

December 2019

PR19 final determinations

**Affinity Water – Accounting for past
delivery final decisions**

PR19 final determinations: Affinity Water - Accounting for past delivery final decisions

In our [draft determinations](#), we published the ‘Accounting for past delivery actions and interventions’ document for each company. This set out the required and advised actions in our initial assessment of plans, a summary of the company’s response to the action, our assessment of the company’s response, and any further interventions we made as part of the draft determination. It also set out any further interventions that were not resulting from an action, which we made as part of the draft determination.

This document sets out the decisions on accounting for past delivery we are making for the final determination. Our decisions and interventions set out here are relative to the company’s 15 July 2019 past delivery submission (the ‘15 July 2019 submission’). They also take into account the representations made on all our draft determinations, responses from companies to our queries and additional information provided following further engagement with companies and other stakeholders as part of the final determination process.

Table 1 below sets out all the initial assessment of plans actions, the model the action relates to, a summary of the company’s response to the initial assessment of plans action, our assessment of the company’s response, any further interventions we made as part of the draft determination, a summary of the company’s updated submission and / or representation on the draft determination, our assessment of the company’s updated submission and / or representation and our final interventions for the final determination. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the final determination.

Our final determination and the final decisions set out in this document take account of Affinity Water’s actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 or in updated information submitted as part of its 30 August 2019 representation.

Each action and further intervention that is not resulting from an 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 ‘Glossary’ for a key to these acronyms). Actions whose numbers are preceded with an ‘A’ denote required actions from the initial assessment of plans. Actions whose numbers are preceded with a ‘B’ denote advised actions from the initial assessment of plans. Draft determination interventions not resulting from an initial assessment of plans action are preceded with a ‘C’ and new interventions for the final determination not related to a previous action are preceded with a ‘D.’ Both draft and final interventions are followed by a three digit code for the model the intervention is relevant to and a two digit reference for the interventions in that model. Where a company submits updated information as part of its 30 August 2019 representation and we reflect this in our final determination, we identify this intervention in our final determination models with the reference AFW.PD.REP. The past delivery model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
Residential retail SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011
South West Water aggregation model	012
Thames Water / Southern Water revenue profiling model	013
Business retail SIM	014
Southern Water enforcement revenue adjustments	015

For all other documents related to the Affinity Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for Affinity Water

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination	
All models	AFW.PD.A6	PR14 reconciliations: Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account of the actual 2018-19 performance.	No company action required for the draft determination.	No intervention required. We will review Affinity Water's responses to its actions and further information provided for all the PR14 reconciliation models before making any further interventions for the final determination.	In its 15 July 2019 submission, Affinity Water updates all of its PR14 reconciliations with actual performance for 2018-19 and provides evidence for its forecast performance in 2019-20.	Our final interventions take account of Affinity Water's actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 and in its 30 August 2019 representation.	N/A	
All models	AFW.PD.REP	<p>In its 30 August 2019 representation, Affinity Water submits the following updated past delivery business plan tables and reconciliation models to align with its 15 July 2019 submission, reflect our draft determination and support its representations:</p> <ul style="list-style-type: none"> • App5 (PR14 reconciliation performance commitments), App25 (PR14 reconciliation adjustments summary), WS13 (PR14 WRFIM), R9 (PR14 reconciliation of household revenue) and R10 (PR14 SIM); and • WRFIM and Revenue adjustments feeder models. <p>Unless otherwise stated, our final determination and any interventions we have made for the final determination as set out in the table below, take account of Affinity Water's latest updated information.</p>						
Land disposals	AFW.PD.A1	PR14 Land sales: Affinity Water is required to provide additional evidence to support the forecast trajectory in table App9.	Affinity Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A	
Outcomes	AFW.PD.A2a	PR14 Outcome delivery incentives: Affinity Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments. We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for:	No company action required for the draft determination.	No intervention required. We will review Affinity Water's updated data before making any interventions for the final determination.	In its 15 July 2019 submission, Affinity Water provides evidence for its updated forecast performance for 2019-20 in light of its actual performance in 2018-19 for all of its performance commitments. In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to the specific actions AFW.PD.A2a to AFW.PD.A2h.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A	

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Outcomes	AFW.PD.A2b	W-A2: Average water use	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2c	W-A3: Water available for use	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2d	W-B1: Compliance with water quality standards (mean zonal compliance)	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2e	W-B2: Customer contacts for discolouration	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2f	W-C2: Number of burst mains	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2g	W-A1: Leakage	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Outcomes	AFW.PD.A2h	W-C1: Unplanned interruptions to supply over 12 hours	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a	As AFW.PD.A2a
Residential retail	AFW.PD.A3a	PR14 Residential retail: Affinity Water is required to clarify what the correct number of unmetered water customers in 2016-2017 is.	Affinity Water responds to our action by confirming that the number of actual unmetered water customers in 2016-17 is 659,818. However, this action sought a	Intervention required. We issued a query to Affinity Water to clarify that we require confirmation of the correct number of reforecast unmetered water customers in 2016-17.	In its 15 July 2019 submission, Affinity Water reports inconsistent figures for reforecast unmetered water customers in 2016-17 between table R9 and its reconciliation model.	Intervention retained.	We are intervening to reinstate the value in the 15 July 2019 submitted reconciliation model for reforecast unmetered water customers in 2016-17 of 667,225 to replace the figure contained in

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
			clarification of the number of reforecast unmetered water customers in 2016-17 because of a difference in this number between the submitted model and table R9.	The company confirmed that the correct number of reforecast unmetered water customers in 2016-17 is held by the submitted reconciliation model. Therefore, our intervention is to reinstate the value contained in the submitted reconciliation model.	In its representation, Affinity Water reports the number of reforecast unmetered water customers in 2016-17 as 667,225 in response to our draft determination intervention.		the submitted table R9 of 667,255. Along with AFW.PD.C008.01 below, our intervention does not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at £1.282 million (2017-18 FYA CPIH deflated price base) based on Affinity Water's 15 July 2019 submission and 30 August 2019 representation.
Residential retail	AFW.PD.A3b	PR14 Residential retail: Affinity Water is required to clarify the justification for its table R9 2019-2020 forecast which departs from the previously observed trends.	Affinity Water provides evidence to support its forecasts by referring to details of its metering programme in 2019-20.	No intervention required. The company provides sufficient evidence to support its forecast.	In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	AFW.PD.C008.01	N/A	N/A	Intervention required. We are intervening to round Affinity Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.	In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	We are rounding to two decimal places, modification factor figures for 2015-16 to 2019-20 associated with the following lines in business plan table R9: <ul style="list-style-type: none"> • unmetered water-only customer; • unmetered wastewater-only customer; • unmetered water and wastewater customer; • metered water-only customer; • metered wastewater-only customer; and • metered water and wastewater customer.

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Residential retail	AFW.PD.C008.02	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to apply the appointee WACC as the discount rate to be used to provide a financing adjustment for the time value of money of the reward or penalty in line with the 'PR14 reconciliation rulebook'. This may be required if the materiality threshold for financing adjustment is exceeded.</p> <p>Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.</p>	<p>In its 15 July 2019 submission and representation, Affinity Water inputs a figure of 3.6% for the 'Materiality threshold for financing adjustment - Discount Rate.'</p>	<p>Intervention retained.</p>	<p>For Affinity Water we are including a figure of 3.85% for the 'Materiality threshold for financing adjustment - Discount Rate.'</p> <p>Our intervention does not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period because the materiality threshold is not exceeded.</p>
Residential retail service incentive mechanism (SIM)	AFW.PD.C009.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust Affinity Water's residential retail revenue as a result of its residential retail service incentive mechanism performance from 2015-16 to 2018-19.</p>	<p>In its representation, Affinity Water includes an updated revenue adjustment of - £12.482 million (2017-18 FYA CPIH deflated price base) that reflects forecast performance to the end of 2015-20 period.</p>	<p>Intervention retained.</p> <p>We are updating our analysis to take account of companies' finalised scores for 2018-19.</p>	<p>We are intervening to set the residential retail service incentive mechanism adjustment to - 8.18% of residential retail revenue, which is - £11.459 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this is in the 'Accounting for past delivery technical appendix'.</p>
Totex	AFW.PD.A4a	<p>PR14 Totex: Affinity Water is required to provide an explanation on why 2017-18 expenditure values differ in the annual performance report and the submitted business plan table WS15 making corrective changes as appropriate in its annual performance report data or business plan table WS15 data.</p>	<p>Affinity Water responds to this action in its 'AFW Accounting for Past Delivery Evidence Document' (P.8). It explains that its reported expenditure in its September business plan table WS15 was different to its annual performance report data due to a rounding error. This has been corrected in its April business plan submission.</p>	<p>No intervention required.</p> <p>The company provides a satisfactory response to this action.</p>	<p>In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific action.</p>	N/A	N/A

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Totex	AFW.PD.A4b	PR14 Totex: Affinity Water is required to provide a detailed and numerically supported explanation to accompany its forecasted performance for years 2018-19 and 2019-20.	Affinity Water responds to this action in its 'AFW Accounting for Past Delivery Evidence Document' (P.8) It states that it has increased leakage costs and higher supply chain management are some of the drivers of overspend during 2018-20.	No intervention required. The company provides a satisfactory response to this action.	In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	AFW.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, Affinity Water input its 'Water: Final menu choice' figure rounded to 1 decimal place.	Intervention required. Where companies did not change their position on the menu from that used in the PR14 final determination, we are ensuring the water and sewerage final menu choices reflect the full accuracy of these figures as calculated in the PR14 populated final determination models . (see 'Calculations' tab cell D68).	We are intervening to change the 'Water: Final menu choice' figure from 94.700 to 94.678.

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
Wholesale revenue forecasting incentive mechanism (WRFIM)	AFW.PD.A5	<p>PR14 Wholesale revenue forecasting incentive mechanism: Affinity Water is required to provide an explanation to support the table WS13 forecasted performance for years 2018-19 and 2019-20.</p>	<p>Affinity Water responds to this action.</p> <p>The company provides an explanation to support the forecasted performance for years 2018-19 and 2019-20 which are updated in the April submission and also includes a revenue claim.</p> <p>Affinity Watery makes a revenue claim in respect of higher revenue received relating to new connections than the PR14 revenue allowance. The company has adjusted the recovered revenue values in the wholesale revenue forecasting incentive mechanism model to neutralise the impact of the higher contributions revenue, removing the over recovery, which would otherwise have resulted in a negative wholesale revenue forecasting incentive mechanism adjustment.</p>	<p>Intervention required.</p> <p>We have raised four queries with Affinity Water to gather more information about its revenue claim, to enable us to understand why new connection volumes are so much higher than forecast and form a view as to whether it could have reasonably been expected to predict the increase and whether there was anything management could have done to lessen the impact.</p> <p>The wholesale revenue forecasting incentive mechanism was introduced at PR14 to incentivise companies to accurately forecast revenue (including income from developers), and given the impact on customers we apply a high bar in terms of the evidence we expect from companies in support of an adjustment.</p> <p>Affinity Water has been able to demonstrate that there was a significant increase in new connections to individual properties fed off a large supply (e.g. a block of flats) compared to its forecasts, but it has not yet provided</p> <ol style="list-style-type: none"> 1. sufficient explanation to support the level of its PR14 forecasts; 2. the reasons why these types of connections have increased so significantly from forecast and 3. an explanation of the process that the company went through to assess its forecasts at PR14 and how it took account of these types of connections in its assessment <p>We are rejecting the proportion of the claim that relates to infrastructure charges for 2018-20, as, under the new 'Charges scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of</p>	<p>In its representation, Affinity Water provides additional evidence to support its revenue claim and reduces the value of one element of the claim. The total revised the claim is for £16.558 million with a revised wholesale revenue forecasting incentive mechanism adjustment at the end of the 2015-20 period of + £9.980 million (2017-18 FYA CPIH deflated price base).</p> <p>Please refer to 'Affinity Water - Accounting for past delivery additional information' for a more detailed summary of the company's representation.</p>	<p>Intervention required.</p> <p>Please refer to 'Affinity Water - Accounting for past delivery additional information' for a detailed explanation of our assessment and rationale for the intervention we are including for the final determination.</p>	<p>We are including the amount of the revenue claim in respect of higher revenue from new connections covered by the Mayor of London housing zones and the help to buy scheme only. We are excluding the additional revenue claimed in relation to the remainder of the increase in new connections and infrastructure charges.</p> <p>Our intervention reduces the total wholesale revenue forecasting incentive mechanism adjustment at the end of the 2015-20 period from £12.792 million in Affinity Water's 15 July 2019 submission to £0.537 million (2017-18 FYA CPIH deflated price base).</p>

Model	Ref.	IAP action	Summary of company response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decision for the final determination
				<p>the Water Industry Act 1991', the company has the ability to smooth infrastructure charges over a five year period to recover its costs. This reduces the value of the claim from £24 million to £15.5 million.</p> <p>We are rejecting the remainder of the claim as we consider that Affinity Water has not yet provided sufficient explanation to support the claim or sufficient evidence to underpin its forecasts for 2019-20.</p> <p>We will review our assessment based on further evidence provided in the past delivery update in July 2019, including for outturn data for 2018-19.</p>			
Revenue adjustments	AFW.PD.C011.01	N/A	N/A	<p>Intervention required.</p> <p>We are standardising the discount factor used to profile revenue adjustments.</p> <p>Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers.</p> <p>We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in Affinity Water's choices for profiling revenue adjustments in 2020-25.</p>	<p>In its representation, Affinity Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	<p>Intervention required.</p> <p>We are intervening to reflect our updated view of the wholesale WACC.</p> <p>We are not intervening in Affinity Water's choices for profiling revenue adjustments in 2020-25.</p> <p>Where profiling selections have been made for controls with no revenue (Dummy control and/or Business retail) we have set these selections to '0'. This has no impact on the modelling outputs.</p>	<p>We are using our view of the wholesale WACC (2.92%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.</p>

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

December 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

