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PR19 final determinations

Affinity Water – Delivering outcomes for customers additional information appendix

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Unplanned interruptions to supply >12 hours

1 Introduction

Affinity Water proposes a bespoke performance commitment that measures unplanned interruptions to supply that last for longer than 12 hours. A similar measure was used as part of the 'serviceability' basket of measures that all companies reported to prior to 2015.

2 Our draft determinations

The company introduced this performance commitment in its April business plan but did not provide a clear definition.

The company proposed this as a reputational-only performance commitment as they considered it would double count performance with the common performance commitment supply interruptions metric (which measures interruptions greater than 3 hours), which has financial incentives attached to it.

At draft determination we intervened to set the definition consistent with the one Northumbrian Water provided in their business plan for their very similar performance commitment (based on number of properties suffering interruptions >12 hours per year).

We considered that there was only a very limited overlap with the common performance commitment (which measures average interruptions >3 hours per property per year). Our view was that only a significant interruption event would materially impact both measures and that these types of events do not occur very often. We considered that there was a clear customer benefit to the company to improve its performance in longer supply interruptions, particularly given poor past performance (it has performed poorly in this area from 2011-12 to 2017-18).

Consequently, we intervened to change the incentive type to annual in-period financial to align with other related performance commitments. We set the outcome delivery incentive rates to underperformance: -£0.006456m per property; outperformance: £0.00116m per property. We also set a collar to limit the financial exposure for the company from potential failure.

3 Stakeholder representations

The company accepts the draft determination definition and the performance commitment level, but proposes to change the ODI type back to a reputational-only incentive.

It states that the definition we applied at draft determination is overly onerous (if there are financial incentives) because of operational conditions in north London and South East England compared to Northumbrian Water's region. The company claims that it runs a higher risk in relation to interruptions over 12 hours than other companies, particularly companies that are more rural, due to its high urban population density and the density of strategic road and railway networks in its region. The company states that it cannot fully mitigate these risks.

It also states that the impact of introducing financial incentives is disproportionate, considering there are other performance commitments in this area (mains repairs and supply interruption >3 hours), and that as a result the company faces significant risks associated with a single aspect of service that can be beyond management control. The company also states that there is a direct overlap with the guaranteed standards of service scheme (GSS).

4 Our assessment and reasons

We consider that the evidence provided by the company is insufficient to demonstrate why applying the definition set at draft determinations would be onerous compared to Northumbrian Water. It does not quantify what the impact of the definition would be in the context of the regional specific issues, it also does not consider other factors such as the two other areas it operates in (which are outside of London).

We consider that the company provides evidence to show there is some potential incentive overlap with other performance commitments. We recognise that our draft determination placed significantly stronger incentives for unplanned interruptions >12 hours, relative to the 2015-20 period. This was partly because we applied ODI rates from a similar measure Affinity Water had in place for 2015-20 on to this new performance commitment. These rates were not calibrated to account for overlaps with the 2020-25 performance commitments, such as supply interruptions greater than 3 hours and mains repairs. The extent of the overlap is not known. We also

note that Northumbrian Water's outcome delivery incentive for this performance commitment takes into account overlaps with common performance commitments (through its willingness to pay research).

However, we do not consider the guaranteed standards of service scheme payments as a significant factor as they are currently only £20 after 12 hours without supply (or 48 hours if caused by a burst or leak to a 'strategic main'), and a further £10 for every additional 24 hours they do not have water. These are relatively small incentives compared to the performance commitment ODI rates.

In addition, Affinity Water's own research shows customer support for underperformance payments when the company fails to meet its supply interruption performance commitment levels.

Overall, we consider that there is insufficient evidence to change from a financial to reputational incentive as there is evidence that customers support a financial performance commitment and the overlaps in the incentives are not absolute. However, we consider that there is sufficient and convincing evidence that the ODI rate should be changed to address the overlaps with other performance commitment financial incentives.

5 Our final decisions

At final determination we retain the definition and financial incentive for this performance commitment. We set the underperformance and outperformance rate equal to the ODI rates proposed by Northumbrian Water as these have been calibrated to account for overlaps between unplanned interruptions greater than 3 hours and unplanned interruptions greater than 12 hours.

We change the underperformance and outperformance payment rates to -£0.00331m per property and £0.00331m per property.

We consider a standard outperformance cap and underperformance collar is appropriate. See 'Delivering outcomes for customers policy appendix' for additional detail on our approach. The company did not provide its own estimates for P10 and P90 performance levels. We have used the collar that we set at the draft determination for the P10 performance estimate and our estimate of P90 performance is 200 (number of properties subject to unplanned supply interruptions greater than 12 hours) in each year.

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

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