



Affinity Water Business Plan Presentation
Pro Forma
September 2018

Contents

Contents	1
1. Background	2
1.1 Company pen pic	2
1.2 List of attendees	2
2. Key business plan metrics	3
3. Appendices	11
Appendix 1: Company presentation attendee biographies	12
Appendix 2: Business plan executive summary	16
Appendix 3: CCG report executive summary	17
Appendix 4: Current operational performance	18
Appendix 5: PR19 proposed performance commitments	21
Appendix 6: Expenditure	24
Appendix 7: Trust, confidence and assurance	25

1. Background

1.1 Company pen pic

Affinity Water is a water only company located in the South East of England.

On 19 May 2017, Affinity Water Limited was sold by Infracapital and Morgan Stanley Infrastructure (MSI) to a consortium comprising Allianz Capital Partners on behalf of the Allianz Group, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and DIF, an independent and specialist fund management company. This change of ownership has brought fully committed long term investors to our business, each of which has a demonstrable track record in investing in critical social infrastructure.

1.2 List of attendees

The table below includes the names and job titles of attendees for the Business Plan presentation meeting.

Name	Job Title
Tony Cocker	Chairman (non-executive), Affinity Water
Pauline Walsh	Chief Executive Officer, Affinity Water
Chris Bolt	Independent Non-Executive, Affinity Water
Stuart Ledger	Chief Financial Officer, Affinity Water
Amanda Reynolds	Director of Customer Relations, Affinity Water
Christopher Offer	Director of Regulation and Corporate Affairs, Affinity Water
Marie Whaley	Interim Director of Asset Strategy, Affinity Water
Teresa Perchard	Customer Challenge Group Chair

2. Key business plan metrics

PR19 key themes

The approach we have taken to our Business Plan has been driven by all of the key themes for PR19 but especially by increased resilience and innovation. Our Plan continues to put us at the forefront of the industry in terms of water resources and supply resilience. Over AMP7 we are committing to significant reductions in leakage (15%), per capita consumption (PCC) (12%) and water abstraction (36 Mll/d) on top of the stretching commitments we have been delivering in AMP6. Our plan also includes proposals for resilience over the longer term including planning development of a new regional reservoir and conditioning treatment as part of our strategic plan to enable us to move water freely around our Central region (“Water 2040”) supporting improved drought resilience.

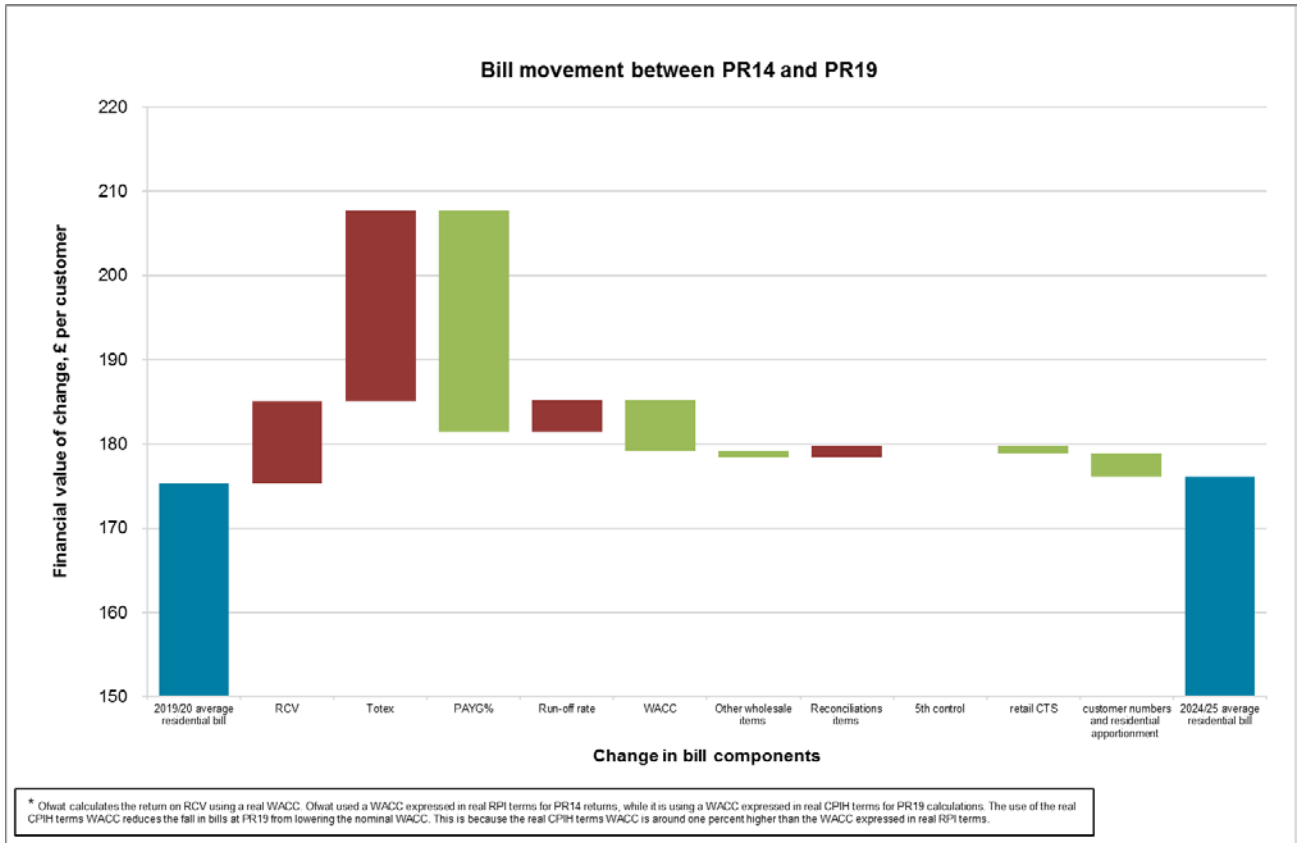
To ensure bills remain affordable, while delivering the resilience outlined above, our Plan includes over £200m of targeted efficiencies. This results in a modest increase in bills (2.07%) over AMP7 rising, before inflation, at a rate less than forecasts of customers’ real household. In preparation for the delivery of our Plan we have embraced innovation as part of a pronounced shift in business culture requiring investment in capacity and capability. Our Plan is packed with new approaches and techniques that we are adopting. For example, we are proposing an Environmental Innovation performance commitment to deliver pilot projects in our communities, enabling us to improve the knowledge and evidence of water use within our catchments. We are also targeting our long term strategic plan Water 2040, unlocking the potential for our supply area to act as transfer hub for the South East of England.

Our plan also ensures great customer service built on a fundamental understanding of customer expectations, developing a modern insight driven business offering inclusive and personalised services.

Table 2.1: Waterfall chart

This chart provides an overview of what is driving changes to bills between 2019-20 and 2024-25. The inputs to the waterfall chart are in price base 2017-18 year average CPIH deflated.

Inputs to bill movement chart	
Inputs	£ per customer
2019-20 Bill	175
Changes between 2019/20 and 2024/25	
Change in RCV	10
Change in RCV run-off	4
Change in WACC	(6)
Change in customer numbers	(3)
Change in totex	23
Change in PAYG rate	(26)
Change in other wholesale items	(1)
Change in retail CTS	(1)
Change in reconciliation items	1
2024-25 Bill	176



Explanation of movement in customers' bills

The table and chart above are based on Ofwat's Bill Waterfall Model, showing the drivers of the increase in the average bill of £175 in 2019/20, as determined at PR14, to £176 in 2024/25. An increase of 84p for AMP7.

The small increase is driven by higher totex to deliver our additional environmental obligations and improve resilience for the future, including our share of resilience for the South East. This is net of £200m of planned base totex and retail cost efficiencies. The increase has mainly been offset by lowering the PAYG% through sharing the cost of enhancement expenditure with customers over AMP7 and future AMPs and sharing our financeability with customers.

The lower WACC reduces bills, particularly offset by the move to CPIH, the company's AMP6 RCV growth and reconciling items.

In our Business Plan Submission we have considered the bill increase from our forecast average bill for 2019/20, instead of the PR14 determination, and a price base consistent with methods applied in Discover Water and data table WS18. For

Affinity Water this gives a higher bill increase mainly due the high volume of new connections which causes a WRFIM adjustment at the end of the current AMP.

Customer Expectations

Our approach to understanding our customers expectations used a six-phase programme that provided a structured, flexible framework that included end of phase triangulation reviews. We strengthened our targeted engagement to ensure we have listened to as many different types of customers and stakeholders as possible. We used a range of approaches, both qualitative and quantitative, to gather, test and value opinions and preferences. This focused activity complemented our wider ongoing dialogue with customers and stakeholders. Our iterative approach, with clear feedback loops, gave us confidence that emerging issues could be shared with our CCG and considered during the business planning process.

The overall programme has delivered representative findings from across our communities that have been used to inform our Plan. Throughout our engagement programme, we have found out what is important to customers and stakeholders. In particular:

- we confirmed that customers and stakeholders still support the high level long term Outcomes developed at PR14
- we developed a simplified list of PCs, to help to communicate our commitments to customers and stakeholders more clearly
- we used findings to confirm PC levels and ODIs reflecting strong customer and stakeholder support for reducing leakage, reducing abstraction, improving resilience and helping to reduce our impact on the environment
- we found that 82% of customers consider the final Plan to be acceptable and more than three-quarters find it acceptable for bills to be increased by an extra £3 - £5 a year and 84% for them to be increased by £1 - £2 a year to make sure there is enough water in the future
- 71% to 73% of customers would find it acceptable for £0.50 to be added and around £4 per year to be subtracted from bills for beating or failing to meet our targets.

Table 2.2: Key business plan metrics

Metric	PR14 (2019-20) 31 March 2020 estimate	PR19 (2024-25) 31 March 2025 estimate	2019-20 to 2024-25 % change (leakage and PCC)
Number of residential water only customers (000s)	1388.255	1456.784	
Number of residential wastewater only customers (000s)	0.000	0.000	
Number of residential water and wastewater customers (000s)	1388.255	1456.784	
Total leakage (MI per day) Based on PR19 definition, annual average	162.20	137.87	-15.00%
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	9.5	8.1	-15.0%
Leakage (litres per property per day) Based on PR19 definition, annual average	105.6	89.8	-15.0%
Per Capita Consumption (PCC) Based on PR19 definition, annual average	147.10	129.40	-12.03%
ODI RoRE range	-1.9% to 0.5%	-1.83% to 0.23%	
Appointee WACC (real RPI)	3.64%	2.69%	
Appointee WACC (real CPIH)	4.66%	3.44%	
Credit rating – actual financial structure	Baa1	Baa1	
Metric	PR14 (2015-2020 Average)	PR19 (2020-25 Average)	
Adjusted interest cover notional	3.03	2.40	
FFO net debt notional	0.07	0.13	
Metric	2017-18 Actual	PR19 (2020-25 Average)	
Actual gearing	79.67%	79.23%	
Adjusted interest cover actual	1.79	2.09	
FFO net debt actual	0.08	0.10	

Commitment to financial resilience

Our plan is financially resilient as assessed by applying the Ofwat stress and the more challenging company stress tests. We have prefunded half of the investment need for AMP7 and will only need to refinance £14m of debt. Our credit rating is 2 notches above investment grade. We have minimal liabilities and invested in the pension scheme to become self-sufficient funded.

We will maintain our financial resilience through continuing to monitor our financial performance over the short and longer term, maintaining headroom against our covenants, maintaining ratios consistent with an investment grade credit rating, meeting the stringent reporting requirements imposed by our bond programme, continue to hold appropriate insurance cover, maximise opportunities to fix costs such as electricity and continue and develop the transparency of our financial reporting. Our financial resilience has been independently assessed by Arup, they confirmed our resilience and its enhancement into AMP7.

Table 2.3: RCV

Control	1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)	30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)	% growth
Water resources RCV	125.236	178.341	42%
Water network Plus RCV	1,026.053	1,146.121	12%
Wastewater network Plus RCV	0.000	0.000	-
Bioresources RCV	0.000	0.000	-

Table 2.4: Dividends

Metric £m	2015-16	2016-17	2017-18		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	-31.964	-42.978	-50.532		
Outturn (nominal prices)	2020-21	2021-22	2022-23	2023-24	2024-25
Dividends (based on PR19 actual company structure)	-9.528	0.000	-5.054	-17.298	-15.321

Dividend Policy

Our policy is to pay a dividend commensurate with the long-term returns and performance of the business and allowing shareholders to earn an appropriate return on their investment, whilst not impairing longer term financeability and taking into account commitments to stakeholders and customers.

The appointed business base dividend is set in reference to the company's internal business plan, not exceeding a nominal 5% annual yield on equity over the AMP. Dividends can be increased or lowered from the base depending on the performance of the company.

An assessment is required to determine if the payment/part payment of the dividend reflects and/or would compromise the long-term commitments made to stakeholders, including the following areas: customer service; operational commitments; community commitment; and employees and the pension schemes.

The policy requires any dividend to be tested against legal, regulatory and financing requirements and restrictions. The policy requires dividends be reported fully and transparently.

3. Appendices

Appendix 1: Company presentation attendee biographies

Please include biographies for all company presentation attendees, including the Customer Challenge Group Chair (if attending).

Tony Cocker, Chairman



Tony Cocker was appointed to the Board as independent Chairman in January 2018. He worked for Eon until 2017, as CEO and chairman of the management board of Eon Energy Trading SE (in Dusseldorf) and Managing Director of the Energy Wholesale and Energy Trading divisions of Eon UK. He is a non-executive director of SSE, chair of the renewable energy generator company, Infinis and chair of the Energy Innovation Centre. He is Governor and Deputy Chairman of Warwick Independent Schools Foundation.

Pauline Walsh, Chief Executive Officer



Pauline Walsh was appointed as CEO in May 2018. She has a degree in engineering and an MBA from IMD, Switzerland. She joined AWL from National Grid where she was the Director responsible for building and maintaining the assets of the UK's high-pressure national gas transmission system (2017/18 RAV £6bn). Before joining National Grid, Pauline had been CEO of Fred. Olsen and held senior leadership roles at Havells-Sylvania (Operations and R&D), Phillips Electronics (Senior VP, corporate quality and business excellence) and the Ford Motor Company (Director, European Manufacturing Quality)

Chris Bolt, Independent Non-Executive



Chris Bolt joined the Board of AWL in 2015 and has extensive leadership experience in public policy, finance, competition and economic regulation in both the public and private sectors. This includes HMT, Ofwat (1989 to 1994), the Office of the Rail Regulator (1994 to 1999) and Transco plc. (1999 to 2002). He was the Arbiter for the London Underground PPP Agreements (2002 to 2011), and the first Chairman of the Office of Rail Regulation (2004 to 2009). Chris now provides independent regulatory advice to government, companies and regulators.

Stuart Ledger, Chief Financial Officer



Stuart joined the Board of AWL in 2017. In addition to finance, Stuart also leads the company's commercial and procurement activities. Stuart has a degree in economics and is a qualified accountant. He has held senior finance roles at EDF Energy, Wolseley UK and Thames Water, where he was Group Financial Controller from 2008 and CFO of Retail from 2013. This included leading significant transformation projects, disposals and directing a large part of the operation. Stuart has been a pension trustee.

Stuart's experience covers financing, cost control, transformation, pensions, IT services, mergers and acquisitions and operational, contract and commercial management.

Christopher Offer, Director of Regulation and Corporate Affairs



Chris joined AWL in 2005 after working for Ofgem, Caminus and Mott McDonald's Water Utilities Division. His experience includes strategy development and business planning, competition policy, cost benefit analysis, economic and financial modelling, regulatory reporting and compliance working for a range of regulated infrastructure utilities in the UK, China and mainland Europe. Chris leads AWL's Regulation and Corporate Affairs teams work on embedding our vision to be the leading community-focused water company, is a founding member of the Board's Community Sub-Committee and oversees the development of the company's regulatory and environmental strategy and key stakeholder relationships.

Amanda Reynolds, Director of Customer Relations



Amanda joined AWL in 2015 from Accenture's Customer Strategy Practice where she specialised in digital, multi-channel service and marketing strategy. Before Accenture she was Customer and Employee Experience Leader for Nationwide, which under her leadership was No 1 on the High Street for customer service for three consecutive years. Before Nationwide, she was Head of Service Transformation at Banco Santander where she managed customer service and technology transformation. Amanda has over 20 years' experience in customer service and technology transformation. She has a mix of people and change expertise and leads AWL's work in these important areas.



Marie Whaley, Director of Asset Strategy

Marie joined affinity Water in July 2018 as Interim Director of Asset Strategy on secondment from Arup. Marie has over 20 years experience in the water industry with the majority of her career at Northumbrian Water where she was Head of Strategy and Planning. She has specialist expertise in Strategic Asset Management and Infrastructure Planning. As a long standing Individual and Board member of the International Water Association she has invaluable first hand insight into the value of sharing knowledge and innovative thinking.

Teresa Perchard, Affinity Water CCG Chair



Teresa is a Board member of the Northern Ireland Authority for Utility Regulation, the Council for Licensed Conveyancers and Chair of the Fairbanking Foundation. Previous roles include Consumer Champion for CIGA, board member Smart Energy GB, the Personal Finance Society and the Trading Standards Institute's Consumer Code Approvals Board (CCAB), Vice Chair, of the Government's Fuel Poverty Advisory Group, member the HM Treasury Financial Inclusion Taskforce. Director of Policy and Advocacy at Citizens Advice for more than 13 years, and held senior policy roles with the Office of Rail Regulation, Office of Water Services and the National Consumer Council.

Appendix 2: Business plan executive summary

Business Plan Executive Summary enclosed as a separate document

Appendix 3: CCG report executive summary

CCG Executive Summary enclosed as a separate document

Appendix 4: Current operational performance

Table 4.1: PR14 Performance Commitments

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? ¹	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	W-A1	W-A1: Leakage	Yes	Yes	Yes	Yes	Yes		0.0000
2	W-A2	W-A2: Average water use	Yes	No	Yes	Yes	Yes		0.0000
3	W-A3	W-A3: Water available for use	Yes	Yes	Yes	Yes	Yes		0.0000
4	W-A4	W-A4: Sustainable abstraction reductions	Yes	Yes	Yes	Yes	Yes		1.2648
5	W-A5	W-A5: Abstraction incentive mechanism (AIM)	-	-	-		-		0.0000
6	W-B1	W-B1: Compliance with water quality standards (mean zonal compliance)	Yes	Yes	Yes	Yes	Yes		0.0000

¹ **PCL met?** - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

No.	ID <small>(eg W-A1)</small>	Performance commitment	2015-16 PCL met? ¹	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI <small>(outperformance payments or underperformance penalties)</small> <small>£m to 4 decimal places 2012-13 prices, net of tax</small>	
								15/16-17/18 Actual	18/19-19/20 Forecast
7	W-B2	W-B2: Customer contacts for discolouration	Yes	Yes	Yes	Yes	Yes		0.0000
8	W-C1	W-C1: Unplanned interruptions to supply over 12 hours	No	No	No	Yes	Yes		-4.9127
9	W-C2	W-C2: Number of burst mains	Yes	Yes	Yes	Yes	Yes		0.0000
10	W-C3	W-C3: Affected customers not notified of planned interruptions	No	No	No	Yes	Yes		0.0000
11	W-C4	W-C4: Planned work taking longer to complete than notified	Yes	Yes	Yes	Yes	Yes		
12	R-A2	R-A2: Value for money survey	-	-	-	-	-		
Total cumulative financial ODI									-3.6479

Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance

SIM Performance	2015-16	2016-17	2017-18
Total annual SIM score (out of 100)	77	79	81

Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

No.	Common performance commitment ²	ID	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
1	Water quality compliance – the DWI's Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	W-A1	3.2	0	Under	In-period	
2	Water supply interruptions – average supply interruption greater than 3 hours (minutes per property)	W-D1	00:06:00	00:03:00	Out & under	In-period	
3	Mains bursts – number of water mains bursts per 1,000 kilometres of total length of mains	W-D4	185.8	185.8	Under	In-period	

² This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different.

No.	Common performance commitment ²	ID	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
4	Unplanned outage – proportion of unplanned outage of the total company production capacity (%)	W-D3	3.5	3.5	Under	In-period	
5	Leakage – in MI/d reduction based on the new consistent definition of leakage developed by UKWIR.	W-B1	167.4	142.737	Out & under	In-period	-0.147329749
6	Per capita consumption – average amount of water used by each person that lives in a household property (litres per person per day), three-year average	R-B1	149.8	133	Out & under	In-period	-0.112149533
7	Risk of severe restrictions in a drought – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought	W-D2	46	41.1	NFI	N/A	
8	Treatment works compliance – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	N/A	N/A	N/A	N/A	N/A	
9	Internal sewer flooding – number of incidents per year (sewerage companies only)	N/A	N/A	N/A	N/A	N/A	

No.	Common performance commitment ²	ID	2019-20 forecast performance level <small>(where relevant)</small>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <small>(leakage and PCC PCs)</small>
10	Sewer collapses – number per 1,000 kilometres of sewer (sewerage companies only)	N/A	N/A	N/A	N/A	N/A	
11	Pollution incidents – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	N/A	N/A	N/A	N/A	N/A	
12	Risk of sewer flooding in a storm – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	N/A	N/A	N/A	N/A	N/A	

Appendix 6: Expenditure

Table 6.1: Totex

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	1063.100	1104.467
Water resources (£m)	2017-18 FYA (CPIH deflated)		261.815
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	0.000	0.000
Bio resources (£m)	2017-18 FYA (CPIH deflated)		0.000
Residential retail costs	Outturn (nominal prices)	131.500	153.857

Table 6.2: Direct Procurement for Customers (DPC) proposals

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)

Appendix 7: Trust, confidence and assurance

Affinity Water Limited's full Board has:

- (a) reviewed an independent maturity assessment of the company's systems and services from the perspective of operational, corporate and financial resilience. This confirms that, overall, the company is broadly in line with the industry average, with the following strengths and improvement areas;

Strengths	Improvement Areas
Governance and assurance processes	Developing long-term strategic direction in the face of resilience challenges
Risk management	Further enhancing community-focused approach to deliver further resilience for the company, customers and the environment
Business continuity planning	Embedding data strategy to inform short-term emergency decisions and strategic financial and investment planning for the longer term
Collaborative and long-term approach to water resources management planning	
Robust stress and scenario tests undertaken to assess financial viability	

- (b) endorsed Action Plans (see Chapter 9 of the Business Plan) setting out short-term actions (by 2020) and medium-term actions to enhance operational, corporate and financial resilience; and
- (c) reviewed the financial resilience of the business and appraised itself of actions planned for AMP6 and AMP7 in respect of: long term financial planning; ongoing financial reporting; maintaining credit rating; operating a robust and efficient financing strategy; long term financial viability; and the defined benefit pension scheme.

Affinity Water Limited's full Board confirms that it will:

- (d) keep under review progress made against the resilience action plans; and

- (e) ensure the maturity assessment is periodically updated and report scores and progress in the Annual Report.

Trust and Confidence

Affinity Water Limited's full Board is assured that the Plan will enable trust and confidence as:

- (a) the company expects to meet fully the revised Board leadership, transparency and governance principles by 2020;
- (b) we will continue to report performance at a company and community level;
- (c) information we publish (including information about our performance) will be assured as per our Assurance Plan;
- (d) it will monitor delivery of the Plan;
- (e) it has approved a dividend policy that links dividends to stretching delivery for customers;
- (f) the company's Executive Pay Policy links variable pay to stretching delivery for customers;
- (g) the Plan includes the default "benefit sharing mechanism" for companies geared above 70%;
- (h) the holding company structure is being simplified;
- (i) the company's Cayman Islands-incorporated financing subsidiary is being replaced with a UK issuer; and
- (j) the company is pursuing Fair Tax Mark accreditation.



Our Business Plan for 2020 - 2025
Executive Summary
September 2018

Executive Summary

Working for Customers and the Communities we serve

1. We are the UK's largest water-only company, supplying a population of more than 3.6 million people with more than 900 million litres of the highest quality water every day of the year. At the core of our business and our Plan for 2020 to 2025 is our vision to be the UK's leading community-focused water company. This reflects the importance of the way we work for and with customers and the communities we serve. We believe by understanding and responding to the needs of different communities, we can be accountable to them, at a local level, for how well we provide our services.
2. Our vision is underpinned by four high-level Outcomes, these are the things that really matter most to customers and remain unchanged from the last price review. These Outcomes set the strategic context for us and in the widest sense set out what we are here to do. The Outcomes we have pledged to deliver for all customers are:
 - Supplying high quality water, you can trust
 - Making sure you have enough water, while leaving more water in the environment
 - Providing a great service that you value
 - Minimising disruption to you and your community.
3. In turn, we will help customers understand the true value of water, support them to manage and reduce their consumption and so support the ongoing protection of the environment and future resilience of supplies.

What matters most to Customers and Stakeholders

4. We have undertaken an extensive and multi-phased programme of customer and stakeholder engagement to ensure our Plan focuses on the things that matter most to customers. We have engaged with over 15,300 customers and stakeholders and taken account of over 5 million day-to-day customer contacts as part of a combined engagement programme. Our Plan has been directly influenced by this work.
5. When we engage with customers, we find high levels of support for maintaining high water quality, reducing abstraction, ensuring supplies are resilient and reducing leakage and per capita consumption (PCC). Most customers contact us infrequently and for the majority, their only interaction is to pay their water bill. We recognise we have a big opportunity to engage more effectively with customers around the water service they receive.

Our Proposed Plan for 2020 to 2025

6. Our Plan for 2020 to 2025 builds on the strong track record we have achieved to date in delivering the 'enhanced' plan we were awarded five years ago, demonstrating we can be trusted to deliver. Whilst challenging, our current Plan has kept us at the forefront of the industry in terms of leakage reduction, demand management and water abstraction reduction. This is a strong position from which we will continue to stretch our ambition and performance.
7. Over the decade 2015 to 2025 we are targeting to deliver:
 - a continuous supply of high quality water, better than 99.95% compliance
 - 28% reduction in leakage
 - 17% reduction in demand
 - less water abstraction, reducing environmental impact by 78 million litres per day (Ml/d)
 - affordable bills for customers (less than 0.5% increase per year)

- increased help for customers in vulnerable circumstances.
8. Our Plan will also lay the foundations for improved resilience of supplies for future generations by beginning investment today to secure the development of additional regional supply resources before 2040, when they will be needed.
 9. Some important highlights of our Plan for 2020 to 2025 include:
 - Reducing leakage from water pipes by 15% on top of a 14% reduction between 2015 to 2020 (compared to an industry average reduction of 4% over the same period)
 - Reducing average consumption from 147 to 129 litres per person per day, operating at the forefront of demand-side management, and working with partners and communities to prompt behavioural change with regard to water conservation
 - Developing innovative demand management options based on real-time consumption data to further reduce consumption by 2025
 - Improving the strategic sharing and management of regional resources by making improvements to import and export agreements with neighbouring companies
 - Continuing to support the quality of our water resources through our catchment management and river restoration programmes to help habitats and biodiversity of rivers in our supply area
 - Reducing water abstraction by 36 Ml/d to improve sustainability, following the successful delivery of 42 Ml/d of reductions since 2015
 - Investing £1.37 billion across the five-year period, to maintain core network assets to keep services running 24 hours a day, 7 days a week and 365 days a year, investing in local level assets such as pumps, mains upgrades, new mains and investment in service reservoirs that allow us to move water to where we need it. We will deliver major programmes to treat water for wider distribution across our supply area, where and when it is most needed, to improve resilience, and we will start work on a regional reservoir, in partnership with Thames Water
 - We have listened to customers and stakeholders and recognise the challenges facing us as a company located in the South East of England, a region designated by the Secretary of State as an area of serious water stress. Our Plan tackles these challenges head on.
 10. This Business Plan includes our commitments between 2020 to 2025, necessary to achieve the outputs listed above. These commitments, known as Performance Commitments (PCs) are listed in the table on the following page along with other commitments we are making to customers about the service they can expect from us. Our Plan includes a total of 19 PCs that will ensure we deliver our four Outcomes.
 11. In developing this Plan and the commitments we are making, we have given careful consideration to how our Plan will address wider sector strategic priorities as articulated by Ofwat through its four price review themes. We believe our Outcomes and PC framework enables us to address each of these themes as detailed in the table below. To underpin and support the delivery of our commitments we have evolved our approach to work with and for our communities.

Outcomes	Performance Commitments	Great customer service	Affordable bills	Innovation	Resilience in the round
Supplying high quality water, you can trust	Compliance Risk Index (CRI)	✓			
	Mean Zonal Compliance (MZC)	✓			
Making sure you have enough water, whilst leaving more water in the environment	Leakage	✓		✓	✓
	Per capita consumption		✓	✓	✓
	Environmental innovation – delivery of community projects	✓	✓	✓	✓
	River restoration			✓	✓
	Abstraction reduction			✓	✓
	Number of sources operating under the Abstraction Incentive Mechanism (AIM)			✓	✓
Providing a great service that you value	Customer measure of experience (C-MeX)	✓	✓		
	Developer measure of experience (D-MeX)	✓	✓		
	Customers in vulnerable circumstances satisfied with our service	✓		✓	
	Customers in vulnerable circumstances who found us easy to deal with	✓		✓	
	Number of occupied properties not billed (Gap sites)	✓	✓		
	Number of properties wrongly classified as unoccupied (False voids)	✓	✓		
Minimising disruption to you and your community	Supply interruptions greater than 3 hours	✓		✓	✓
	Risk of severe restrictions in a drought	✓		✓	✓
	Unplanned outage	✓			✓
	Number of burst mains	✓		✓	✓
	Properties experiencing longer or repeated instances of low pressure	✓			

Table ES1: Outcomes, PCs and Ofwat Price Review Themes

Providing a great service that you value

12. We will ensure that we are listening to customer needs and investing in the right technologies to deliver great customer interaction, increased engagement and cost efficiencies. Our approach means all customers, whether they are households, retailers, developers, self-lay providers or new appointees, receive the same focus and attention. Key features of our approach to our household retail activities, building on improvements already delivered, include:

- Continuing to transform our culture to become an increasingly insight-driven business where data is seamlessly collected, pooled and analysed to understand our communities and customers holistically and help us take the right business decisions
- Delivering a personalised experience for customers, to ensure we cater for an individual's circumstances, including temporary or permanent affordability issues or vulnerability - leveraging the expertise and best practices of others in the industry and other sectors
- Focusing on getting things right first time and maximising the opportunity from digital technologies to make things easy and simple
- Strengthening our relationship with customers, promoting what we do and the service we provide and helping to encourage customers to manage their consumption for the benefit of their local environment
- We are adopting a partnership approach with our communities, understanding that we are not always best placed to drive change or influence behaviours. We have learned that for interventions to be successful and for us to deliver our Plan, we must work more closely with delivery partners and stakeholders on the most effective means of securing change.

This Plan includes significant cost efficiencies on base Totex and retail costs totalling £200 million, which enables us to keep our household bills low.

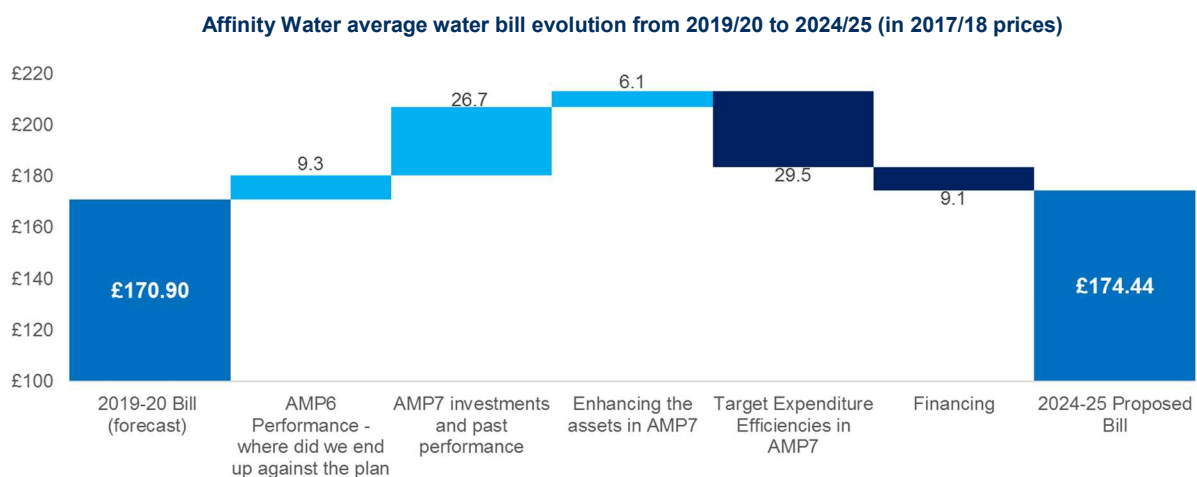


Figure ES1: Bill evolution 2019/20 to 2024/25

- Our Plan means that, on average, household bills will increase by 71p per year between 2019/20 and 2024/25, starting at £170.90 and rising to £174.44, a total increase of £3.54, before allowing for inflation. This equates to a 2.07% increase over the five years, or 0.41% per year, and means that the average bill in 2024/25, without allowing for inflation, will be the same as the average household bill last year, in 2017/18.
- We have tested our proposals with customers. We found that 82% of customers consider the final plan to be acceptable and more than three-quarters find it acceptable for bills to be increased by an extra £3-£5 a year to make sure there is enough water in the future¹. Most customers can afford their current bills (96%) and could afford the future options presented to them during research surveys (92% and 89%).
- We have compared movements in our average bill with estimates of customers' real household incomes after allowing for housing costs, over the same period. The small

¹ Blue Marble, August 2018, *Affinity Water Resilience Investment, Full Report*

increase in our bills that we have planned for 2020 to 2025 will still represent a declining share of customers' projected disposable incomes.

Affinity Water average water bills and operating area average weekly household income after housing costs 2011 - 2025 (in 2016/17 prices)

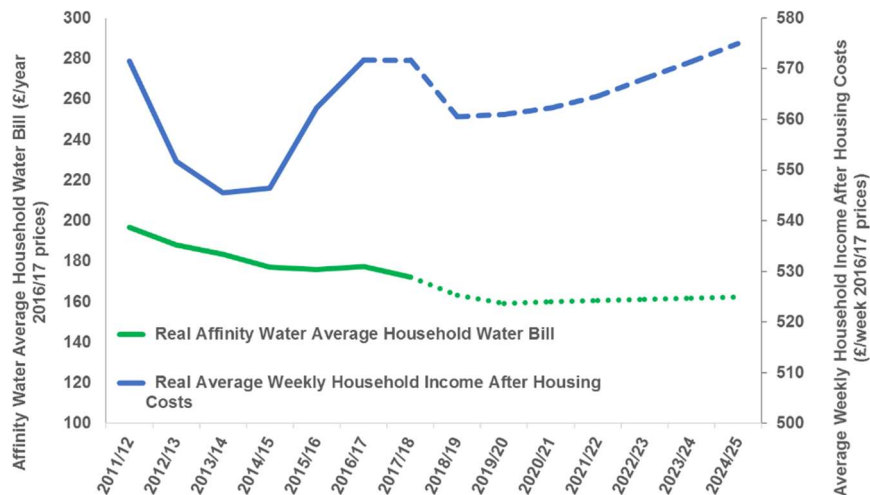


Figure ES2: Comparison of average household water bills and real GDHI

Challenge and Assurance of the Plan

16. In developing this Plan, we have been challenged and held to account by both our Board and our Customer Challenge Group (CCG). The CCG is an independent group which:
- Scrutinises and challenges our progress in delivering our current regulated Business Plan between 2015 and 2020
 - Challenges and assesses our engagement with customers as part of the development of this Plan
 - Challenges the company and provides independent assurance to Ofwat on the quality of our customer engagement for this Plan; and the degree to which customer views are reflected.
17. The CCG has done this through regular meetings and engagement with the company during the last 18 months. The CCG has submitted their report alongside this Plan setting out its assessment of our customer engagement evidence base and how this has informed our Plan, including the extent to which customers find this Plan acceptable.
18. The Board has assured itself that our Plan is of high quality, is stretching and delivers for customers, stakeholders and the environment. The Board has also set out how it will oversee and monitor the delivery of this Plan within its Board Assurance Statement.



Affinity Water CCG Executive Summary

September 2018

Affinity Water Customer Challenge Group Report Executive Summary

This report is produced for Ofwat by the Affinity Water Customer Challenge Group and gives our opinions on Affinity Water Limited's (AWL) PR19 Business Plan submission.

Our job is to provide

'independent challenge to the company and independent assurance to Ofwat on the quality of the company's customer engagement for PR19, and the degree to which this is reflected in its business plan'.

This report covers how we have carried out our 'independent challenge' role and provides our opinions on the issues that Ofwat has asked us to consider in relation to AWL's customer engagement for PR19.¹ The report is organized in the following sections:

- Assessments (Section 3)
- Challenges and disagreements (Section 4)
- Our work and processes (Section 5)

Appendices provide more detailed information about our work and processes, including details about our terms of references, members, meetings we have held and documents we have received relating to PR19, a copy of our challenge log, queries we have raised and a copy of our assessment framework.

Our PR19 related activities and evidence base

This report is based on the evidence we have received and been able to review and take into account as a group between June 2016 until mid-August 2018²; members' involvement in 17 meetings with the company at which PR19 was either wholly or mainly on the agenda between June 2016 and July 2018; members' attendance at some customer focus group and stakeholder consultation events, and attendance at 43 other meetings and events related to PR19, including 14 with Ofwat attended by the Chair, and 5 meetings with the AWL Board or its 'Regulatory Working Group' since April 2017. A list of all the meetings attended by one or more members of the CCG is in Appendix 3. Appendix 5 lists the 111 PR19 related documents that members of the Group have been given by AWL between Summer 2016 and August 2018. Some additional papers and briefings were received after mid-August which are not listed, notably a briefing on 31 August 2018 outlining AWL's final PR19 bill proposals

¹ See <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

² V4BP was received on 16 August and 4 members of the CCG were able to review that version.

We are required to report to Ofwat on the same day as AWL submits its Business Plan (BP). This means our report has been prepared in parallel with AWL finalising its BP submission, through a number of iterations in August 2018. This was two months later than the company had planned to produce drafts of the BP in plans shared with the CCG in September and December 2017, on which basis the CCG scheduled its meetings to end on 18 July, recognizing that August is a peak holiday period.

We appreciate that the timetable changed as the company needed to respond to the significant stakeholder feedback it received on its draft Water Resources Management Plan (dWRMP) proposals, which were out for public consultation in April and May 2018. At that time AWL was testing the 'acceptability' of three proposals for BP service packages, and average bill levels, with a representative group of customers. AWL has subsequently revised elements of its dWRMP proposals in important respects relating to future water resources. This has had a significant impact on some aspects of AWL's BP proposals, including the proposed level of average household bills. Essentially AWL has moved from presenting customers with proposals for water bills to be lower in real terms in 2025 to a proposal for a real terms increase in charges. There are also a number of differences between the service propositions between May and August 2018. As a result, AWL was required to undertake further 'acceptability testing' with customers in August 2018.

Alongside these developments, drafts of AWL's BP were not available to the CCG in any form before the end of July 2018, and there was significant reworking of the narrative and the bill propositions in August 2018. Confirmation of the final bill proposition was only available to the CCG Chair on Saturday 1 September 2018.

The consequence of the above is that the CCG as a whole has not been able to review and challenge a near final draft version of AWL's BP, together with the final proposals for bills, before submitting this report³. Some members of the CCG were able to review Version 2 of AWL's draft Business Plan (V2BP). The Chair of the Group and 4 other members also reviewed Version 4 of AWL's draft Business Plan (V4BP) which was available from 16 August. Only two members of the group have been able to review any of the draft Annexes to V4BP⁴.⁵ We believe we have a reasonable understanding of what is *probably* going to be included in AWL's final BP submitted to Ofwat such that it is possible to submit this report. However, there may be differences between the draft BPs we have reviewed and cross referenced in this report. It is also possible that we have referred to something from a draft of the BP which has not been carried into the document AWL has actually submitted. We have asked the company to provide us with a report on the differences between the drafts and submitted final BP in due course.

³ See Section 4 for further information and commentary

⁴ A draft of Appendix 3 to V4BP was reviewed by the Chair and one member in late August 2018

⁵ Each draft BP has been in excess of 200 pages long. Appendix 3 to AWL's V4BP was more than 100 pages as a covering note to annexes of documents and evidence.

Our assessments

Our opinions on AWL's BP customer engagement are organised according to 19 'Test areas' drawn from the 'Assessment Framework' we developed and agreed in March 2018.⁶ We have rated each Test area as follows:

- **Green** – the company's customer engagement meets this test
- **Amber** – the company's customer engagement partly meets this test
- **Red** – the company's customer engagement has not met this test

An overview of our assessments for each of 19 Test areas on our Assessment Framework is below and appears again in Section 3. Our Assessment Framework tests are drawn from our Terms of Reference agreed in July 2016⁷, the criteria set out by Ofwat in its May 2016 policy statement⁸ and in its Methodology for PR19 December 2017⁹. We think that our Assessment Framework addresses appropriately all the matters in Ofwat's requirements although the issues are not presented in precisely the same order or format as in their Aide Memoire for CCGs.

AWL has met almost all our tests:-

- AWL's customer engagement, and BP, meets most of our 19 Test areas that apply to them – we rate 15 areas out of 18 as 'Green'.¹⁰
- AWL have amassed and used a significant evidence base about their customers' views, needs and requirements from analysis of operational data and existing research. It has also undertaken a range of engagement with customers to help prepare its BP submission. AWL highlights over 15,000 interactions with customers as their evidence base. Of these 3,325 interactions were from quantitative and representative research/surveys with customers about proposals for service levels and bills.
- AWL has used professional independent market research companies, mainly Ipsos/Mori and Arup, to advise on, design and undertake several pieces of research, and facilitate triangulation of the evidence base, at key stages in the customer engagement programme between June 2017 and August 2018. This provides assurance of representative and robust results in some areas.
- AWL has sought to innovate in its customer engagement by using an online 'community of customers' and undertaking research with future customers and secondary school pupils.
- In keeping with its vision to be the leading community focused water company AWL has set out several ways in which it intends to work with local

⁶ See Appendix 6

⁷ <https://stakeholder.affinitywater.co.uk/docs/CCG-terms-of-reference.pdf>

⁸ https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf

⁹ <https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review/> and also <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

¹⁰ Test area 13 of the 19 is an account of how the CCG has reviewed and challenged the performance commitment framework so does not have a RAG rating for the company.

communities and stakeholders to 'co-create' and deliver aspects of its business plan, some of which will be piloted before 2020.

- As noted in relation to our Test areas 1 to 7 we consider that AWL has developed and shown an understanding of its customers' priorities, has engaged with customers on issues that matter to them, and insight from customers has informed the development of the BP.
- AWL has strong customer support for its proposed BP outcomes, and has presented clearly in its BP how its proposed performance commitments relate to each of the proposed outcomes.
- AWL is proposing to maintain and improve some aspects of its service to customers, and protection of the environment, as set out in detail in the BP. In Section 3 (Test area 14) we set out how we have challenged AWL to demonstrate that its proposed performance commitments are stretching. We explain that Ofwat is in a better position of knowledge than the CCG to decide if any of the proposed performance commitments are stretching, or sufficiently stretching. Nevertheless, having challenged the company and considered all the evidence available to us and Ofwat's PR19 methodology we have identified 6 of the proposed 19 performance commitments which appear likely to be stretching for the company to achieve. These are the performance commitments related to reducing leakage, reducing per capita consumption, reducing the extent of water supply interruptions, reducing the extent of low pressure, and improved services for vulnerable customers and customers in financial difficulty (which are to be measured through satisfaction surveys)
- In relation to AWL's support for customers who are vulnerable or have difficulty paying their bills the company has undertaken good analysis of need and planning for the proposed services and activities in its BP. The company has established that customers and stakeholders support the approach they propose to take and have demonstrated effective engagement with relevant expert stakeholders and customers to design their services. AWL's Inclusive Services Strategy, which underpins the proposed bespoke performance commitments in the BP, will be a significant business change for AWL.
- We understand – at 31 August 2018 – that AWL is proposing that it should be allowed to increase its average bills to customers by 2.07% in real terms between 2020 and 2025¹¹. This is a small increase in charges in real terms. The company has evidence from a representative survey (in August 2018) that a majority of customers regard an increase of this scale as acceptable, without considering the likely impact of inflation or the level of sewerage charges as well. In real terms AWL's average bill is proposed to increase in line with the growth in real household disposable income that is forecast by the OBR. The objective affordability of AWL's average bill in 2024/25, in isolation of other pressures on household incomes, is likely to be no worse than it is today if incomes rise as the OBR has projected.
- Transparency, accountability and effective communication will be key to the company achieving the relationship of trust and engagement it seeks with customers, and other stakeholders to realise its vision of being the leading community focussed water company in the UK and achieving the significant challenge of reducing demand for water. The company has described

¹¹ Email from AWL received on 1 September 2018.

appropriate ambitions to develop and improve its reporting and transparency to customers. It has yet to draw up an operational plan for this, which will require some research and testing with customers as well as stakeholders, but it has made a commitment to do this before 2020.

However, three of our Test areas are rated ‘Amber’:

We have rated as ‘Amber’ (or partly meeting) three Test areas relating to effective customer engagement on long term risks (Test area 8), the performance commitment framework as a whole (Test area 14) and customer engagement on resilience (Test area 18).¹²

- Test area 8 requires effective engagement with customers on future and long-term issues, including trade-offs and risks, in a way that customers could be expected to understand. We outline in Section 3 how AWL has approached this in relation to the key long-term issue of sufficiency of water resources to meet demand. Based on our involvement reviewing drafts of the dWRMP consultation paper and customer engagement materials and noting the specific responses of Ofwat and EA to AWL’s dWRMP it is not possible for us to consider that AWL has fully met this requirement.
- Test area 18 is strongly linked to Test area 8. Notwithstanding the challenges of engaging customers with resilience and risk we do not think that AWL has engaged with customers in sufficient depth to inform its resilience strategy. One element of the revised resilience strategy is to embark on investment in ‘additional resilience’¹³. Customer engagement on the long-term implications, costs and benefits of this investment has not been of the depth or nature that would fully satisfy Test area 8 above. It is not therefore possible to say that AWL’s approach to resilience, as described in V4BP, is based on sufficient customer engagement.
- The company should recognise our assessments of Test areas 8 and 18 as we understand the BP will set out proposals for an extension to the timescale for submission of the dWRMP and further customer engagement in 2018/19. The CCG consider that AWL needs to undertake further and better engagement with customers on its long-term water resource management strategy, particularly as there is likely to be significant investment needed in AMP8 2025-2030 and beyond related to the jointly promoted reservoir development with Thames Water. It is important that customers are fully informed about the long-term implications of this for their water bills.
- Test area 14 concerns three interconnected aspects of the company’s proposed BP, referred to as the Performance Commitment Framework - the proposed outcomes, performance commitments (PCs) and levels and

¹³ P152 V4BP this was stated to be at a cost to customers of £2 - £5 per year.

outcome delivery incentives (ODIs). Ofwat has asked us to consider a range of questions, including whether customers have been consulted about and support what is being proposed – including the proposed ODIs - and whether the proposed performance commitment levels are stretching.¹⁴ Because of the many different sub-questions Ofwat has asked us to consider in relation to 19 proposed performance commitments there has been a lot of material for us to review and utilise to evidence our opinion, which is covered in full in Section 3.

- AWL has evidence of strong customer support for its BP outcomes, many of the proposed PC levels will improve service to customers and the environment and we have noted 6 out of the 19 proposed PCs that appear to us to be stretching. However, the following points have resulted in an overall amber assessment from us:
 - AWL has only undertaken specific customer engagement about 7 of the 19 proposed PCs. Not all the 19 proposed PCs required customer engagement, for example, 4 PCs are effectively requirements of environmental and quality regulators. However, AWL could have gone further than it did in this area.
 - None of AWL's customer engagement about proposed PCs and PC levels has given customers significant opportunities to indicate choices between different service levels. The approach at both Phase 2 and Phase 3 has been to ask customers if proposed plans are 'acceptable' or not – a top down rather than bottom up approach.
 - AWL's actual proposals for ODI levels were only presented to the CCG in August, primarily through the medium of drafts of the BP, queries that we raised and sight of drafts of the Phase 3 customer acceptability survey questions. We note the evidence that customers found the single proposal made by AWL acceptable¹⁵. We are not however able to provide assurance that the proposal reflects a suitably wide range of evidence on AWL's customer preferences, which is what Ofwat has asked us to challenge and comment on.

¹⁴ Ofwat's Aide Memoire for CCGs has 11 questions on performance commitments and 7 questions on ODI's – in theory those questions need to be answered x 19 in relation to AWL's performance commitment proposals so a full CCG response would have 209 answers just on the PCs.

¹⁵ Phase 3, BP Acceptability Survey, Ipsos/Mori August 2018

Overview of AWL CCG Test areas - RAG rating

1. Has AWL developed a genuine understanding of customers priorities, needs and requirements, drawing on a robust, balanced and proportionate evidence base	Green
2. Has AWL engaged with customers on the issues that matter to them?	Green
3. Has evidence from customers genuinely driven and informed the development of the business plan?	Green
4. Has the company used multiple data sources and triangulated those effectively to develop its proposals, and carry out customer engagement?	Green
5. Has the company presented its customers with realistic options?	Green
5. Has the customer engagement process been ongoing two way and transparent with the company informing customers as well as soliciting feedback from them?	Green
7. Has the engagement with customers been sufficiently diverse, involving the using of methods appropriate and effective for engaging with a diverse range of customers. Does this include customers in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?	Green
8. Has the company engaged effectively with customers on future and long-term issues, including trade offs and risks, in a way customers could be expected to understand?	Amber
9. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?	Green
10. Has the company effectively informed and engaged customers about its current performance and how this compares with other companies in a way customers could be expected to understand?	Green
11. Is the proposed plan affordable for current customers, future customers and those struggling or at risk of struggling to pay? How well does the company understand what affordability looks like for its customers, and do customers support the approach they have taken?	Green
12. Vulnerability - Is the company's approach to vulnerability targeted, efficient and effective? CCG view on the quality of planned support for customers in vulnerable circumstances, taking into account Ofwat's February 2016 Vulnerability Focus report.	Green
13. Performance commitment framework – including Outcomes and ODIs – how have we reviewed and challenged	n/a – info section
14. Opinion on proposed outcomes, performance commitments – both common and bespoke - and outcome delivery incentive in terms of level of stretch, customer engagement and support [Outcomes – green - PC consultation – amber - Stretch – amber - ODIs – amber]	Amber
15. AIM – has Affinity engaged with local stakeholders to propose its AIM incentives? Has it identified suitable sites in liaison with the Environment Agency? (Aim is also a PC see Q14 above)	Green
16. Leakage – has Affinity taken customer views into account in its proposed five year PC levels? (see also response to Q14 above)	Green
17. Transparency – are company plans for reporting on performance 2020 – 25 suitable	Green
18. Resilience – has the company's assessment of resilience been informed by engagement with customers so as to understand their expectations on levels of service, their appetite for risk and how customer behaviour might influence resilience	Amber
19. Cost efficiency – if there are cost adjustment claims is there evidence that customers support the project? Does the proposal deliver outcomes that reflect customers' priorities identified from customer engagement? Has the company taken account of customers' views and is there evidence that the proposed solution represents best value for customers in the long term, including evidence from customer engagement	Green