 million per year, primarily due to the addition of two new performance commitments. It also proposes to increase the underperformance rates for mains	No intervention required at a company level. The company proposes several changes to its asset health performance commitments and associated outcome delivery incentives in response to this	NA

Test area	Action ref	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			convincing evidence to demonstrate that its current proposals are in the interests of its customers (over the long and short term). The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments. If it cannot do this, the company should remove the outperformance payments. The company should provide a clear list of what it considers to be its asset health PCs, and state its P10 underperformance payments and P90 outperformance payments for each of its asset health ODIs in £m and as a percentage of RoRE. In general underperformance payments should be higher than outperformance payments.		bursts and unplanned outage based on the industry average rates we provided at the Initial Assessment of Plans (IAP). The company proposes an outperformance payment for its new low pressure performance commitment. The company sets out what it considers to be its asset health performance commitments and sets out the outcome delivery incentive as a percentage return on regulatory equity (-0.64%).	action and to other performance commitment specific actions. This includes, for example, increasing its underperformance outcome delivery incentive rates. Where the company has not provided sufficient evidence to justify its revised approach, we are intervening. These interventions are discussed in the relevant actions for specific performance commitments.	
	AFW.OC.A7	Customer protection	The company should apply additional protections through an appropriate outperformance payment sharing mechanism and by implementing caps on individual PCs which could result in material outperformance payments. The payment sharing mechanism and caps to material ODIs should be applied in accordance with guidance provided in the **'Technical appendix 1: Delivering outcomes for customers'.**	1 April 2019	The company proposes to implement the requirements set out in Technical Appendix 1: Delivering outcomes for customers. As part of this, the company also highlights that it has implemented caps for three additional material performance commitments.	No intervention required at a company level. The company is proposing to adopt our customer protection measures as set out in our 'outcomes policy appendix' to make sure that customers are adequately protected. One part of this protection is implementing our expected caps on material performance commitments. Whilst our analysis suggests it should also be capping the abstraction reduction outcome delivery incentive, as we are intervening to remove the outperformance rate (AFW.OC.A42), this omission is redundant.	NA

Table 2 – Affinity Water's response to required performance commitment-specific actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
Delivering outcomes for customers	AFW.OC.A8	Stretch	**Supply interruptions greater than 3 hours:** For this common PC we expect all companies' service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	1 April 2019	The company proposes to adopt our performance commitment levels.	Intervention required. We have revised our view on performance commitment levels. We consider that 2024-25 levels are achievable but that the forecast upper quartile levels in earlier years do not appear to be achievable for this performance commitment. We are therefore introducing a glide path with a starting point of the upper quartile based on 2019-20 forecast data. We set out our rationale for setting performance commitment levels for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix,	We are intervening to set performance commitment levels that are consistent with the rest of the industry for supply interruptions. These levels are as follows: 2020-21 - 00:05:24 2021-22 - 00:04:48 2022-23 - 00:04:12 2023-24 - 00:03:36 2024-25 - 00:03:00 Units: minutes per property for year
	AFW.OC.A9	ODI rate	**Supply interruptions greater than 3 hours:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in **'Technical appendix 1: Delivering outcomes for customers'**) and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in supply interruptions. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company proposes to revise its outcome delivery incentive rates to the average proposed by companies in their business plans (after normalisation). The company has submitted additional primary willingness to pay research to support its revised rates.	No intervention required. The company is proposing rates within our reasonable range as set out in PR19 draft determinations: Delivering outcomes for customers policy appendix, and the new willingness to pay research submitted by the company demonstrates that these rates are consistent with its customers' preferences. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA
	AFW.OC.A10	Caps, collars, deadbands	**Supply interruptions greater than 3 hours:** The company should remove the proposed outperformance deadband and propose appropriate incentives that are supported by its customers. The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection.	1 April 2019	The company proposes to set underperformance deadbands at the level of its originally proposed performance commitment levels. It states this is to mitigate the transition risk from a different definition used during the 2015-20 regulatory period.	Intervention required We do not consider the company's rationale for being treated differently to the industry on deadbands for this performance commitment is well justified. We consider that deadbands reduce the incentive for companies to improve their performance. As noted above in	We are intervening to remove the deadbands for this performance commitment. We are intervening to set collars to the following values: 2020-21 = 00:08:06 2021-22 = 00:09:36 2022-23 = 00:11:06 2023-24 = 00:12:36

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			If the company decides to retain the deadband or the collar, it should provide convincing ODI-specific justifications for these decisions.		The company proposes to include a cap and a collar. The company proposes to set collars at a level which is 5 minutes above our proposed performance commitment levels. It argues its caps and collars protect customers from bill volatility. It argues that the level of the revised collar doubles its exposure through underperformance and provides an appropriate incentive. It also states that customers receive additional protection through the Guaranteed Standards of Service (GSS) which entitles customers who have been directly affected by supply interruptions to compensation. It states that it has applied the collar in accordance with our policy as set out at IAP to apply caps and collars to financially material performance commitments.	AFW.OC.A8 and the 'PR19 draft determinations: Delivering outcomes for customers policy appendix' we have introduced a glide path to mitigate transitional issues. We want to ensure companies are incentivised to mitigate the risk of service failure during severe weather. Customers experience the down and upside of the fluctuations in terms of their service, so it is adequate that the appropriate adjustments are made to bills. Companies are able to manage the financial consequences of outcome delivery incentives using other mechanisms, for example their in-period outcome delivery incentive determinations. The company also does not sufficiently explain how deadbands contribute to customer protection given the other mechanisms in place to support bill stability. We consider that caps and collars are appropriate as the performance commitment is financially material. The performance commitment is a material contributor to downside financial risk. When combined with the rest of the outcomes delivery incentive package, we consider the financial exposure to the company resulting from this performance commitment's underperformance would be disproportionate. As such, we are intervening to reduce the financial underperformance exposure by adjusting the underperformance collar, compared to our standard approach. We are doing this by revising the collar to 50% higher than the performance commitment level in 2020-21 and increasing the collar linearly to our p10 estimate of performance in year 2024-25. This is 4.7 times the committed performance level for 2024-25 which is one standard deviation above the mean of all adjusted company estimates of the p10 as a multiple of the committed performance level for this year. We also consider that caps are appropriate, but at different levels to those	2024-25 = 00:14:06 Units: hh:mm:ss We are intervening to set caps to the following values: 2020-21 = 00:04:00 2021-22 = 00:03:30 2022-23 = 00:03:00 2023-24 = 00:02:30 2024-25 = 00:02:00 Units: hh:mm:ss

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in PR19 draft determinations: Delivering outcomes for customers policy appendix.	
	AFW.OC.A11	Stretch	**Leakage:** The company should reconsider its proposed service levels and ensure that they are stretching and meet the upper quartile values or provide compelling evidence to demonstrate why this level cannot be achieved. Based on the forecast data provided by companies in the September 2018 business plan submission the upper quartile values are 75 litres/property/day and 5.42 m3/km of mains/day. The company should clearly set out the evidence and rationale for the revised targets.	1 April 2019	The company updates its 2018-19 leakage level as a result of its recent leakage performance. As performance is expressed as a three-year average, this update increases the 2019-20 initial performance level, from 167 to 179 megalitres per day (Ml/d). The company proposes revising its 2024-25 service level from 142.7 Ml/d to 138.2 Ml/d in its September 2018 and April 2019 revised business plan. This revision results in the additional leakage reduction of 3.5% above our expectation of 15% minimum reduction when expressed in annual terms or 22.6% when expressed in three-year average terms. The company explains this is fully aligned with the revised draft Water Resources Management Plan. The company refers to customers' preference for increased ambition in the 2020-25 period for reductions in leakage whilst protecting the environment. The company states that delivering leakage reduction improvements will also provide wider benefits for its customers through long-term demand management. The company refers to three supporting documents: a report prepared in collaboration with other companies which sets out the case for funding leakage reductions as enhancements, Technical Assurance Report and a draft water resources management plan assurance report, all of which were prepared by external consulting firms.	Intervention required. The company proposes more stretching performance commitment levels for all years between 2020-21 and 2024-25, increasing the percentage reduction from 14.7% to 22.6% by 2024-25 from the initial level in 2019-20 on three-year average basis. The company provides evidence that its revised service levels are sufficiently stretching – the company is proposing the second highest reduction. The company's long-term proposal will deliver double the annual reduction rate when compared with the National Infrastructure Commission's ambition to halve leakage by 2050. For the company, we are intervening to reduce the percentage reduction over the period from its proposed 23% to 20% which we consider stretching, based on comparative assessment with the sector and is funded by base service. We welcome the company's ambition to go beyond stretching levels for base service, and outperformance payments can be used to fund performance above the performance commitment level. We note the changes to the initial service levels. We will consider fixing the initial service levels in our assessment at final determinations. We set out our rationale for setting performance commitment levels for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix.	We are intervening to set the performance commitment percentage reduction levels to the following values: 2020-21 = 2.7% 2021-22 = 11.1% 2022-23 = 14.0% 2023-24 = 17.0% 2024-25 = 20.0% Units: percentage reduction in leakage from 2019-20 initial levels on a three-year average basis.

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	AFW.OC.A12	ODI type	**Leakage:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support.	1 April 2019	The company has provided some updated evidence and claims it has commissioned new willingness to pay research which it will use to test further customer support for the use of an outperformance payment. The company has also commissioned additional research which it submitted to us in tranches in May and June 2019.	No intervention required. The company has provided research since the April submission which is unclear since the company has not provided any of the background research or materials used. In its April submission we have seen some evidence of customer support for outperformance payments, albeit no specific evidence of customer support for the leakage outperformance payment. However, there is evidence that customers consider leakage to be a priority and are comfortable with the notion of upside incentives. Therefore, we are not intervening at this stage to remove outperformance payments on leakage but are adjusting the rates downwards in line with our PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA
	AFW.OC.A13	ODI rate	**Leakage:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in **'Technical appendix 1: Delivering outcomes for customers'**) and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in leakage. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for leakage and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company proposes to revise its outcome delivery incentive rates to the average proposed by companies in their business plans (after normalisation). The company has since submitted additional primary willingness to pay research which suggests a slightly lower rate but is continuing to propose the rate based on industry average.	Intervention required. The performance commitment as proposed is a material contributor to downside financial risk to the return on regulatory equity. When combined with the rest of the outcome delivery incentive package, we consider the financial exposure to the company resulting from this performance commitment's underperformance rate would be disproportionate. As such, we are intervening to reduce the financial underperformance exposure by adjusting the underperformance rate. We are doing this by setting the underperformance rate at the levels implied by the company's willingness to pay research submitted in May. We set the outperformance rate at the underperformance rate with an adjustment to reflect customer preferences and the uncertainty we have on customer support and the average ratio of underperformance to	We are intervening to reduce the underperformance and outperformance rates to -£0.171/ megalitres per day and £0.142 million megalitres per day respectively.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						outperformance suggested in companies' business plans. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix.	
	AFW.OC.A14	Caps, collars, deadbands	**Leakage:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, with the company explaining why these levels are appropriate and in customers' interests. The company should consider a more appropriate balance of risk by amending the cap and collar.	1 April 2019	The company proposes to include a cap and a collar. The company's new levels are set to apply at 0.5 Ml/d beyond the P10 and P90 levels It argues that collars should be applied symmetrically to caps. It states that it has applied the collar in accordance with our policy as set out at IAP to apply caps and collars to financially material performance commitments.	Intervention required. We consider that caps and collars are appropriate for this performance commitment because it is financially material. We consider that the proposed caps and collars were not set levels that would provide appropriate incentives for the company, while protecting customers from the risk of higher than anticipated impacts to bills. We consider that caps and collars are appropriate, but at different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in our PR19 draft determinations: Delivering outcomes for customers policy appendix.	We are intervening to set collars to the following values: 2020-21 = -5.0% 2021-22 = -5.0% 2022-23 = -5.0% 2023-24 = -5.0% 2024-25 = -5.0% Units: percentage reduction in leakage from initial levels on a three-years average basis. We are intervening to set caps to the following values: 2020-21 = 5.8% 2021-22 = 13.8% 2022-23 = 16.7% 2023-24 = 19.5% 2024-25 = 22.3% Units: percentage reduction in leakage from initial levels on a three-years average basis.
	AFW.OC.A15	ODI rate	**Per capita consumption:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in **'Technical appendix 1: Delivering outcomes for customers'**) and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in per capita consumption. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for per capita consumption and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company proposes to revise its outcome delivery incentive rates to the average proposed by the companies in their business plans (after normalisation).	No intervention required. The company is proposing rates at the average of the reasonable range, defined in our PR19 draft determinations: Delivering outcomes for customers policy appendix, which is appropriate in the absence of the company having undertaken primary research to evidence the valuations of its own customers. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA

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	AFW.OC.A16	Stretch	**Gaps & Voids:** The company should revise its target to include reductions in the first year of the plan and to target more stretching reductions. It should clearly set out the evidence and rationale for the revised target or if it retains the original targets it should set out why this is in the customers interests.	1 April 2019	The company proposes to reduce forecast voids as a percent of residential housing, including reductions in the first year. The company states that it is setting its performance commitment levels to the industry upper quartile performance for 2024-25.	No intervention required. The company is proposing sufficiently stretching improvement in their performance. The void performance commitment levels are the 5th highest (of all water companies) percentage reduction in voids across the period 2019-20 to 2024-25 and the 6th lowest overall percentage of voids as a proportion of their customers.	NA
	AFW.OC.A17	ODI type	**Gaps & Voids:** The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed in such a way that does not create perverse incentives with respect to the timely and accurate registration of void sites.	1 April 2019	The company provides an explanation of the bill reduction benefits to customers from reductions in false voids. The company also provides an explanation for how its customer billing system controls implicitly remove the perverse incentives we identified at IAP.	No intervention required. The company provides enough explanation of the benefits to customers from outperformance payments. The outperformance payments place strong incentives on the company to identify false voids, directly lowering bills for all other customers. The identification of a false void allows the company to issue a bill to the property. As the company's total wholesale revenue is fixed by the price control, this directly reduces bills for all other customers. The company provides sufficient evidence that the design of the outcome delivery incentive will not create perverse incentives to register voids as in-charge, explaining how its billing system will automatically reduce other customers' bills, and the impact of bad debt costs incurred as a result of incorrectly bringing a void site into charge.	NA
	AFW.OC.A18	ODI rate	**Gaps & Voids:** The company should outline the basis on which its ODI rates have been calculated and demonstrate that they do not exceed the reduction in bills that customers would experience from a reduction in void sites.	1 April 2019	The company outlines its calculation steps for the outcome delivery incentive rates and attempts to show how these are not greater than the reduction in bills a customer would experience from a reduction in void sites.	Intervention required. We agree with the formula the company has provided. However, the company proposes adding the sewage bill for Thames Water customers. However, this will result in some circumstances where both Thames Water and Affinity Water are rewarded for the same activity, as Thames Water currently has a financial outcome delivery incentive in relation to	We are intervening to adjust the outcome delivery incentive rate based on a wholesale bill of £169, marginal costs of £30, a cost sharing factor of 50%, and property numbers as provided by the company in its business plan. The new rates are: Underperformance: £2.248 million per 1% Outperformance: £1.233 million per 1%

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						voids identification. As such we are intervening to amend the calculation to exclude the wastewater component of the bill.	
	AFW.OC.A19	Stretch	**Risk of severe restrictions in a drought PC:** The company should explain its level of stretch and submit the intermediate calculation outputs as shown in the common definition guidance published on our website for the drought resilience metric.	1 April 2019	The company provides intermediate calculations for all zones and also provides aggregation to company level. The company shows a starting risk of 34% and zero risk throughout the 2020-25 period. The company explains there is zero risk between 2020-21 and 2023-24, assuming its ability to access drought orders and permits. In 2024-25 the Sundon conditioning works will be commissioned, to enable the company to have a 0% risk without relying on the use of drought orders and permits. The company states that its forecasts are all consistent with the revised draft water resources management plan.	Intervention required. Although the company provides intermediate calculations, some of the supply-demand components included in the calculations do not follow expected trends, such as demands and supplies staying constant throughout the 2020-25 period (indicating no impact of population growth or climate change). The performance commitment level (zero risk) is sufficiently stretching but may be unrealistic in year 1 given the starting non-zero risk. Furthermore, we would like companies to confirm that their performance commitment levels are reflective of their final water resources management plan position. We would like companies to confirm which programmes of work will impact their risk profile forecasts. We set out our rationale for setting performance commitment levels for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix.	This is a sector wide action. The company should provide a full set of intermediate calculations (at a zonal level), for the underlying the risk calculation (both baseline levels and performance commitment). The company should confirm that their performance commitment levels are reflective of their water resources management plan position. This should include the potential that they will have access to drought orders and permits The company should confirm which programmes of work will impact their risk profile forecasts.
	AFW.OC.A20	ODI rate	**Compliance Risk Index (CRI):** The company should provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for CRI and assess the appropriateness of the company's customer valuation evidence supporting its ODI. The company should explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs.	1 April 2019	The company proposes to revise its outcome delivery incentive rates to the average proposed by companies in their business plans (after normalisation). The company states that "We have not sought to obtain a willingness to pay value for this measure, as we believe that customers expect us to produce the highest quality possible, and therefore minimise the CRI score."	No intervention required. The company complies with our action to explain the formulation of its outcome delivery incentive rate and its customer valuation evidence. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments. The company does not provide additional information on willingness to pay values in its 24 May submission, stating that its	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						customers expect it to produce the highest quality possible and have set the benefits equal to the costs. The company has poor comparative performance but its underperformance payment rate is within the reasonable range set out in PR19 draft determinations: Delivering outcomes for customers policy appendix. We consider that it sufficiently protects customers. Its committed performance level is zero, the best possible. Therefore, we are not intervening on the outcome delivery incentive rate. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix.	
	AFW.OC.A21	Caps, collars, deadbands	**Compliance Risk Index (CRI):** We propose to intervene to ensure companies perform to the regulatory requirement of 100% compliance against drinking water standards. As set out in the methodology we noted a deadband may be appropriate. It is important that the range of underperformance to the collar is adequate to provide clear incentives for companies to deliver statutory requirements. The company should set a deadband at 1.50 and collar at 9.5 for 2020-25.	1 April 2019	The company proposes to retain its original deadband of 2.8 for this performance commitment consistent with industry average performance in 2017. The company argues that this is still a relatively new measure and the deadband is appropriate to mitigate the risk from the transition to a new measure. It also proposed an alternative collar of 6 which it considers balances the risk of underperformance payments and is in line with Ofwat guidance on materiality. The company proposes to include a cap and a collar. The company proposes an alternative collar of 6 which it considers provides enough incentive to protect customers against underperformance. It states that it has applied the collar in accordance with our policy as set out at IAP to apply caps and collars to financially material performance commitments.	Intervention required. We do not accept the company's proposed deadband based on average industry performance for 2017 when metaldehyde was still in use. The measure can fluctuate like all others, but existing performance data does not suggest volatility. Some variance may be due to the pesticide failures, which is expected to be reduced once the ban on the use of metaldehyde in place in the start of the 2020. We do however recognise that there may be a need to retain some flexibility for new metaldehyde legislation to be implemented therefore we have increased the deadband for the first two years of the 2020-25 period compared to our IAP proposals. A deadband set at the levels we are proposing allows for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures We consider that a collar is appropriate, but at different levels to those the company proposed based on our standard approach that is set out in our	We are intervening to set a standard deadband. The deadband profile for the Compliance Risk Index is: 2020-21 – 2.0 2021-22 – 2.0 2022-23 – 1.5 2023-24 – 1.5 2024-25 – 1.5 Unit = Compliance Risk Index Score We are intervening to set a standard collar. The collar profile for the Compliance Risk Index is 2020-21 – 9.5 2021-22 – 9.5 2022-23 – 9.5 2023-24 – 9.5 2024-25 – 9.5 Unit = Compliance Risk Index Score

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	AFW.OC.A22	Stretch	**Unplanned outage:** The company is required to provide fully audited 2018-19 performance data by 15 May 2019. This should take the form of an early APR submission, but only for Unplanned Outages. Board assured data can be provided with the main APR in July 2019, any changes will be taken into account for the Final Determination. Based on the latest performance and updated methodologies, the company should resubmit 2019-20 to 2024-25 forecast data in the 15 May 2019 submission. The company should also report its current and forecast company level peak week production capacity (PWPC) (Ml/d), the unplanned outage (Ml/d) and planned outage (Ml/d) in its commentary for the May submission.	15 May 2019	The company provides an audited 2018-19 performance data. This includes revised forecast data for 2019-20 to 2024-25 based on its latest performance and updated methodologies. In the commentary to the 15 May 2019 submission, the company reports current and forecast company level peak week production capacity, unplanned outage and planned outage. The company reports its unplanned outage as at 1.9% in 2018-19 and it forecasts on reducing it to 1.8% in 2024-25.	No intervention required The company provides the requested information and we consider it to be acceptable. Its performance commitment level for 2024-25 is close to the upper quartile level of all the performance commitment levels provided by companies and above the median we are expecting for this new measure. Therefore, we consider the performance commitment levels to be adequate. We set out our rationale for setting performance commitment levels for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA
	AFW.OC.A23	ODI rate	**Unplanned outage:** The company should explain and evidence how its proposed ODI rate for unplanned outages is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for unplanned outages and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company proposes to revise its outcome delivery incentive rates to the average proposed by companies in their business plans (after normalisation). The company has not provided additional information on willingness to pay values in its 24 May submission, stating that it is unable to ascertain a willingness to pay value for this measure.	No intervention required. The company has complied with our action to explain the formulation of its outcome delivery incentive rate, which is now based on the average proposed by companies in their business plans. The company's underperformance payment rate is higher than our reasonable range, as defined in our PR19 draft determinations: Delivering outcomes for customers policy appendix incentive to perform and hence we consider it will protect customers. The company has good comparative and forecast performance. Therefore, we are not intervening on the outcome delivery incentive rate. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	AFW.OC.A24	Stretch	**Number of burst mains:** The company should reconsider its proposed service levels and ensure that they are stretching. If the company continues to propose performance that is worse than its historical levels, we will expect compelling evidence that increased active leakage control impacts the total number of mains repairs using the company's own data, including the relationship between pro-active and reactive mains repairs. As a minimum the evidence should show the historical correlation between active leakage control, pro-active and reactive mains repairs. It should also show the impact of this relationship on forecast repair rates from the output of asset performance modelling. The company should also demonstrate the reduced (worse) performance levels are in the interests of customers and the assets.	1 April 2019	The company continues to propose its original performance commitment levels for this performance commitment, at a stable level of 185.8. The company states that we previously allowed an increase (Three Valleys Water in PR04) to performance of mains bursts to allow for enhanced leakage reduction. The company states that alleviating low pressure problems involves operating the network at higher pressures, which is a driver for higher mains bursts. The company also states that changes to network configurations to improve supply interruptions result in bursts.	Intervention required. The performance commitment levels proposed are equivalent to the company's worst historical performance in 7 years. In 2007 the company was required to produce an action plan to improve its mains bursts performance. At the time it provided evidence to show that the rise in mains bursts was due to additional proactive mains repairs for active leakage control (ALC). We allowed the company a temporary uplift in bursts of some 288 per year, which was removed once the active leakage controls programme was completed. However, since then, the company has replaced many hundreds of kilometres of its mains in the poorest condition. Hence, the future leakage benefit of repairing mains may not be as significant as it has been in the past. The company has referred to historical interventions but has not provided enough evidence to demonstrate a link to recent past performance. The company has not demonstrated how other more innovative solutions could be used to reduce leakage and mains repairs. We also consider it y possible and efficient to operate a calm network at higher pressure and not incur any increase in burst frequency. Any Increase in the need for repairs due to network reconfiguration could indicate either that the network is already in poor asset health, there is poor network knowledge or an inefficient operational regime. We are setting the performance commitment level for every year of the 2020-25 regulatory period based on the average of the three best recent years'	We are intervening to set the performance commitment levels to the following values. 2020-21 = 133.5 2021-22 = 133.5 2022-23 = 133.5 2023-24 = 133.5 2024-25 = 133.5 Units: Number of burst mains per 1,000km of pipes.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						actual performance (2012-13, 2013-14 and 2015-16). We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	AFW.OC.A25	ODI rate	**Number of burst mains:** The company should explain and evidence how its proposed ODI rate for mains bursts is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure (including leakage, supply interruptions and low pressure) and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in ODI rates for mains bursts and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company provides the additional information requested. The company states that it is using average industry outperformance and underperformance rates for all common performance commitments. The company has not provided additional information on willingness to pay values in its 24 May submission, stating that it is unable to ascertain a willingness to pay value for this measure.	Intervention required. The company complies with our action to explain the formulation of its outcome delivery incentive rate and its customer valuation evidence. Whilst the company's underperformance payment rate is within our reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix ', the company does not have good current or forecast performance. As a result, we are intervening to protect customers by increasing the underperformance rate, to ensure the company is appropriately incentivised to improve performance. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to increase the company's underperformance payment rate -£0.160 million, based on the upper bound of the reasonable range.
	AFW.OC.A26	Caps, collars, deadbands	**Number of burst mains:** The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing ODI-specific justification for this decision, and it should consider whether to change the level of the collar. The company's justification should refer to the proposed level of the collar, and it should explain why that particular level has been chosen and how this compensates customers adequately for poor service performance.	1 April 2019	The company proposes to include a cap and a collar. The company proposes to set the collar at 200 bursts per 1,000km, beyond its P10 performance scenario. It argues this will provide sufficient incentive to protect customers against underperformance as the company will incur the full underperformance incentive even if it experience P10 performance. It states that it has applied the collar in accordance with our policy as set out at IAP to apply caps and collars to financially material performance commitments.	Intervention required We consider that caps and collars are not appropriate for this performance commitment because it is not financially material, and the company provides insufficient evidence that it is in customers interest to have a collar. How we assess financially material and our standard approach to setting caps and collars is set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to remove collars for this performance commitment.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	AFW.OC.A27	Definition	**Properties experiencing longer or repeated instances of low pressure:** The company should either use the original DG2 and long list definition or provide further evidence to support its view that the updated definition is a better and more appropriate measure for the company, for wider stakeholders and for customers. In particular the company should refer to trend analysis which may be potentially more difficult and the poor current levels of performance in this measure which may cause issues with transparency.	1 April 2019	The company is proposing to include the low- pressure common performance commitment from our long list. It is also proposing to retain its own bespoke low- pressure performance commitment.	No intervention required. The company proposes to adopt the action.	NA
	AFW.OC.A28	Stretch	**Properties experiencing longer or repeated instances of low pressure:** The company should revise its targets so that the starting levels for the period 2020-25 are challenging, it should also revise its stretch level for the period 2020-25 as a whole based on this. We expect compelling evidence why the levels that the company proposes are in the best interest of customers particularly if it retains the less stretching targets.	1 April 2019	The company is proposing to make its performance commitment levels more stretching, and states that performance is improved by approximately 28% during the period 2019/20 - 2024/25.	No intervention required. The company is proposing improved performance commitment levels and now presents a 28% reduction during the period 2019-20 to 2024-25, which we consider to be sufficiently stretching and in the best interests of customers. We set out our rationale for setting performance commitment levels for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA
	AFW.OC.A29	ODI type	**Properties experiencing longer or repeated instances of low pressure:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support.	1 April 2019	The company is proposing to remove the financial outcome delivery incentive from the low pressure (non-DG2) performance commitment. The company also proposes to apply a financial outcome delivery incentive to the Low Pressure (DG2) performance commitment. The company evidence notes that 59% of customers felt that the company should reduce customer's bill if they failed to meet their 'low pressure' targets.	Intervention required. The company complies with the action by removing the financial outcome delivery incentive on the non-DG2 low pressure performance commitment. The company introduces a DG2 performance commitment with both out and under performance payments. However, the company provides insufficient evidence of customer support for its proposed outperformance payment outcome delivery incentive for low pressure DG2.	We are intervening to remove the outperformance payment for the low pressure DG2 measure.
	AFW.OC.A30	ODI rate	**Properties experiencing longer or repeated instances of low pressure:** The company should reconsider the proposed ODI rates and either provide evidence to demonstrate why the subset of values selected to formulate its marginal benefit and outperformance payment are appropriate, or	1 April 2019	The company is proposing to remove the financial outcome delivery incentive from the low pressure (non-DG2) performance commitment. It proposes a financial outcome delivery incentive on its new	Intervention required. The company's proposed underperformance payment rate for the DG2 low pressure performance commitment is below the reasonable range, as set out in our PR19 draft	We are intervening to increase the company's underperformance payment rate to -£0.4592 million, based on the average of the reasonable range, as set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			resubmit lower outperformance payments in line with customer evidence. If the company retains its outperformance payments it should pay regard to the principle that underperformance payments should be higher than outperformance payments.		performance commitment for low pressure (DG2). The company states that the outcome delivery rates it proposes are based on industry willingness to pay data, using the Accent and PJM Economics, "Comparative Review of PR19 WTP Results: Final Report", June 2018. The company conducted its own willingness to pay research post IAP and found that the resultant values were lower than the original research and so chose to retain the original values in its revised business plan.	determinations: Delivering outcomes for customers policy appendix. Its own willingness to pay research provided values that were far lower than the average values from the industry research. The industry research, however, only provides a collation of willingness to pay values prior to the submission of business plans, therefore we do not consider this to be a suitable source. The company also has some past performance issues for this low pressure (DG2), which are also highlighted by the customer challenge group, although we note the improved stretch on its service levels. We will therefore intervene to increase the outcome delivery incentive rate to the mean of the industry average, as defined by the reasonable range set out in our PR19 draft determinations: Delivering outcomes for customers policy appendix. The company sets out a new willingness to pay value for its underperformance rate in its 24 May submission. However, it chooses not to use it as it is much lower than the underperformance outcome delivery incentive rate selected. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	AFW.OC.A31	Caps, collars, deadbands	**Properties experiencing longer or repeated instances of low pressure:** The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing ODI-specific justification for this decision. This should include justification for the level at which the collar is set,	1 April 2019	The company proposes to split this performance commitment into two: Properties experiencing longer or repeated instances of low pressure (non-DG2), which is a non-financial measure Properties experiencing longer or repeated instances of low -	Intervention required. We consider that caps and collars are not appropriate for the properties at risk of receiving low pressure performance commitment because it is not financially material, and the company did not demonstrate the benefit to customers of the specific collar levels proposed for this specific performance commitment.	We are intervening to remove the collars for this performance commitment.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			with the company explaining how this compensates customers adequately for poor service performance.		pressure(DG2), which is a financial measure It proposed a collar for the financial measure.	How we assess financially material and our standard approach to setting caps and collars is set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	AFW.OC.A32	Definition	**Customers in vulnerable circumstances satisfied with our service PC:** The company should split this PC into 2 PCs, one for financial and one for non-financial support scheme support. This would support more transparent measurement and reporting than the current PC proposes. In addition, the company should provide additional evidence on the sample size used in the monthly survey to determine the PC target and provide external assurance that the survey will be conducted in line with social research best practice.	1 April 2019	The company proposes splitting the performance commitment into two performance commitments (one for financial and one for non-financial support). The company states that it has identified that the sample size of the priority services register group is currently low – around 2% of current SMS survey response volumes. However, with the planned growth of its priority services register, it anticipates the accumulative response rates across the surveys to be approximately 12% based on growth of the sample size and response rates over the 2020-2025 period. The company intends to increase the number of channels it uses to obtain satisfaction information from customers in vulnerable circumstances. In addition, the company is committing to conducting proactive periodic surveys of customers that have not been in contact with the company for 12 months. The company confirms the surveys will be conducted in line with best practice.	No intervention required. The company is splitting the performance commitment into two as we request. It provides sufficient additional evidence on the sample size and states that the survey will be conducted in line with best practice. The company has committed to conducting proactive periodic surveys of Priority Service Register customers that have not been in contact with the company for 12 months. We note this is welcomed by the customer challenge group.	NA
	AFW.OC.A33	Stretch	**Customers in vulnerable circumstances satisfied with our service PC:** The company should revise its performance level to at least meet current satisfaction levels.	1 April 2019	The company proposes a new target of 90%. It acknowledges that the 82% it previously proposed was too low. The company states that as it will be using more channels to obtain the information, it is not possible to know what the satisfaction levels will be as the current channels they use (SMS and online survey) give very different results.	No intervention required. The company has increased its proposed performance commitment level. Given the lack of evidence on satisfaction levels from the new channels, we consider that an 8% increase compared to the business plan proposal is sufficiently stretching.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	AFW.OC.A34	Definition	**Customers in vulnerable circumstances who found us easy to deal with PC:** The company should split this PC into 2 PCs, one for financial and one for non-financial support scheme support. This would support more transparent measurement and reporting than the current PC proposes. In addition, the company should provide additional evidence on the sample size used in the monthly survey to determine the PC target for and provide external assurance that the survey will be conducted in line with social research best practice.	1 April 2019	The company proposes splitting the performance commitment into two performance commitments (one for financial and one for non-financial support). The company states that it has identified that the sample size of the priority services register group is currently low – around 2% of current SMS survey response volumes. However, with the planned growth of its priority services register, it anticipates the accumulative response rates across the surveys to be approximately 12% based on growth of the sample size and response rates over the 2020-2025 period. The company intends to increase the number of channels it uses to obtain satisfaction information from customers in vulnerable circumstances. In addition, the company is committing to conducting proactive periodic surveys of customers that have not been in contact with the company for 12 months. The company confirms the surveys will be conducted in line with best practice.	No intervention required. The company is splitting the performance commitment into two as we request and provides sufficient additional evidence on the sample size and that the survey will be conducted in line with best practice. The company has committed to conducting proactive periodic surveys of Priority Service Register customers that have not been in contact with the company for 12 months. We note this is welcomed by the customer challenge group.	NA
	AFW.OC.A35	Stretch	**Customers in vulnerable circumstances who found us easy to deal with PC:** The company should revise its performance level for this PC so that it is more stretching and provide justification for the level of stretch as well.	1 April 2019	The company proposes a new target of 90%. It acknowledges that 82% originally set was too low. The company states that as it will be using more channels to obtain information, it is unknown what the satisfaction levels will be as the current channels they use (SMS and online survey) give very different results. The company identifies its original research only included responses from SMS survey responses, which average 91% satisfaction. The additional digital channel responses scored 68%. The performance commitment will use a target of 90% across all platforms utilised for surveys, which we consider to be stretching.	No intervention required. The company has increased its proposed performance commitment level. Given the lack of evidence on satisfaction levels from the new channels, we consider that an 8 percentage point increase compared to the business plan proposal is sufficiently stretching.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	AFW.OC.A36	Definition	**Environmental innovation - delivery of community projects PC:** The company should provide further evidence of customer support for this PC. In particular, the company should provide evidence that customers were presented with choice and context related to the design of the currently proposed PC.	1 April 2019	The company describes the process which led to the creation of this performance commitment and the testing undertaken with different customer groups. The company sets out the different levels of funding for this performance commitment offered to customers. The company presented customers with three different levels of funding and activity to test their acceptability.	No intervention required. The company provides sufficient further information on the process by which it developed this performance commitment with its customers, including information showing that: - The performance commitment has customer support; - The performance commitment incentivises innovation which would not be achievable with existing funding; - The performance commitment incentivises activities with predominantly longer-term benefits that are unlikely to have a material impact on aggregate outcomes in the 2020-25 period; and - in the wider context of the water resources and consumption challenges that the company faces these activities are beneficial.	NA
	AFW.OC.A37	ODI type	**Environmental innovation - delivery of community projects PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. The company should demonstrate how this ODI will benefit customers. The company should also explain how it prevents double counting of benefits.	1 April 2019	The company presents customers with three different levels of funding and activity to test their acceptability. Customers support funding for the activity covered by this performance commitment. The company proposes to make the outcome delivery incentive type outperformance only, structuring the incentive to enable cost-recovery following successful delivery. The maximum funding available from completing all schemes within the scope of the proposed performance is consistent with the level of funding supported by customers. The company states that its approach will have no duplication and double counting of benefits across its water efficiency programme of work.	No intervention required. The company provides sufficient evidence of customer support for spending £2 million on these projects. There is a clear customer benefit from piloting new approaches to reducing consumption and demand management, where the results are highly uncertain. Whilst there is some risk of double counting between this performance commitment and the water efficiency programme of work, we consider this to be minimal due to the nature of the activities being undertaken. The costs the company is incurring in funding these projects are not captured in base costs or enhancement claims The company's proposal to only recover its efficient marginal costs for the projects it delivers is therefore appropriate. See Table 3 for our intervention regarding 'stretch' for this performance commitment.	NA
	AFW.OC.A38	ODI rate	**Environmental innovation - delivery of community projects PC:** The company should provide further evidence to justify that the	1 April 2019	NA	NA	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			underperformance payment reflects the overall allowance for the schemes specified.		The company has proposed removing the underperformance rate in response to AFW.OC.A37 and so this action is no longer relevant.		
	AFW.OC.A39	Stretch	**River restoration PC:** The company should revise this PC to show that the profile of work is stretching.	1 April 2019	The company is not proposing to revise the performance commitment levels. The company provides historical context for the level of stretch proposed. This shows that the number of projects they intend to deliver in 2020-25 is more than double than that delivered during the 2015-2020 period. Through the period 2014-15 to 2019-20 they will deliver 16 projects whereas during the period 2019-20 – 2024-25 they propose to deliver 36.	No intervention required. The company provides sufficient evidence to show that the performance commitment level is stretching, including comparison to historical performance levels. The performance commitment levels being proposed are those agreed with the Environment Agency as part of the water industry national environment programme. The company's proposed performance commitment levels do not include any Amber schemes, the Environment Agency's categorisation for schemes which may not be included in the final list of water industry national environment programme schemes.	NA
	AFW.OC.A40	ODI type	**River restoration PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. The company should demonstrate how this ODI will benefit customers.	1 April 2019	The company continues to propose outperformance payments for early delivery for this performance commitment. It describes its intended approach to the delivery of this performance commitment, including for how it intends to prioritise schemes. The company describes the positive feedback they have received from customers and stakeholders on their work during the 2015-20 regulatory period on river restoration. The company also presents evidence that around 50% of its customers are willing to accept higher bills for exceeding its river restoration target.	Intervention required. The company does not provide sufficient evidence of customer support. There is some evidence that around 50% of customers are willing to accept higher bills for exceeding the river restoration target, which we do not consider to be sufficient evidence for the proposition that customers support outperformance payments for the early delivery of schemes in this performance commitment. There is also no evidence presented on the benefits to customers from outperformance payments. The evidence of customer support relates primarily to the performance commitment not to an outcome delivery incentive. Affinity Water is required to deliver these schemes under the water industry national environment programme. We note that the company submitted new evidence related to this action on 18 June	We are intervening to remove outperformance payments for this performance commitment.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						2019. Due to the timing of submission we are not considering this new evidence as part of preparation for our draft determinations.	
	AFW.OC.A41	ODI rate	**River restoration PC:** The company should provide further evidence to justify the marginal benefits estimated from river restoration schemes, in particular that customers are willing to pay greater amounts for expedited scheme delivery and that this will deliver additional benefits to customers than otherwise would occur. It should also demonstrate that outperformance payments will not occur from normal re-profiling of schemes that could occur in the absence of an outperformance payment. The company should provide evidence to justify the 100-year time period used to estimate the environmental benefits delivered, in forming valuations of a delay to the proposed scheme.	1 April 2019	The company provides further evidence to justify its approach. The company describes its usage of the Environment Agency's valuation tool to calculate the marginal benefit. It also describes the results of its willingness to pay research. The company is proposing an outperformance cap to protect customers from any re-profiling of schemes that results from routine operational practices. The company provides a consultancy report on the appropriateness of using the Environment Agency's valuation tool.	No intervention required. The company provides a clear explanation of its methodology, which is consistent with that used by the Environment Agency in developing the upcoming water industry national environment programme for 2020-25. The company provides suitable evidence comparing the results from applying its methodology to willingness to pay valuations. As such, we are not intervening to amend the underperformance rate. As we are intervening to remove the outperformance rate (AFW.OC.A40), we have not assessed the outperformance cap.	NA
	AFW.OC.A42	ODI type	**Abstraction reduction**: The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. The company should demonstrate how this ODI will provide benefits that customers value.	1 April 2019	The company continues to propose outperformance payments for this performance commitment. It describes its intended approach to the delivery of this performance commitment, including for prioritisation of schemes. They describe the positive feedback they have received from customers and stakeholders on their work during the 2015-20 regulatory period on river restoration. The company also presents evidence that around 50% of customers are willing to accept higher bills for exceeding their river restoration target.	Intervention required. The company does not provide sufficient evidence of customer support. There is some evidence that around 50% of customers are willing to accept higher bills for exceeding the abstraction reduction target, which we do not consider to be sufficient evidence for the proposition that customers support outperformance payments for this performance commitment. There is also no evidence presented on the benefits to customers from outperformance payments. The evidence of customer support relates primarily to the performance commitment not to an outcome delivery incentive. Affinity Water is required to deliver these schemes under the water industry national environment programme.	We are intervening to remove the outperformance rate.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						We note that the company submitted new evidence related to this action on 18 June 2019. Due to the timing of submission we are not considering this new evidence as part of preparation for our draft determinations.	
	AFW.OC.A43	ODI rate	**Abstraction reduction**: Should the company propose to keep outperformance payments on this ODI then the company should set out and justify the timescales over which marginal benefits have been calculated for this PC. In addition to this the company should also provide further evidence to justify the marginal benefits estimated from the expedited abstraction reduction covered by this PC, in particular that customers are willing to pay greater amounts for this expedited delivery.	1 April 2019	The company provides further evidence to justify its approach. The company describes its usage of the Environment Agency's valuation tool to calculate the marginal benefit. It also describes the results of its willingness to pay research. The company is proposing an outperformance cap to protect customers from any re-profiling of schemes that results from routine operational practices. The company provides a consultancy report on the appropriateness of using the Environment Agency's valuation tool.	No intervention required. The company provides a clear explanation of its methodology, which is consistent with that used by the Environment Agency in developing the upcoming water industry national environment programme for 2020-25. The company provides suitable evidence comparing the results from applying its methodology to willingness to pay valuations. As we are intervening to remove the outperformance incentive (AFW.OC.A43), we have not assessed the outperformance rate.	NA
	AFW.OC.A44	Definition	**Number of sources operating under the Abstraction Incentive Mechanism:** The company should provide further evidence that the grouping of sites into sources is the best option in terms of customer and environmental benefit. If the company cannot provide this evidence the definition should be amended to be based on the number of sites.	1 April 2019	The company is not proposing to amend the definition. It provides its reasoning for its grouping, in particular: -Due to aggregations on licences (often due to hydraulic connectivity) and strategic locations of pumping stations some sites effectively operate as one site; -Ungrouping some sites could allow, for example, two sites which effectively operate as one to be substituted for one another resulting in a good abstraction incentive mechanism score whilst no overall net change in abstraction from the catchment is made; and - The historic baseline data is provided using these groupings.	No intervention required. The company provides a clear explanation of its reasoning for grouping of sites. The company expands on the evidence it previously provided, explaining the stakeholder engagement it has conducted and hydrological and licensing reasons behind grouping sources for this measure.	NA
	AFW.OC.A45	ODI type	**Number of sources operating under the Abstraction Incentive Mechanism:** The company should provide further evidence to justify the use of outperformance payments for this ODI and	1 April 2019	The company is revising its proposal to include an underperformance payment in this outcome delivery incentive. The company has also provided evidence	No intervention required.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			evidence of customer support for this approach. Alternatively, the company could consider the use of an underperformance payment in order to sufficiently incentivise this outcome.		that a clear majority of customers support a small increase in bills for exceeding targets on this performance commitment.	The company has included an underperformance rate as we requested. The company also provides sufficient evidence of customer support for outperformance payments and for the rates proposed. We note that the company submitted new evidence related to this action on 18 June 2019. Due to the timing of submission we are not considering this new evidence as part of preparation for our draft determinations.	
	AFW.OC.A46	Definition	**Mean Zonal Compliance (MZC):** The company should remove MZC. If the company doesn't do this is should provide further evidence that customers support the provision of two very similar measures. Also see action AFW.OC.A1 as we expect the company to select the two PCs from the asset health long list that measure water quality contacts as also are reported on the Discover Water website.	1 April 2019	The company has removed the performance commitment, stating that they instead will keep the measure as an internal key performance indicator.	No intervention required. The company has followed the action and removed the performance commitment "Mean Zonal Compliance".	NA
	AFW.OC.A47	Stretch	**Number of occupied properties not billed (Gap sites):** The company should reconsider its proposed percentage target for 2020-25. The company should clearly set out the evidence and rationale for the revised target.	1 April 2019	The company is not proposing to amend the performance commitment levels of 50 gap sites resolved each year. The company provides further evidence to justify its original position, stating that it is based on resolving its current caseload and expected new cases of suspected illegal connections by the end of the 2020-25 period.	No intervention required. The company has clarified that the proposed levels are based on the current caseload and its expectations of future new cases of suspected illegal connections. There is no comparable information on the existing gaps in other companies' supply zones, so comparative analysis is not possible. On this basis, we consider the level of stretch to be sufficient.	NA
	AFW.OC.A48	ODI type	**Number of occupied properties not billed (Gap sites):** The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed in such a way that does not create perverse incentives with respect to the timely and accurate identification of gap sites.	1 April 2019	The company is proposing to change this outcome delivery incentive to underperformance only.	No intervention required. The company is removing the outperformance component of the outcome delivery incentive. This removes the need to provide evidence to justify the use of an outperformance payment.	NA
	AFW.OC.A49	ODI type	**Number of occupied properties not billed (Gap sites):** The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed in	1 April 2019	NA	No intervention required.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			such a way that does not create perverse incentives with respect to the timely and accurate registration of void sites.		The company states this is a duplicate of AFW.OC.A17.	The company correctly identifies that this is a duplicate of AFW.OC.A17.	
Affordability and vulnerability	AFW.AV.A4	Affordability and vulnerability	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	The company states that it achieved British Standards Institution standard for inclusive services in February 2019. It therefore proposes that the performance commitment will target maintaining the accreditation throughout the price control period The company argues this performance commitment does not lend itself to a financial incentive as it is about an inclusive service. The company does not present evidence of customer support for the incentive type for this measure.	No intervention required. The definition of this performance commitment is appropriate and well evidenced. The company has already achieved accreditation, so its target to maintain accreditation throughout the period is appropriate. Whilst the company provides only minimal explicit justification for a non-financial incentive, it is not clear that customers would be willing to pay for outperformance or underperformance. There is no clear customer benefit from the inclusion of outperformance or underperformance payments. Overall, no intervention is required to set a financial incentive.	NA
	AFW.AV.A5	Affordability and vulnerability	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	It is unclear if Affinity Water adopts all three features of our common performance commitment. It introduces a non-financial performance commitment which commits it to reach 7.2% of households. However, although it commits to reviewing at least 90% of household data held on the Priority Service Register every 2 years, it is unclear if this forms part of the performance commitment or if this is a separate statement, not related to a performance commitment.	Intervention required. The company adopts two elements of the performance commitment. It is unclear if it adopts the data-checking element as part of the performance commitment.	We are intervening to ensure the company adopts all features of this common performance commitment. We are also amending the targets for this common performance commitment for all companies, splitting the current data checking target into two, separating attempted and actual contacts. More information on this common performance commitment can be found in 'Reporting guidance: Common performance commitment for the Priority Services Register'

Table 3 – Interventions not directly related to IAP actions

Intervention reference	Our assessment and rationale	Interventions
AFW.OC.C1 PR19AFW_W-B2 Environmental innovation - delivery of community projects Stretch	Intervention required. The company does not set the performance commitment level correctly in their data table to match their stated intention in the text. In its business plan, the company erroneously sets a non-zero performance commitment level. In order to recover the costs of delivery of each unit, the target level must be zero. Setting the performance commitment level to zero enables the company to recover its efficient costs through the outcome delivery incentive framework, up to a maximum of the eight projects named by the company over the 2020-2025 period.	We are intervening to set the performance commitment level to zero for each year. In the full performance commitment definition, we are specifying that only the eight projects originally listed are in scope of the performance commitment and eligible for cost-recovery through the outcome delivery incentive.
AFW.OC.C2 PR19AFW_W-B4 Abstraction reduction Definition	Intervention required. The company's proposed performance commitment levels do not take into account the risk of Amber schemes being removed from the water industry national environment programme. Given the uncertainty around the requirement to deliver schemes classified as "Amber", we have updated the performance commitment definition to only include schemes classified as "Green" by the Environment Agency as of the 1st April 2019. This avoids unnecessary complexity in the performance commitments and outcome delivery incentives framework, which could require several revisions through the 2020-25 period to align with changes in the water industry national programme.	We are intervening to set the definition to include only schemes specified as "Green" by the Environment Agency as of 1 April 2019. This may be updated prior the final determination to include the latest water industry national environment programme requirements.
AFW.OC.C3 PR19AFW_W-B4 Abstraction reduction Stretch	Intervention required. We are intervening to change the definition so that it only includes "Green" schemes. Consequently, the service level needs to change.	We are intervening to set the performance commitment levels as follows: 2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 27.33 Units: megalitres a day
AFW.OC.C4 PR19AFW_NEP01 Delivery of WINEP requirements Performance commitment addition	We are intervening to add a reputational performance commitment that measures whether the company has met all of its water industry national environment programme requirements in each reporting year. The performance commitment will use the latest water industry national environment programme from the Environment Agency at the end of the reporting year. This will allow the inclusion of any changes to the water industry national environment programme between now and the end of 2025.	We are intervening to add an additional reputational performance commitment that measures whether the company has met all of its water industry national environment programme requirements in each reporting year.
AFW.OC.C5 PR19AFW_W-N2 Customer contact for discolouration Stretch	Intervention required. The company proposes a performance commitment on customer contacts for discolouration, in response to an action. Consequently, we have reviewed the level of stretch proposed by the company. The 2020-25 profile shows no improvement on 2019-20, which is after forecast deterioration compared to 2018-19. We did not find any evidence supporting its	We are intervening to set the following performance commitment levels: 2020-21 = 0.23 2021-22 = 0.23 2022-23 = 0.23 2023-24 = 0.23 2024-25 = 0.23

Intervention reference	Our assessment and rationale	Interventions
	forecast performance and consider that company should continue to maintain at least its improved forecast performance of 2018-19 for the period 2020-25. We are therefore intervening to propose performance level for this performance commitment. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	Units: customer contacts per 1,000 population. The values are based on maintaining company's improving performance at 2018-19.
AFW.OC.C6 PR19AFW_W-N2 Customer contact for discolouration Outcome delivery incentive rate	Intervention required. This is a newly proposed performance commitment by the company in its April business plan. The underperformance rate proposed by the company is the rate for its equivalent 2015-2020 outcome delivery incentive. The proposed rate is materially below the industry average and will not reflect any changes in marginal cost or customer preferences since 2014-15. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix.	We are intervening to set the underperformance rate by re-triangulating across the company's proposed rate and industry average (on a normalised basis). This results in an underperformance rate of -£2.044 million per contact per 1,000 population.
AFW.OC.C7 PR19AFW_W-N5 Strategic Resource Development Performance commitment removal	Intervention required. This is a newly proposed performance commitment by the company in its revised business plan. We do not consider the outcome delivery incentive framework to be the best mechanism to manage and incentivise this strategic resilience scheme. We are replacing this mechanism with an end of period reconciliation mechanism. We set out further details in the PR19 draft determinations: Strategic regional water resource solutions appendix.	We are intervening to remove this performance commitment.
AFW.OC.C8 PR19AFW_W-N1 Unplanned interruptions to supply over 12 hours Multiple interventions	Intervention required. This is a newly proposed performance commitment by the company in its revised Business plan. We have several concerns with the company's proposal. The company states it will retain this performance commitment from the previous period but there is no definition provided. For cross company consistency we will apply the same definition as Northumbrian Water. The company's rationale for a reputational outcome delivery incentive, that it would double count performance with PR19AFW_W-D1, is not compelling. It would be possible to underperform for supply interruptions greater than 12 hours and outperform supply interruptions greater than 3 hours. There is a clear customer benefit to directly incentivising the company to take action to improve its performance in longer supply interruptions, particularly given poor past performance. Affinity Water's own research shows customer support for underperformance payments when the company fails to meet its supply interruption targets.	We are intervening to use the definition provided by Northumbrian Water for their very similar performance commitment. We are intervening to change the outcome delivery incentive type to financial - outperformance and underperformance. We are setting the rates to the same level for the company as used in the 2015-20 regulatory period, adjusted for inflation. This results in an underperformance rate of £0.006456 million per property and an outperformance rate of £0.00116 million per property. We are intervening to set the collar to 775 for each year of the 2020-2025 period. We are intervening to set the ODI timing to in-period and revenue based.

Intervention reference	Our assessment and rationale	Interventions
	The company is financially incentivised during the 2015-20 regulatory period for supply interruptions greater than 12 hours and has performed poorly, repeatedly failing to meet its performance commitment levels. We note that the company's 2015-20 outcome delivery incentive rate (adjusted for inflation) is very similar to the (unscaled) rate implied by the company's willingness to pay research for the 2020-25 regulatory period. Without a collar, the performance commitment would be a material contributor to financial risk to the return on regulatory equity. When combined with the rest of the outcomes delivery incentive package, we consider the financial exposure to the company resulting from this performance commitment's underperformance rate would be disproportionate. As such, we are intervening to reduce the financial underperformance exposure by setting an underperformance collar.	
AFW.OC.C9 PR19AFW_W-D5a Properties experiencing longer or repeated instances of low pressure (non-DG2) Performance commitment name change	Intervention required. The company's performance commitment title does not reflect what it intends to measure. We are intervening to change it.	We are intervening to change the performance commitment title to 'Average time properties experience low pressure'.
AFW.OC.C10 PR19AFW_W-D5b Properties experiencing longer or repeated instances of low pressure (DG2) Performance commitment name change	Intervention required. The company's performance commitment title does not reflect what it intends to measure. We are intervening to change it.	We are intervening to change the performance commitment title to 'Properties at risk of receiving low pressure'.
AFW.OC.C11 PR19AFW_R-B1 Per capita consumption Caps and collars	Intervention required As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. However, we consider that the proposed collars were not set at levels that would provide appropriate incentives for the company as the underperformance payments would apply was too small to provide sufficient incentive. Our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix.'	We are intervening to set collars at the following levels 2020-21 = -8.1% 2021-22 = -8.1% 2022-23 = -8.1% 2023-24 = -8.1% 2024-25 = -8.1% Units: percentage reduction in per capita consumption from initial levels on a three-years average basis. We are intervening to set caps at the following levels 2020-21 = 3.8% 202-/22 = 6.9% 2022-23 = 9.3% 2023-24 = 11.9% 2024-25 = 14.5% Units: percentage reduction in per capita consumption from initial levels on a three-years average basis.

Intervention reference	Our assessment and rationale	Interventions
AFW.OC.C12 PR19AFW_W-B5 Number of sources operating under the Abstraction Incentive Mechanism Caps and collars	The company does not propose to include a cap and a collar. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. We consider that a cap and collar are necessary, because the performance commitment is financially material. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix '.	We are intervening to set caps at the following levels 2020-21 = -3,500 2021-22 = -3,500 2022-23 = -3,500 2023-24 = -3,500 2024-25 = -3,500 Units: Megalitres We are intervening to set collars at the following levels 2020-21 = 3,500 2021-22 = 3,500 2022-23 = 3,500 2023-24 = 3,500 2024-25 = 3,500 Units: Megalitres
AFW.OC.C13	The company does not propose to include a cap and a collar. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. We consider that a cap and collar are necessary, because the performance commitment is financially material. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix '.	We are intervening to set caps at the following levels 2020-21 = 14 2021-22 = 14 2022-23 = 14 2023-24 = 14 2024-25 = 14 Units: Project units

Table 4 – Company changes to performance commitments since IAP not resulting in interventions

Performance commitment reference	Company's response	Our assessment and rationale	Interventions
AFW.OC.D1 PR19AFW_W-D3 Unplanned outage Caps, collars and deadbands	The company removes its proposed deadband without an action from us.	No intervention required. This is in line with our general policy on deadbands see PR19 draft determinations: Delivering outcomes for customers policy appendix.	NA

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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