

# **Affinity Water Limited**

## **Regulatory Annual Performance Report Adjustments**

### **2020/21 Regulatory Annual Performance Report**

Following the publication of our 2020/21 Regulatory Annual Performance Report ('APR') in July 2021 and the subsequent review period by Ofwat, the below tables and associated narrative have been restated.

We have not obtained an updated audit opinion from our auditors, PricewaterhouseCoopers LLP, for the changes made to sections 1 and 2 of our APR, as none of the changes we have made require any substantive changes to the narrative of the APR or the conclusions reached thereon.

With regard to changes made to sections 3 and 4 of our APR, none of the changes we have made require any substantive changes to the narrative of the APR or to our overall commentary and conclusions.

# Affinity Water Limited

## Section 1 – Regulatory financial reporting

### 1F – Financial flows for the 12 months ended 31 March 2021 and for the price review to date - (2017-18 financial year average CPIH)

	%			£000		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
<b>12 months ended 31 March 2021</b>						
<b>Return on regulatory equity</b>						
Return on regulatory equity	4.04%	2.20%	4.04%	19,415	10,588	10,588
Regulatory equity	480,697	480,697	262,161	-	-	-
<b>Financing</b>						
Gearing	-	1.84%	1.35%	-	8,826	3,545
Gearing benefits sharing	-	(0.48%)	(0.88%)	-	(2,306)	(2,306)
Variance in corporation tax	-	(0.96%)	(1.76%)	-	(4,611)	(4,611)
Group relief	-	-	-	-	-	-
Cost of debt	-	(3.22%)	(6.18%)	-	(15,478)	(16,200)
Hedging instruments	-	2.72%	4.99%	-	13,089	13,089
<b>Return on regulatory equity including financing adjustments</b>	<b>4.04%</b>	<b>2.10%</b>	<b>1.57%</b>	<b>19,415</b>	<b>10,109</b>	<b>4,105</b>
<b>Operational Performance</b>						
Totex out/(under) performance	-	1.75%	3.21%	-	8,420	8,420
ODI out/(under) performance	-	(1.05%)	(1.93%)	-	(5,052)	(5,052)
C-Mex out/(under) performance	-	-	-	-	-	-
D-Mex out/(under) performance	-	-	-	-	-	-
Retail out/(under) performance	-	(0.56%)	(1.03%)	-	(2,701)	(2,701)
Other exceptional items	-	0.09%	0.16%	-	426	426
<b>Operational performance total</b>	<b>-</b>	<b>0.23%</b>	<b>0.42%</b>	<b>-</b>	<b>1,093</b>	<b>1,093</b>
RoRE	4.04%	2.33%	1.98%	19,415	11,202	5,199
Actual performance adjustment 2015-20	(0.48%)	(0.48%)	(0.48%)	(2,385)	(2,385)	(2,385)
Total earnings	3.56%	1.85%	1.50%	17,030	8,817	2,814
RCV growth from inflation	1.01%	1.01%	1.01%	4,869	4,869	2,655
Voluntary sharing arrangements	-	(0.02%)	(0.04%)	-	(100)	(100)
Total shareholder return	4.57%	2.84%	2.48%	21,899	13,586	5,369
<b>Dividends</b>						
Gross dividend	4.19%	-	-	20,141	-	-
Interest received on intercompany loans	-	-	-	-	-	-
<b>Retained value</b>	<b>0.38%</b>	<b>2.84%</b>	<b>2.48%</b>	<b>1,758</b>	<b>13,586</b>	<b>5,369</b>

The regulatory return on equity was 4.04% as determined at PR19. It increases to 5.39% after adjusting for the company's actual capital structure (1.35%, as reported in the gearing line of this table). The PR19 determination was carried out on a notional capital structure with 60% net debt to RCV gearing, the actual average level of gearing of 78.1% creates an adjustment of +1.35%. This is offset by an adverse gearing benefits sharing adjustment of -0.88% and an adjustment before hedging instruments of -6.18% resulting from the company's actual cost of debt underperforming against the 2.42% allowed in the PR19 determination after taking into account the movement in average CPIH during the year of 0.80%. Our hedging instruments have partially offset the adverse adjustment by +4.99%. The variance in corporation tax (calculated as the difference between the amount allowed for corporation tax in the PR19 determination and actual tax payable, before any fair value adjustments, after taking into account adjustments for capital allowances and prior year adjustments, refer to the reconciliation on page 284) decreases the adverse adjustment further by -1.76%.

The 1.57% regulatory return on equity including financing adjustments is increased to 1.98% when considering the impact of operational performance. Totex outperformance in the year results in a +3.21% increase (refer to table 4C), ODI underperformance in the year (refer to table 3A) results in a -1.93% reduction and the performance of the retail business unit (refer to table 2C) creates a -1.03% adverse adjustment. There is no adjustment for C-MeX or D-MeX performance in 2020/21 however there will be an adjustment in future years for future performance in this area. There was a further adjustment of +0.16% for other exceptional items which included 50% of the share of protected land sales in the year as per table 21.

After factoring in RCV growth due to indexation and voluntary sharing arrangements, the total shareholder return for the year is 2.48%. No dividend was paid out by the regulated business, which equates to a 0.00% return on equity which compares to the 2.48% covered above.

# Affinity Water Limited

## Section 1 – Regulatory financial reporting (continued)

### 1F – Financial flows for the 12 months ended 31 March 2021 and for the price review to date (2017-18 financial year average CPIH)

	%			£000		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
<b>Average 2020-2025</b>						
Return on regulatory equity						
Return on regulatory equity	4.04%	2.20%	4.04%	19,415	10,588	10,588
Regulatory equity	480,697	480,697	262,161	-	-	-
<b>Financing</b>						
Gearing	-	1.84%	1.35%	-	8,826	3,545
Gearing benefits sharing	-	(0.48%)	(0.88%)	-	(2,306)	(2,306)
Variance in corporation tax	-	(0.96%)	(1.76%)	-	(4,611)	(4,611)
Group relief	-	-	-	-	-	-
Cost of debt	-	(3.22%)	(6.18%)	-	(15,478)	(16,200)
Hedging instruments	-	2.72%	4.99%	-	13,089	13,089
<b>Return on regulatory equity including financing adjustments</b>	<b>4.04%</b>	<b>2.10%</b>	<b>1.57%</b>	<b>19,415</b>	<b>10,109</b>	<b>4,105</b>
<b>Operational Performance</b>						
Totex out/(under) performance	-	1.75%	3.21%	-	8,420	8,420
ODI out/(under) performance	-	(1.05%)	(1.93%)	-	(5,052)	(5,052)
C-Mex out/(under) performance	-	-	-	-	-	-
D-Mex out/(under) performance	-	-	-	-	-	-
Retail out/(under) performance	-	(0.56%)	(1.03%)	-	(2,701)	(2,701)
Other exceptional items	-	0.09%	0.16%	-	426	426
<b>Operational performance total</b>	<b>-</b>	<b>0.23%</b>	<b>0.42%</b>	<b>-</b>	<b>1,093</b>	<b>1,093</b>
RoRE	4.04%	2.33%	1.98%	19,415	11,202	5,199
Actual performance adjustment 2015-20	(0.48%)	(0.48%)	(0.48%)	(2,385)	(2,385)	(2,385)
<b>Total earnings</b>	<b>3.56%</b>	<b>1.85%</b>	<b>1.50%</b>	<b>17,030</b>	<b>8,817</b>	<b>2,814</b>
RCV growth from inflation	1.01%	1.01%	1.01%	4,869	4,869	2,655
Voluntary sharing arrangements	-	(0.02%)	(0.04%)	-	(100)	(100)
<b>Total shareholder return</b>	<b>4.57%</b>	<b>2.84%</b>	<b>2.48%</b>	<b>21,899</b>	<b>13,586</b>	<b>5,369</b>
<b>Dividends</b>						
Gross dividend	4.19%	-	-	20,141	-	-
Interest received on intercompany loans	-	-	-	-	-	-
<b>Retained value</b>	<b>0.38%</b>	<b>2.84%</b>	<b>2.48%</b>	<b>1,758</b>	<b>13,586</b>	<b>5,369</b>

Given this is the first year of AMP7, the average for the period 2020-2025 is equal to the performance in 2020/21. See the commentary under the table on the previous page for details.

# Affinity Water Limited

## Section 3 – Performance summary

### 3A - Outcome performance – Water common performance commitments

Unique reference	Unit	Decimal Places	Performance level - actual		PCL met?	Outperformance or under-performance payment £m	Forecast of total 2020-25 outperformance or under-performance payment £m	
			Previous reporting year	Current reporting year				
<b>Financial</b>								
Water quality compliance (CRI)	PR19AFW_W-A1	number	2	1.73	1.31	No	0.00	0.00
Water supply interruptions	PR19AFW_W-D1	hh:mm:ss	n/a	00:13:36	00:05:49	Yes	0.357	(0.800)
Leakage	PR19AFW_W-B1	%	1	0.0	1.7	No	(0.288)	0.600
Per capita consumption	PR19AFW_R-B1	%	1	0.0	(4.3)	No	(2.688)	(22.700)
Mains repairs	PR19AFW_W-D4	number	1	125.4	155.8	No	(0.576)	(1.500)
Unplanned outage	PR19AFW_W-D3	%	2	3.42	1.65	Yes	0.00	0.000
<b>Bespoke PCs – Water and Retail (Financial)</b>								
Environmental innovation - delivery of community projects	PR19AFW_W-B2	nr	n/a	0	0	Yes	0.000	1.200
Reducing the total number of void properties by identifying false voids	PR19AFW_R-C4	%	2	2.44	2.37	Yes	0.024	0.000
River restoration	PR19AFW_W-B3	nr	n/a	n/a	7	Yes	0.000	0.400
Abstraction reduction	PR19AFW_W-B4	nr	2	n/a	0.00	Yes	0.000	0.000
Number of sources operating under the Abstraction Incentive Mechanism	PR19AFW_W-B5	nr	n/a	(2,058)	(304)	Yes	0.029	0.000
Properties at risk of receiving low pressure	PR19AFW_W-D5b	nr	3	39.683	196.850	No	(0.869)	(0.900)
Number of occupied properties not billed (Gap sites)	PR19AFW_W-C2	nr	n/a	0	118	Yes	0.000	0.000
Unplanned interruptions to supply over 12 hours	PR19AFW_W-N1	nr	n/a	499	538	No	(0.715)	(0.715)
Customer contacts per 1,000 population for Water Quality (taste, odour & appearance)	PR19AFW_W-N2	nr	2	0.76	0.83	No	(0.326)	(0.800)
Financial water performance commitments achieved		%				53		
Overall performance commitments achieved (excluding C-Mex and D-Mex)		%				68		

# Affinity Water Limited

## Section 3 – Performance summary (continued)

### 3E - Outcome performance – Non financial performance commitments

	Unique reference	Unit	Decimal Places	Performance level - actual		PCL met?
				Previous reporting year	Current reporting year	
<b>Common</b>						
Risk of severe restrictions in a drought	PR19AFW_W-D2	%	1	43.4	67.7	No
Priority services for customers in vulnerable circumstances – PSR reach	PR19AFW_R-N3	%	1	2.2	4.7	Yes
Priority services for customers in vulnerable circumstances – Attempted contacts	PR19AFW_R-N3	%	1	0.0	62.3	Yes
Priority services for customers in vulnerable circumstances – Actual contacts	PR19AFW_R-N3	%	1	0.0	24.9	Yes
<b>Bespoke PCs</b>						
Average time properties experience low pressure	PR19AFW_W-D5a	nr	0	03:22:23	05:02:48	Yes
Customers in vulnerable circumstances satisfied with our service (receiving financial help)	PR19AFW_R-C2	%	0	94	98	Yes
Customers in vulnerable circumstances who found us easy to deal with (receiving financial help)	PR19AFW_R-C3	%	0	95	97	Yes
BSI accreditation	PR19AFW_R-N4	text	0	ACHIEVED	ACHIEVED	Yes
IT resilience	PR19AFW_R-N6	nr	0	1,296	949	Yes
Customers in vulnerable circumstances satisfied with our service (not receiving financial help)	PR19AFW_R-N7	%	0	94	98	Yes
Customers in vulnerable circumstances who found us easy to deal with (not receiving financial help)	PR19AFW_R-N8	%	0	95	97	Yes
Value for Money Survey	PR19AFW_R-N9	nr	2	7.85	7.48	No
WINEP Delivery	PR19AFW_NEP01	text	0	n/a	Yes	Yes
Non-financial performance commitments achieved		%				85



# Affinity Water Limited

## Section 3 – Performance summary (continued)

### 3F – Underlying calculations for common performance commitments – water and retail

Performance commitments set in standardised units - Water	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – calculated (i.e. standardised)
Mains repairs – Reactive	Mains repairs per 1000km	Mains length in km	16,836.87	1,975	117.30
Mains repairs – Proactive	Mains repairs per 1000km	Mains length in km	16,836.87	700	41.58
Mains repairs	Mains repairs per 1000km	Mains length in km	16,836.87	2,675	158.88
Per capita consumption (PCC)	lpd	Population	3,851.71	661	171.59

Performance commitments measured against a calculated baseline	Unit	Performance level – actual (2017-18)	Performance level – actual (2018-19)	Performance level – actual (2019-20)	Baseline	Performance level – actual (2020-21)	Performance level 3 year average	Calculated performance level to compare against PCLs
Leakage	MI/d	181.2	204.1	181.1	188.8	171.4	185.5	1.7
Per capita consumption (PCC)	lpd	151.5	158.8	155.0	155.1	171.6	161.8	(4.3)

Water supply interruptions	Unit	Standardising data indicator	Standardising data numerical value	Performance level – actual number of minutes lost	Number of properties supply interrupted	Calculated performance level
Water supply interruptions	Average number of minutes lost per property per year	Number of properties	1,539.80	8,961,555	25,701	00:05:49

Unplanned or planned outage	Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %
Unplanned outage	1,365.83	22.55	1.65%

Priority services for customers in vulnerable circumstances	Total residential properties	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts	Attempted contacts %	Number of actual contacts	Actual contacts %
Priority services for customers in vulnerable circumstances	1,405.63	66,458	4.7%	19,881	12,390	62.3%	4,945	24.9%

# Affinity Water Limited

## Section 3 – Performance summary (continued)

### 3H – Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding C-MeX and D-MeX) £000 (2017-18 prices)
<b>Initial calculation of in period revenue adjustment by price control</b>	
Water resources	(0.78)
Water network plus	(4.30)
Residential retail	0.02
<b>Initial calculation of end of period revenue adjustment by price control</b>	
Water resources	0.00
Water network plus	0.00
Residential retail	0.00
<b>Initial calculation of end of period RCV adjustment by price control</b>	
Water resources	0.00
Water network plus	0.00
Residential retail	0.00

# Affinity Water Limited

## Section 4 – Non-audited additional regulatory information – service level

### 4C - Impact of price control performance to date on RCV

12 months ended 31 March 2021	Water resources	Water network plus
<b>Totex (net of business rates, abstraction licence fees and grants and contributions)</b>		
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	35,111	216,601
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	24,985	208,121
Transition expenditure	-	-
Disallowable costs	(38)	(186)
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	25,023	208,307
Variance	(10,088)	(8,294)
Variance due to timing of expenditure	(10,766)	(14,081)
Variance due to efficiency	678	5,787
Customer cost sharing rate	47%	47%
Customer share of totex over/underspend	315	2,692
Company share of totex over/underspend	363	3,095
<b>Totex – business rates and abstraction licence fees</b>		
Final determination allowed totex – business rates and abstraction licence fees	6,331	12,771
Actual totex – business rates and abstraction licence fees	5,762	13,261
Variance – business rates and abstraction licence fees	(569)	490
Customer cost sharing rate – business rates and abstraction licence fees	75%	75%
Customer share of totex over/underspend – business rates and abstraction licence fees	(427)	367
Company share of totex over/underspend – business rates and abstraction licence fees	(142)	122
<b>Totex not subject to cost sharing</b>		
Final determination allowed totex – not subject to cost sharing	4,918	8,426
Actual totex – not subject to cost sharing	311	763
Variance – 100% company allocation	(4,607)	(7,663)
<b>Total company share of totex over/underspend</b>	<b>(4,387)</b>	<b>(4,446)</b>
<b>RCV</b>		
Total customer share of totex over/under spend	(111)	3,059
PAYG rate	40%	56%
RCV element of totex over/underspend	(67)	1,333
Adjustment for ODI outperformance payment or underperformance payment	-	-
RCV determined at FD at 31 March	150,416	1,152,824
Projected 'shadow' RCV	150,349	1,154,157

Atypical expenditure relates to one off legal fees associated with advice obtained during the year on our financial covenants and the impact of COVID-19 on these. This totalled £0.759m in the year, with £0.095m included in actual totex (net of business rates, abstraction licence fees and grants and contributions) – water resources and £0.664m included in actual totex (net of business rates, abstraction licence fees and grants and contributions) – water network plus.



# Affinity Water Limited

## Section 4 – Non-audited additional regulatory information – service level (continued)

### 4C - Impact of price control performance to date on RCV (continued)

#### Water resources

##### *Totex (net of business rates, abstraction licence fees and grants and contributions)*

Actual totex of £25,023,000 against allowed totex of £35,111,000 resulted in an underspend in the year of £10,088,000 in water resources. This was primarily as a result of our capex programmes, which were rephased during the year as a result of the COVID-19 pandemic. Work will be completed in later years across the AMP. There was a slight overspend in operating expenditure of £678,000, with higher power and bulk import costs due to the unprecedented high demand for water we have seen whilst more people stayed at home within our supply area under COVID-19 travel restrictions. Disallowable costs relate to fines and investigation costs including streetworks fines, offset by other cash items as per table 4D.

##### *Totex – business rates and abstraction licence fees*

Actual totex of £5,762,000 against allowed totex of £6,331,000 resulted in an underspend in the year of £569,000 in water resources for business rates and abstraction licences. This is due to the apportioning methodology used between water resources and water network + based on the book value of our assets.

##### *Totex not subject to cost sharing*

Actual totex of £311,000 against allowed totex of £4,918,000 resulted in an underspend in the year of £4,607,000 in water resources. This was as a result of an underspend on our strategic regional water resources expenditure, for both opex and capex, as per table 4L. Work has been reprofiled across AMP7 as a result of the COVID-19 pandemic.

Overall, this resulted in a projected shadow RCV as at 31 March 2021 of £150,349,000 against the RCV determined as part of the final determination of £150,416,000.

#### Water network plus

##### *Totex (net of business rates, abstraction licence fees and grants and contributions)*

Actual totex of £208,307,000 against allowed totex of £216,601,000 resulted in an underspend in the year of £8,294,000 in water network plus. £14,081,000 resulted from an underspend on capital projects due to the rephasing of our works during the year as a result of the COVID-19 pandemic. Work will be completed in later years across the AMP. There was an overspend in operating expenditure of £5,787,000 with higher power and bulk import costs due to the unprecedented high demand for water we have seen whilst more people stayed at home within our supply area under COVID-19 travel restrictions, and higher renewals expensed in year (infrastructure) due to the mix of renewals work completed in the year. Disallowable costs relate to fines and investigation costs including streetworks fines, offset by other cash items as per table 4D.

##### *Totex – business rates and abstraction licence fees*

Actual totex of £13,261,000 against allowed totex of £12,771,000 resulted in an overspend in the year of £490,000 in water resources for business rates and abstraction licences. This is due to the apportioning methodology used between water resources and water network + based on the book value of our assets. Across the wholesale price control, expenditure in this area was in line with our allowed expenditure.

##### *Totex not subject to cost sharing*

Actual totex of £763,000 against allowed totex of £8,426,000 resulted in an underspend in the year of £7,663,000 in water network plus. This was as a result of an underspend on our strategic regional water resources expenditure, for both opex and capex, as per table 4L. Work has been reprofiled across AMP7 as a result of the COVID-19 pandemic.

Overall, this resulted in a projected shadow RCV as at 31 March 2021 of £1,154,157,000 against the RCV determined as part of the final determination of £1,152,824,000 for water network plus.

# Affinity Water Limited

## Section 4 – Non-audited additional regulatory information – service level (continued)

### 4H - Financial metrics for the 12 months ended 31 March 2021

	Units	Current year	AMP to date
<b>Financial indicators</b>			
Net debt	£m	1,004.335	
Regulatory equity	£m	298.90	
Regulatory gearing	%	77.06%	
Post tax return on regulatory equity	%	(9.52)%	
RORE (return on regulatory equity)	%	1.85%	1.85%
Dividend yield	%	-	
Retail profit margin – Household	%	(1.18)%	
Retail profit margin - Non-household	%	N/A	
Credit rating - Fitch	N/A	N/A	
Credit rating – Moody's	N/A	Baa1 (Negative)	
Credit rating – Standard and Poor's	N/A	BBB+ (Stable)	
Return on RCV	%	0.58%	
Dividend cover	dec	-	
Funds from operations (FFO)	£m	45.173	
Interest cover (cash)	dec	2.26	
Adjusted interest cover (cash)	dec	0.71	
FFO/Debt	dec	0.04	
Effective tax rate	%	5.94%	
RCF	£m	45.173	
RCF/Net debt	dec	0.04	
<b>Revenue and earnings</b>			
Revenue (actual)	£000	277,093	
EBITDA (actual)	£000	66,818	
<b>Borrowings</b>			
Proportion of borrowings which are fixed rate	dec	0.1935	
Proportion of borrowings which are floating rate	dec	0.0000	
Proportion of borrowings which are index linked	dec	0.8065	
Proportion of borrowings due within 1 year or less	dec	0.0033	
Proportion of borrowings due in more than 1 year but no more than 2 years	dec	0.0152	
Proportion of borrowings due in more than 2 years but no more than 5 years	dec	0.0032	
Proportion of borrowings due in more than 5 years but no more than 20 years	dec	0.6362	
Proportion of borrowings due in more than 20 years	dec	0.3421	

	Current year	AMP6 to date
<b>Movement in RORE</b>		
Base return	4.04%	4.04%
Variance in corporation tax	(0.96)%	(0.96)%
Totex out/(under) performance	1.75%	1.75%
Retail cost out/(under) performance	(0.56)%	(0.56)%
ODI out/(under) performance	(1.05)%	(1.05)%
Financing out/(under) performance	(0.98)%	(0.98)%
Other factors <sup>1</sup>	(0.39)%	(0.39)%
Regulatory return for the year	1.85%	1.85%

See commentary under table 1F for an explanation of the movement in RORE in the year. The regulatory return for the year is equal to line 'total earnings' and column 'Actual returns and notional regulatory equity'.