

November 2023

# **Final determination of Affinity Water's in-period outcome delivery incentives for 2022-23**

## About this document

This document provides our final determination on the extent to which the price controls included in our PR19 final determinations, are to be adjusted to reflect Affinity Water's performance for the 2022-23 charging year, under [Part 3A of condition B](#) of the company's licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations).

The specific adjustments, and our reasons for these, are set out in this document and in our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#).

We also publish models related to our final determinations on our [website](#).

## Background

At the 2019 price review (PR19), companies made pledges to their customers and stakeholders about the service levels they would meet to make progress towards stated outcomes (performance commitments). Companies' performance commitments form a key part of the service package that they are expected to deliver. Affinity Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Affinity Water - Outcomes performance commitment appendix](#).<sup>1</sup>

Each performance commitment has an outcome delivery incentive (ODI) that provides either financial or reputational consequences for companies of outperforming or underperforming their performance commitments. Many of the financial ODIs are paid during the 2020-25 price control-period. The reason for this is to bring payments closer in time to when customers experience a given level of performance. The remaining incentives are paid at the end of the period.

ODIs act as an incentive for companies to deliver their committed levels of performance, returning funding to customers for foregone benefits if they deliver less than is expected. Companies that go beyond and deliver greater benefits than expected to customers and the environment can receive outperformance payments to incentivise them to keep up this outperformance.

Affinity Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We assessed the company's performance against its performance commitments and, in September 2023, consulted on our [draft](#)

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<sup>1</sup> We take account of performance commitments as set out in this appendix, adjusted, if relevant, in accordance with Annex 2 of the appendix. Annex 2 provides for changes and corrections to be made to performance commitment definitions during the 2020-25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

[determinations](#) for companies' in-period ODIs for 2022-23. We have carefully considered the [responses](#) we received relating to our draft determinations.

Our final determination sets out relevant adjustments to the company's price controls, for one or more future years. The results of our assessment for 2022-23 will affect Affinity Water's customers' bills in the 2024-25 Charging Year.

Further details regarding the responses we received, our final determinations and the adjustments that we have made are presented in sections 1 and 2, and in [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#).

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' ODI payments for usage of water per person (known as Per Capita Consumption) for the 2020-21 to 2023-24 charging years to the end of the 2020-25 period. We set out this decision and the reasons for it in this [decision document](#), which we published after having considered stakeholder responses to our July 2021 consultation.

## Executive summary

Having assessed Affinity Water's performance against its performance commitments in 2022-23, the ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – we are including a C-MeX underperformance payment of £1.060m and a D-MeX underperformance payment of £0.202m, based on the assessment of 2022-23 company performance; and
- interventions on the following performance commitments:
  - Leakage – we are intervening to set outperformance payments to nil for 2022-23 and to reverse the adjustment applied by the company in respect of 2020-21 and 2021-22.

See section 1 for the results of our assessment.

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# 1. Results of our assessment

## 1.1 Interventions and policy decisions

Table 1.1 below sets out our view of the payments due for performance commitments on which we have intervened compared to the values reported by Affinity Water.

**Table 1.1: Summary of interventions**

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Our final determination after interventions 2022-23 (£m)	Difference between company view and our final determination (£m)
Leakage	0.439	0.000	0.000	-0.439

In our final determination we are intervening on the following performance commitment(s):

### 1.1.1 Leakage

#### Our draft determination

In its 2022-23 annual performance report, Affinity Water reported a reduction of 15.8% against the performance commitment level of 14.0% and an outperformance payment of £0.439m. Additionally, the company restated its 2020-21 and 2021-22 reported performance and its 2019-20 baseline position as it continues to improve its compliance with the leakage and per capita consumption (PCC) methodologies.

Affinity Water identified that it had not achieved full compliance with the [PR19 common performance commitment definitions](#) and the [leakage reporting guidance](#). The company reported six main components as non-compliant (coverage, non-household night use, distribution input, measured consumption, unmeasured consumption, and water balance and MLE), as well as the water balance discrepancy assessed as 'Red' at 3.56%.

In the '[Expectations for monopoly company annual reporting](#)' (March 2023), we stated that we do not expect companies to include outperformance payments for performance commitments (such as leakage) where there are issues of material non-compliance. As a result, we deferred our decision and the outperformance payment of £0.439m in relation to 2022-23 leakage performance because the company is materially non-compliant with the performance commitment (PC) definition.

We also reversed the adjustment applied by the company in respect of 2020-21 and 2021-22 restatements. However, our view of the value of the adjustment of £0.112m (not adjusted for the time value of money) differed from the company's view of £0.128m.

In our draft determination, we said we expect all companies to be reporting full compliance with the leakage and PCC methodology. We said should any leakage or per capita consumption information be revised or restated in future, we will take account of adjustments we have made to the relevant price control in relation to the leakage performance commitment in making future determinations.

## Stakeholders' responses

In its draft determination [consultation response](#), the company stated that it noted the draft determination's deferral of the outperformance payment of £0.439m for 2022-23 leakage performance, for non-compliance with the PC definition. The company added that it had proposed the leakage outperformance payment as it had assessed the effect of its non-compliance with reporting methodology to be non-material.

## Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above. This is because Affinity Water has reported one element of leakage (Water Balance Gap) as red and 6 components of leakage as amber (representing 38% of all components).

Item 1.1.3 of our [Leakage PC definition](#) refers to our reporting guidance. Element 16e of the reporting guidance refers to the water balance gap. Our guidance states that a component should be reported as red where *“There are one or more red elements in the component, or the combined effect of amber elements is considered to produce a material impact.”*

This means the company should have reported the water balance and MLE component as red (not amber) due to the water balance gap element being reported as red due to a gap of 3.56%, which exceeds the threshold of 3%.

On page 25 of our [Reporting guidance - Leakage](#) we state that a component categorised as red is “Not compliant with the guidance and having a material impact on annual average leakage”.

Our final determination maintains our intervention from the draft determination, in accordance with our policy decision. Consequently, we have deferred the outperformance payment of £0.439m in relation to 2022-23 leakage performance because the company is materially non-compliant with the PC definition.

In our final determination we have also maintained our decision to reverse the adjustment applied by the company in respect of 2020-21 and 2021-22 restatements. Our view of the value of the adjustment of £0.112m (not adjusted for the time value of money) differs from the company's view of £0.128m (not adjusted for the time value of money).

We also make comments with respect to the properties at risk of low pressure and unplanned outage performance commitments:

### **1.1.2 Properties at risk of receiving low pressure**

#### **Our draft determination**

In its annual performance report, Affinity Water requested that we correct the company's 2021-22 performance for its properties at risk of receiving low pressure performance commitment from 48.204 to 155.466 properties per 10,000 connections. The company stated that this was to align with current methodologies.

In our draft determination, we accepted the company's proposal because it better aligned 2021-22 performance with performance reported in 2020-21 and 2022-23. We noted that the previously reported value was markedly different. We noted that this correction did not affect the company's reported performance or ODI payments as the company's restated 2021-22 performance remained beyond the standard underperformance collar and so payments were limited to the level of the collar.

We noted that Affinity Water's performance for this measure was significantly different to the other companies that report this measure. We said this may be because of the company's interpretation of the guidance. We said that whilst the company's performance was out of step with the sector, it should continue to report on a consistent basis for the remainder of the 2020-25 reporting period.

#### **Stakeholders' responses**

We did not receive any specific comments on this issue.

#### **Consideration of responses and final determination**

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above.

### **1.1.3 Unplanned Outage**

#### **Our draft determination**

We did not intervene or comment on this matter in our draft determination. We have engaged with Affinity Water through our query process to clarify its reported unplanned outage performance for the current and prior years.

## Stakeholders' responses

We sent an initial query in early September (AFW-APR-CA-006) asking Affinity Water to confirm and explain its reduction in its peak week production capacity (PWPC). In its response the company explained that it had identified two errors in its PWPC calculation which resulted in an over-statement of PWPC in 2020-21 and 2021-22 and an under-statement in 2022-23. It also explained that the remaining change in PWPC between 2021-22 and 2022-23 was a result of a change in PWPC values across 32 water treatment works (WTW). Consequently, we sent a further query to Affinity Water (AFW-APR-IP-004) during the draft determination consultation period to clarify its position on its reported unplanned outage performance commitment for 2020-21, 2021-22 and 2022-23.

In its response to our query, the company told us that its unplanned outage reported performance for 2020-21 and 2021-22 would be impacted by its restated PWPC values. The restated values changed 2020-21 reported performance from 1.65% to 1.84%, and 2021-22 reported performance from 1.19% to 1.33%. This does not affect the reported payments for this PC as the company has still outperformed against its performance commitment level (PCL) of 2.34% and this is an underperformance payment only PC.

The company confirmed that 2022-23 reported performance for unplanned outage remains that same at 2.09%.

## Consideration of responses and final determination

In light of the query responses received, our final determination on the company's performance payment for this performance commitment is, as stated in our draft determination, £0.000m. This is because Affinity Water's restatement does not change their reported payments for their unplanned outage performance commitment.

In our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#), we highlight matters identified by our review of company submissions for the unplanned outage performance commitment. In light of these matters, companies should review their approach to peak week production capacity (PWPC) against the common methodology in the PR19 reporting guidance to ensure that they are acting in compliance. Should Affinity Water's unplanned outage performance information be revised or restated in future, we expect the company to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported unplanned outage. We will take account of adjustments we have made to the relevant price control relating to the company's unplanned outage performance in making future determinations.



## 1.2 C-Mex and D-Mex

### Our draft determination

On 26 September 2023 we published the relative performance of all companies. Our draft determination included a C-MeX underperformance payment of £1.060m and a D-MeX underperformance payment of £0.202m, based on our assessment of 2022-23 company performance.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

### Stakeholders' responses

We did not receive any specific comments on this issue.

### Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payments for these performance commitments is as stated in our draft determination, above.

## 1.3 Payment deferrals and abatements

As set out in the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments. A deferral results in us delaying when the adjustment will be made to companies' revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment in the subsequent charging year.

Affinity Water did not request any payment deferrals. Based on our assessment of the company's performance, we are intervening to defer our decision and payments on its leakage performance commitment. We have accounted for this in the way described in section 1.1.1.

In our [Final Determination of Affinity Water's in-period outcome delivery incentives for 2021-22](#), we did not include any payment deferrals. However, Affinity Water included a £0.133m deferred outperformance payment (including adjustment for the time value of money) from the previous reconciliation year in their in-period adjustments model. The company stated this was to correct for previously overpaid penalties for its leakage performance in 2020-21 and 2021-22 as a result of it now restating its performance for these years. For modelling purposes, this should have been submitted as a bespoke adjustment not a deferral from previous years.

Based on our assessment of the company's leakage performance as described in section 1.1.1, which identifies that Affinity Water has not achieved full compliance with PR19 methodology, we do not consider that a bespoke adjustment is required. We are therefore intervening to remove the £0.133m outperformance payment that Affinity Water included. Our intervention means that this payment will not be applied to customer bills in 2024-25.

Affinity Water did not request any payment abatements. Based on our assessment of the company's performance, we do not consider any are required. As such, we do not apply any payment abatements in our final determination.

## 2. Impact of 2022-23 in-period ODI assessment on price controls

### 2.1 Our final determination

In this section we outline the financial impacts of our final determinations.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 2.1 below sets out the change between our draft and final determinations.

**Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25**

Price control	Draft determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	1.013	0.000	1.013
Water network plus	-8.286	0.000	-8.286
Residential retail	-0.815	0.000	-0.815
<b>Total</b>	<b>-8.088</b>	<b>0.000</b>	<b>-8.088</b>

**Table 2.2: Final determination on adjustment to 2024-25 price controls as a result of performance against ODIs**

This table sets out our final determination on the ODI payments to be applied to price controls in the 2024-25 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2022-23;
- our final determination on these payments after any interventions;
- our final determinations on 2022-23 deferrals and abatements;
- our final determination on C-MeX and D-MeX payments.

For further details, see section 1.

This final determination on the ODI payments to be applied for Affinity Water is also set out in the in-period adjustments model published on our website.

Final determination of Affinity Water's in-period outcome delivery incentives for 2022-23

Price control	Company's reported ODI payments (£m)	Ofwat FD ODI payments (£m)	ODI payments deferred from 2021-22 (£m)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Bespoke FD adjustments (£m)	C-MeX FD payments (£m)	D-MeX FD payments (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	1.013	1.013	0.000	0.000	0.000	0.000	0.000	0.000	1.013
Water network plus	-7.645	-8.084	0.000	0.000	0.000	0.000	0.000	-0.202	-8.286
Residential retail	0.245	0.245	0.000	0.000	0.000	0.000	-1.060	0.000	-0.815
<b>Total</b>	<b>-6.387</b>	<b>-6.826</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-1.060</b>	<b>-0.202</b>	<b>-8.088</b>

**Table 2.3: Breakdown of bespoke adjustments**

This table provides a breakdown of the bespoke adjustments included in our final determinations.

Price control	Prior year restatements (£m)	Time value of money adjustment on prior year total (£m)	Green economic recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2024-25 (£m)
Water resources	0.000	0.000	0.000	0.000
Water network plus	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
<b>Total</b>	0.000	0.000	0.000	0.000

**Table 2.4: Changes to price controls (final determinations)**

This table sets out the impact of our final determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#) for how we apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
<b>Water resources (K factors)</b>	Previous determination	10.58	14.77	11.15	-4.03
	Revised	10.58	14.77	11.15	-1.04
<b>Water network plus (K factors)</b>	Previous determination	1.40	-1.94	3.20	3.55
	Revised	1.40	-1.94	3.20	-1.63
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	27.875	26.496	27.849	30.044
	Revised	27.875	26.496	27.849	28.652

We have based Affinity Water's final determination on the data and commentary provided to us by Affinity Water. Should any of this information be revised or restated, we may take account of this, and previous price control adjustments relating to company performance, when making future determinations.

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