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IPD2022 Consultation Response

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Dear

Draft determination of Affinity Water's in-period outcome delivery incentives for 2021-22

We have reviewed the draft determination and noted the decisions on properties at risk of low pressure, compliance with leakage reporting guidance and tax. We comment on tax and request a change to our performance commitment levels for drought resilience, as below.

Tax

On tax, the draft in-period determination uses the marginal rate of tax, 19% as was also the case last year. We note that last year Ofwat said that 'if there is a material impact on customers or companies as a result of a difference between the marginal rate of tax that a company pays in the following charging year and our assumption, we **may** consider reconciling this at PR24.' To our minds, using the word 'may' creates uncertainty. We would prefer instead that this be 'will' to:

- increase certainty about reconciliation operations
- when the time comes, help us complete PR24 data tables and models relating to tax reconciliation with certainty about regulatory policy

Risk of Severe Restrictions in Drought

We wish to request a change to the Performance commitments levels set at PR19 in relation to the 'Severe restriction in a drought metric', to correct an error. We detected this error during assurance review work with our independent assurance provider, p9 of the assurance report¹ published on our website refers.

What the error is;

We have concluded that the basis on which the performance commitment levels were set at PR19 are not consistent with the reporting guidance "drought Resilience Metric -Risk of

¹ [Microsoft Word - Atkins 2021-22 APR Assurance Report v3.0 Final \(003\) \(affinitywater.co.uk\)](#)

Severe restrictions in a drought" (13 March 2018). This means that we have been reporting against performance commitment levels which do not reflect how the metric should be calculated and are not comparable.

Why it is an unambiguous error;

The guidance states:

"Baseline performance (start of period): This will be used as the initial performance level for PR19. This will be a single number representing the 25- year average of the long term supply-demand balance (the current level of risk forecast over 25 years, assuming no additional investment to improve the SDB). The baseline performance (single risk number) submitted as part of PR19 will exclude assumed delivery of future schemes and programmes identified as part of WRMP19 and PR19. In many cases, we would expect the SDB in a 1-in-200 year drought to be deteriorating over time as a result, for example, of climate change. The baseline performance figure should reflect this deterioration over the 25-year period."

In our final PR19 submission, we set performance commitment levels for the 2020-2025 period using the Supply- Demand Balance annual forecast figures, rather than the 25-year averages to calculate the expected future performance levels. Future schemes that we selected in the WRMP19 to manage supply and demand between 2020 and 2045 (25-year period) were also incorrectly included in the calculation and their expected benefits reported in future years. Using this approach, the PC level baseline reported as 0% at the start of the AMP period and during AMP7 the net movement of schemes and demand changes forecast in the WRMP kept the target at 0% for the remaining years.

This would not have been the case had we used the 25 year average and excluded future schemes from the target setting.

Why the error has only been identified at this point;

Following review by our external auditor it we identified that when the targets were set during PR19, the basis for setting the baseline performance was not applied using the same criteria as specified within the guidance. This means that our targets as reported in the FD are at odds with the calculation method prescribed.

We reported this discrepancy in our APR 21 "Commentary on non-financial metrics". To comply and accurately report in line with the metric specification, we are reporting our performance against the common guidance definition and not as per the target setting. This means however that our performance is not in line with how the performance commitments were set and are therefore not comparable. The current targets can never be achieved within the AMP as they are not consistent with the reporting methodology.

What correction the company considers is necessary to rectify the error

We are requesting a revision to the Performance commitment levels as reported in the FD to the following targets

Performance	Units	2020-21	2021-22	2022-23	2023-24	2024-25
PC Levels set at PR19	%	0.0	0.0	0.0	0.0	0.0
Revised PC Levels	%	63.9	60.6	51.9	36.6	26.0

Following review of the guidance, we have recalculated the targets on the same basis as the reporting guidance. The corrections made to the target setting to align with the common guidance definitions are as follows:

- Use of 25 year average in the metric calculation
- Exclusion of benefits from planned supply-side and demand-side schemes that have not been delivered

We have also needed to change the data sources used in PC setting as in the table below.

Element	Previous data source	Current data source
Outage	WRMP19 - Water Resources Planning Tables	Latest WRMP24 Outage Forecast
Target headroom	WRMP19 - Water Resources Planning Tables	Revised values from WRP Tables
Distribution input	EA Table (reporting year)	Water Resources Planning Tables – WRMP19 Or EA Table (reporting year)

How the company has engaged with its customers and other relevant organisations on the proposed correction.

As the error is the result of a technical miscalculation identified by our external auditors, we have not sought wider views of our Independent Challenge Group or customers. We do not think it would be appropriate to engage customers or stakeholders on this point as stakeholders would need a detailed understanding of the guidance and data sources to comprehend these revisions. The actual service that customers receive has not changed, it is a revision to align our commitment targets with the correct methodology.

The amendment of the targets however would bring us more fully into line with the reporting guidance and provide a more accurate reflection of our position against this performance commitment. Currently the PC levels and in year performance are not comparable. The change in PC levels would not alter our reported numbers in Years 1 and 2 of the AMP and we would not have achieved the revised targets in either of the years.

Yours sincerely



Director of Regulation and Strategy