AFW Securing Confidence and Assurance

Appendices

March 2019

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Appendix CA.Summary.1

Action ref(s) High Level Summary; AFW.CA.A1

Assurance Plan

Your local supply, on tap

Company Monitoring Framework

Final Assurance Plan 2018/19

March 2019

Contents

Introduction and Background

About Affinity Water

We treat and supply over 900 million litres of water every day so we can ensure that 3.6 million people have high quality drinking water when they need it. We understand that we provide an essential service to households and businesses across our region. It is what drives our ambition to be a trusted, community-focused water company.

But we face a very real challenge to our ability to continue to meet demand in the longer term. We supply water to one of the fastest-growing, most economically active regions in the country. While demand is increasing, the amount of available water is decreasing.

On 3 September 2018, we submitted our five-year business plan for 2020 – 2025 to our regulator. This sets out our path for continuing to meet this growing challenge. In developing our plans we undertook 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 engaged with over 15,300 customers and stakeholders and took account of over 5 million day-to-day customer contacts as part of a combined engagement programme.

As a result of what our customers told us, we set out 19 key commitments. These commitments are designed to ensure that we:

- have enough water to meet demand, whilst leaving more water in the environment
- minimise disruption to customers and their communities;
- provide high quality water that customers trust; and
- offer customers a great service that they value.

In their initial assessment, published on 31 January 2019, Ofwat concluded that our business plan was subject to “significant scrutiny”. They considered that our plan fell significantly short in a number of areas, although there were some high-quality elements. We have been working closely with Ofwat to address their concerns and improve the overall quality of our plan and, therefore, the service we intend to provide to our customers.

We aim to be open with our customers, stakeholders and regulators about our performance against those commitments. We want them all to have trust in our service and confidence in the information we publish about our performance. We welcome feedback at any time about how we are performing against our commitments.

About this document

We regularly publish information on our performance to demonstrate to customers, stakeholders and our regulators the extent to which we are delivering the services expected of us.

This document describes the main assurance activities that we either carry out ourselves or engage third-party providers to carry out independently, so that the information we report to customers, stakeholders and regulators is accurate, transparent, reliable, relevant, complete and up-to-date. We consider it essential to demonstrate that we report information on our performance that meets those criteria. This is part of our commitment to demonstrate that we take ownership of the information we report.

This final Assurance Plan 2018/19 sets out the main categories of information we publish and the processes in place to assess and assure that information. In producing and publishing this document we aim to provide transparency around how we support our Board in providing assurance of the information we report.

The water industry regulator, Ofwat, requires companies to provide different levels of assurance to support the information they publish, depending on Ofwat's confidence in the quality of the information that companies produce. As part of its Company Monitoring Framework, Ofwat require us to publish an assurance plan each year.

In November 2018, we carried out an assessment of the risks, strengths and weaknesses of the systems and processes we have in place to support our Board in providing assurance of the information we report. In January 2019, Ofwat published their 2018 Company Monitoring Framework reports for all water companies. Ofwat have re-categorised us as "Prescribed". Ofwat raised "minor concerns" in the following categories of their assessment:

- Charges engagement
- Water resources management plan and market information
- Cost assessment
- PR19 initial assessment of business plans – data consistency

Ofwat also raised "serious concerns" with respect to:

- PR19 initial assessment of business plans – data quality

As a result, we reviewed our Risks, Strengths and Weaknesses Statement and published a revised version on 8 March 2019. In the "Ofwat's Assessment" section of this document, we have captured how we have addressed or are in the process of addressing the minor and serious concerns raised by Ofwat in their Company Monitoring Framework report.

Following publication of our November 2018 Risks, Strengths and Weaknesses Statement, we:

- consulted with our key regulators and offered meetings to discuss the statement;
- engaged with CCG members in respect of the statement; and
- asked customers, stakeholders and regulators to give us their views on the way we assess data and information, and how we present our performance to them.

We have received no feedback from stakeholders in respect of our publications in November 2018 (Risks, Strengths and Weaknesses Statement and draft Assurance Plan 2018/19) and March 2019 (revised Risks, Strengths and Weaknesses Statement). However, we are re-doubling our efforts to seek feedback from all categories of stakeholder in respect of the performance information which we publish, both leading up to and following publication of this final Assurance Plan 2018/19.

Our Assurance Plan

General approach to assurance and information

Role of the Board

Our Board has overall responsibility for monitoring the Company's systems of internal control and for reviewing the effectiveness of these systems, including financial, operational and compliance controls and risk management, and is advised by our Audit Committee on these matters. We continue to maintain a multi-layer assurance process.

Role of the CCG

Our Customer Challenge Group (CCG) has an independent chair and its primary role is to "comment on how well Affinity Water considers customers' views and their priorities and how well customer risks are managed in relation to the achievement of the AMP6 Performance Commitments". In particular, the CCG's terms of reference include a requirement for them to have access to assurance reports from auditors and scrutinise performance against our AMP6 Performance Commitments. They are also expected to comment on and challenge the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

The CCG has also played a significant role in our PR19 business planning programme. The CCG was required by Ofwat 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". CCG will continue to adopt this role until Ofwat's final determination, due in December 2019.

Risk Management Framework

We have an established framework for identifying, evaluating and managing the key risks we face. Our aim is to foster a culture in which teams throughout the business manage risks as part of their management of day-to-day operations. We identify, record, assess and manage risks at three levels as follows:

- Strategic Risks – those risks which potentially have a material adverse effect on our business, financial condition, results of operations and reputation; these risks are reported in our Statutory Financial Statements as our "Principal risks and uncertainties"

- Directorate Risks – those risks which potentially have a material adverse effect on the achievement of directorate-level business objectives
- Operational Risks – those risks which potentially have a material adverse effect on the effectiveness or efficiency of day-to-day business processes.

All of the above risks are recorded in our Risk Registers, assessed, and action plans prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on-going basis. Risks are also regularly re-assessed and ranked by our teams during the year. Strategic and directorate risks are reviewed at least quarterly by our Executive Management Team and Audit Committee. Strategic risks are also reviewed at least twice-yearly by our Board, in particular as part of their approval of our Annual Report and Financial Statements.

The strategic risk register includes the principal regulatory risk of 'Failure to comply with laws, our instrument of appointment and other recognised standards'. This risk encompasses, amongst other things, the risks managed at directorate level relating to the provision of accurate information to customers, regulators and stakeholders.

Internal systems and processes

Systems are designed to manage the risk of failure to achieve business objectives (though such risk cannot be completely eliminated), and provide reasonable, but not absolute, assurance against material misstatement or loss. Features of the systems of risk management, planning and controls include:

- a comprehensive suite of internal control procedures across both operational and financial matters, supported by detailed delegated levels of authority;

- an Internal Audit function, the head of which has direct access to the Audit Committee, together with other internal control and assurance resources which monitor compliance with laws, regulations, policies and procedures;

- specialist planning teams retained within the organisation to work on major projects, such as business planning activities, supported by external specialists where appropriate; and

- the use of appropriate fiscal, regulatory and operational external assurance review. The Board approves the company's annual budget and regularly reviews actual performance. All major transactions are reviewed and approved by the Board.

The Company follows the principles of the 'three lines of defence' model, as promoted by the Institute of Internal Auditors and other professional and commercial organisations, as the basis of its assurance process. Assurance is achieved as follows:

1st Line: Management control

Controls are exercised by the operational managers who own and manage risks day to day. Controls are designed into systems and processes under the guidance of operational management.

2nd Line: Risk management and peer review

This comprises risk management and compliance functions established by management to help build and / or monitor the first line of defence controls, ensuring they are properly designed, in place and operating as intended.

3rd Line: Internal Audit

Internal Audit provides the Board and senior management with assurance based on a high level of independence and objectivity within the organisation. Internal Audit provides assurance, on a test basis, as to the effectiveness of governance, risk management and internal controls.

Internal Audit prepares an annual plan of reviews, taking into account risks identified on risk registers, and carries out a number of audits each year. Not all areas are reviewed every year. The Internal Audit Plan is approved by the Audit Committee, which also monitors its delivery over the course of the financial / regulatory year. When reviewing processes which include recording and processing of data to be used in regulatory reporting, Internal Audit particularly focuses on ensuring the effectiveness and efficiency of controls to ensure accuracy and completeness of that data.

External Assurance

We also make use of third-party organisations to provide the Board with external assurance that the information prepared by management is accurate and compliant. This particularly applies to major items such as the Annual Report and Accounts and the tariff setting process. The main parties used to provide this assurance are PricewaterhouseCoopers LLP (PwC), who provide assurance on financial data, and Atkins Limited (our Reporter), who provide assurance on engineering and technical data. These contracts are periodically re-tendered and providers may change.

In addition, from time to time we may also use other assurance providers, such as Deloitte, Frontier Economics, Ernst & Young and Oxford Economic Research Associates, on specific issues where management or our Board consider it appropriate.

It should be noted that the three lines of defence model does not always require the controls within the three lines to be performed in strict chronological order. In fact, it is not uncommon for all three to be performed concurrently.

During 2018 we expended considerable effort in developing our business plan for 2020 – 2025. Assurance was a critical aspect of this work in order to address Ofwat's methodology requirements which can be summarised as follows:

- All elements add up to a Business Plan which is of high quality and which is deliverable
- Our overall strategy for data assurance and governance processes delivers high quality data
- Our Business Plan will enable us to meet our statutory and licence obligations, now and in the future
- Our Business Plan will deliver operational, financial and corporate resilience over AMP7 and the long term
- Our Business Plan will enable customers' trust and confidence through high levels of transparency and engagement with customers on issues such as our corporate and financial structures

Appendix 11 to our September 2018 PR19 Business Plan detailed the multi-layered approach we adopted for assurance of our plan. Our Board owned the overall strategy for the Business Plan, and acknowledged that assurance was a key component in producing a high-quality business plan and that there was a need for a level of assurance commensurate with risk.

In spite of all of the above, in their initial assessment, published on 31 January 2019, Ofwat concluded that our business plan was subject to "significant scrutiny". Ofwat considered that our plan fell significantly short in a number of areas, although they did identify some high-quality elements. Since 31 January 2019, we have been working closely with Ofwat to address their concerns and improve the overall quality of our plan, and, therefore, the services we intend to provide to our customers.

Assurance of reported information

The tables on the following pages describe, for each of the types of information we publish, the main current assurance controls in place so that all information reported is accurate, transparent, reliable, relevant, complete and up-to-date.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Regulatory Annual Performance Report **(included within the Annual Report and Financial Statements)** **Summarises company performance in the preceding year and meets specific information requirements.**	Underlying non-financial data is inaccurate or incomplete. Information reported is unclear or misleading. Reporting requirements are not sufficiently well understood by staff resulting in inappropriate reporting methodology.	1. A wide variety of day-to-day operational controls is operated to ensure that all transactional data is accurately and completely recorded. 2. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 3. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data and information to ensure accuracy and completeness. 2. Executive / Senior Management review all information prior to publication or submission. 3. The Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including the Annual Performance Report. 4. The Board approves the Annual Performance report prior to submission.	1. Atkins carry out reviews of methodologies and processes by which non-financial data are produced and information generated. We consider it essential to have this independent review given the penalties and rewards associated with the achievement of performance commitments and the consequent impact on customers' future bills 2. PwC carry out an annual audit of the Regulatory Accounting Statements contained within our Regulatory Annual Performance Report. We have a regulatory obligation for our external auditors to confirm that these statements have been presented in accordance with Condition F and the Regulatory Accounting Guidelines issued by Ofwat. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements. 3. CCG comments on and challenges the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used. N.B. the assurance work carried out in respect of our Regulatory Annual Performance Report is detailed in the "Data Assurance Summary", published on our website.

APR Assurance Breakdown

Data	3rd Line Assurance procedures performed
Tables 1A, 1B, 1C, 1D, 1E, 1F, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2I, 2J and 2K	External audit by PwC, including RAG5 compliance.
Tables 3A, 3C, 3D, 3S and 4A, 4D, 4L, 4P and 4Q	External review by Atkins of the procedures used to collect and report the information.
Tables 4B, 4C, 4D, 4F, 4G, 4H, 4I, 4J, 4L and 4V, transactions with associated companies and current tax reconciliations	Agreed upon procedures performed by our external auditor, PwC, including checking application of the guidance in the Regulatory Accounting Guidelines, checking application of the methodology statement, checking consistency with other tables within the APR and reviewing the calculation of current year data where numbers do not directly extract from other tables.
RAG5 Audit	PwC perform agreed upon procedures over our compliance with Regulatory Accounting Guideline 5. These procedures include review of the Corporate Services Agreements between group entities and ensuring that recharges are in compliance with the “Guidance for transfer pricing in the water and sewerage sectors (RAG 5.07)”, checking the consistency of the disclosures in the notes in the Annual Performance Report of the Financial Statements, ensuring the wholesale water charges to group entities are in line with the “settlement report” provided by the Market Operator and ensuring the mathematical accuracy of the charges.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Other Regulatory Reporting **Data and information provided to our main regulators Ofwat, DWI and EA, and to CCWater.** **In particular: Performance Commitment / ODI reporting, Guaranteed Standards Scheme (GSS) information, written complaints data, annual data tables, annual tariffs and charges, quarterly reports to CCWater, ad-hoc requests (e.g. casework, response to Ofwat's "out-in-the-cold" report)**	Underlying non-financial data are inaccurate or incomplete. Information reported is unclear or misleading. Reporting requirements and the purposes for which submitted information will be used are not sufficiently well understood by staff, therefore reporting methodologies are inappropriate.	1. Day-to-day operational controls are operated to ensure that all transactional data is accurately and completely recorded. 2. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 3. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data to ensure accuracy and completeness. 2. Executive / Senior Management review all information prior to publication or submission. 3. Our Audit Committee reviews and our Board approves our annual data tables submissions.	1. Atkins carry out reviews of methodologies and processes by which certain data are produced and information generated for inclusion in regulatory reporting submissions. Again, we consider it essential that we have this independent review of our processes and procedures given the importance of the information provided to customers and regulators. These reviews also confirm whether reports are prepared in accordance with relevant guidance and regulatory requirements. 2. CCG comments on and challenges the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

Specific reports in this category

Reports	Description	Assurance
CCW Quarterly Returns	We submit operational performance data to CCWater each quarter. Areas covered include supply interruptions, per capita consumption and complaints. This data is used by CCWater to compile and publish reports comparing water companies' performance. Therefore, it is important that it is complete and accurate.	Quarterly returns are subject to the 1st and 2nd line of defence controls as described in the above table. 3rd line of defence assurance is carried out by Atkins on the annual return.
Delving into Water	We also submit "Delving into Water" reports to CCWater each quarter. These submissions are used by CCWater to compile their annual "Delving into Water" reports to highlight how the various water companies are performing in areas that "really matter to consumers". Again, in order to support the comparability of performance between companies it is vital that the information we provide is complete and accurate.	Quarterly returns are subject to the 1st and 2nd line of defence controls as described in the above table. 3rd line of defence assurance is carried out by Atkins on the annual return.
Discover Water	Discoverwater.co.uk is a dashboard bringing together key information about water companies in England and Wales in one place for customers. The dashboard aims to be a clear and simple source for trustworthy and factual information. Much of the data underlying the dashboard is provided by water companies and it is vital that this data accurately reflects our performance.	Data provided are subject to the 1st and 2nd line of defence controls as described in the above table. All data provided to Discover Water has already been subject to external assurance by Atkins as part of their work on our APR.
Developer Services Levels of Service (LoS) Data	Every month our Developer Services team submits to Water UK its self-certified performance against a number of metrics. Water UK publishes quarterly league tables comparing performance across all water companies. Our Internal Audit team recently carried out a review of this area and recommended that these monthly submissions are subject to independent assurance.	Monthly submissions are subject to: (a) 1st line of defence controls in the form of checks carried out by our Developer Services management team; and (b) 2nd line of defence assurance in the form of independent checks by our Risk and Compliance team.

PR19 Business Plan	We submitted our business plan for 2020 – 2025 to Ofwat on 3 September 2018. We also submitted various supporting data tables, some on 3 May 2018, others on 15 July 2018 and the remainder along with our plan submission on 3 September 2018. The Company and its Board was responsible for submitting high-quality business plans which include good assurance and have been put together using good governance processes. Ofwat's PR19 methodology described six Confidence and Assurance tests that companies had to consider when seeking and delivering assurance.	We adopted a multi-layer assurance process to review and challenge our proposals and develop a final business plan in line with industry best practice. We operated a variety of 1st and 2nd line of defence controls including internal team peer reviews; specialist technical support; and PR19 SteerCo oversight. By way of 3rd line of defence controls we used (a) Atkins for technical assurance of non-financial data; and (b) PwC as our overall assurance partner; in this capacity, they reported to our Board to provide the evidence and information necessary to allow the Board to provide an assurance statement to Ofwat that met its key tests and expectations. Our Internal Audit team also worked closely with PwC to support their work. In light of Ofwat's feedback in respect of our initial Business Plan submission, we have carried out a thorough review to understand why the above approach did not operate as effectively as it should have done and the changes needed to remedy this. The review identified that we needed to: • enhance our control environment, in particular by enforcing single sources of data and strengthening our lock down and change control processes; • improve understanding of how data informs our business planning processes and how data inter-relates; and • improve our overall framework for data governance and adherence to regulatory reporting guidelines.

WRMP	We submitted our revised draft Water Resources Management Plan (rdWRMP) on 1 March 2019 and we are running a consultation on this plan until 26 April 2019.	The main features of our approach to assurance of our rdWRMP were as follows: • A WRMP Committee comprising a mix of non-executive and executive directors; this committee provided oversight and scrutiny of the rdWRMP to ensure it represents the most cost effective and sustainable long-term solution and meets legal requirements and relevant guidelines; the committee reviewed and approved the assurance plan for the rdWRMP • Technical assurance was provided by Atkins with respect to preparation of the rdWRMP and its adherence to the Water Resources Planning Guidelines and the Water Resources Management Plan (England) Direction 2017 • Technical assurance was also provided by Ricardo Energy & Environment of the Strategic Environmental Assessment (SEA); Habitats Risk Assessment (HRA); and Water Framework Directive (WFD) assessment.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Financial Reporting **Regulatory and statutory financial information, submitted to Companies House.**	Financial position or performance mis-reported. Underlying financial transaction data are inaccurate or incomplete. Incorrect classification of transactions and balances. Incomplete / unclear notes to the accounts.	1. Day-to-day financial controls over financial transaction recording. Verification applied through delegated authority by managers. 2. Senior Finance managers are responsible for ensuring that all accounting processes are aligned to UK Generally Accepted Accounting Practice and relevant requirements of the Companies Act 2006. 3. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 4. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. The Finance team produces monthly management accounts which are reviewed by Executive / Senior Management and the Board. 2. The Audit Committee oversees all processes required to produce the Annual Report and Financial Statements, including review of draft reports, and recommends to the Board that they can be signed off.	1. As required by the Companies Act, PwC conduct annual audits of our financial statements in accordance with International Standards on Auditing (UK and Ireland). The objectives of these audits are to confirm that the financial statements give a true and fair view of the state of the Company's affairs, profit and cash flow; that they have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and have been prepared in accordance with the requirements of the Companies Act 2006. N.B. the assurance work carried out in respect of our Annual Report and Financial Statements is detailed in the "Data Assurance Summary", published on our website.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Direct Customer Communications **Multi-channel communications such as website information, on-line surveys, social media, customer call centre data, operational staff contact, customer billing leaflets, etc.**	Information provided is inaccurate, incomplete or unclear. Information provided does not meet the needs of customers.	1. Day-to-day controls are in place to ensure that all data are accurately and completely recorded. Data assurance is carried out by operational management. 2. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 3. All materials used to communicate directly to customers are developed jointly by our Customer Relations and External Communications teams. 4. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness. 2. Executive / Senior Management review information prior to publication or submission.	1. Individual communications materials are not typically subject to specific external assurance. However, any underlying data used in such communications will already have been subject to external review by Atkins as part of their assurance work on our Annual Performance Report and other Regulatory Reporting. 2. CCG comments on and challenges the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Other Stakeholder Information **Information provided to a range of customer, consumer and local government and other stakeholder groups.**	Information provided is inaccurate, incomplete or unclear. Information provided does not meet the needs of relevant stakeholders.	1. Day-to-day controls are in place to ensure that all data are accurately and completely recorded. Data assurance is carried out by operational management. 2. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 3. All materials used to communicate directly to customers are developed by our External Communications team in conjunction with other areas of the company dependent upon the nature of the information being reported. 4. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness. 2. Executive / Senior Management review information prior to publication or submission.	1. Individual communications materials are not typically subject to specific external assurance. However, any underlying data used in such communications will already have been subject to external review by Atkins as part of their assurance work on our Annual Performance Report and other Regulatory Reporting. 2. CCG comments on and challenges the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

Specific reports in this category

Reports	Description	Assurance
Gender Pay Gap Report	Since 2017, as an employer of more than 250 employees, we have been required to publish and report figures about our gender pay gap. We published our first gender pay report in April 2018, based on a snap shot of our workforce on 5 April 2017. We are currently working on our 2018 report.	Reporting is based on data which is subject to stringent 1st and 2nd line of defence assurance controls embedded in our payroll processes.
Payment Practices and Performance	Since April 2017, large companies and limited liability partnerships have been required to publicly report twice a year on their payment practices and performance, including the average time taken to pay supplier invoices.	Our reports are based on data which is (a) subject to 1st and 2nd line of defence controls embedded in our Accounts Payable processes, and (b) reflected in our financial statements which are subject to review by PwC as part of their annual external audit. Reports are subject to rigorous checking by senior and executive management.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Charges scheme documents, tariff documents, charging arrangements and related information and documents.	Information provided is inaccurate, incomplete or unclear. Information provided does not meet the needs of relevant stakeholders. The Company does not properly comply with its legal and regulatory obligations.	1. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes covering development of charges, charges schemes and charges arrangements; these are all subject to annual self-assessment. 2. Various detailed controls are operated as an inherent feature of processes to develop charges, charges schemes and charges arrangements, designed to ensure the veracity of calculations and compliance with regulatory requirements. 3. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. A Board sub-committee is formed every year to review, on behalf of the Board, the development of tariffs, charges schemes and charges arrangements, and approve any submissions to be made to Ofwat. 2. All documents are subject to review by our Legal Services team prior to publication, to ensure compliance with all relevant legal obligations.	1. Internal Audit carry out an annual review to provide assurance that documented processes and procedures are designed to ensure compliance with all regulatory and legal obligations, and that charges schemes and charges arrangements are developed in line with those processes and procedures. 2. Atkins, our Reporter, review forecasts of customer numbers and charges volumes in order to provide assurance that these have been prepared on a reasonable basis. 3. PwC assess the computational accuracy of charges forecasts and provide assurance that expected revenue from our charges is in line with the price controls set out in our licence conditions.

Specific reports in this category

Reports	Description	Assurance

Charges Scheme
Wholesale Tariff Document
Charging Arrangements for New Connections
Indicative Charging Information Statement of Significant changes
Statement of significant Changes – Charges Scheme Charges
	Each year we publish a number of documents which set out our wholesale charges to water supply licensees who operate in our supply areas; charges for services provided to household customers; and charges to developers for providing new water mains and for connecting to water mains.
	There are various legal and regulatory requirements covering these documents, summarised by Ofwat in Information Note 18/18.
		We established a Board sub-committee to oversee development of the various 2019/20 charges and tariff documents, and the assurance activities operated to ensure compliance with the various legal and regulatory requirements.
		To support the sub-committee in making its Board Assurance Statement that we had complied with all our relevant legal and statutory obligations, we carried out extensive audit work to support the charges setting process, as follows:
		• Atkins carried out an audit of the information used to provide the “charge multipliers” for the Charges Scheme calculations; they concluded that “we can provide assurance on the processes that have been used to derive the base customer information and charge multipliers…and do not consider there are any material risks for the report year”.
		• PwC reviewed our forecast revenue figures and concluded that “we agreed the total forecast revenue as being no more than the price control revenue as notified to Affinity Water by the Regulator on 12 December 2014” and further that “we found no exceptions”.
		• Our Internal Audit team focused on reviewing written procedures and the operation of those procedures; they concluded that
		  ○ We are able to provide assurance with respect to the effectiveness of systems, procedures and controls used to develop the various charges included in the AWL’s Wholesale Tariff Document 2019/20; Charges Scheme 2019/2020; and Charging Arrangements for New Connections Services 2019/2020.
		  ○ We are satisfied that relevant systems, procedures and controls operated are in line with Ofwat’s Charges Scheme Rules; Wholesale Charging Rules and Charging Rules for New Connection Services.

Report Categories	Main Risks	Controls / Assurance in Place		
		1st Line (Data providers and management)	2nd Line (Regulation, Financial Control, senior management)	3rd Line (Internal Audit and External Providers)
Community-based Reporting **Information provided in respect of our 8 communities.**	Information provided is inaccurate, incomplete or unclear. Information provided does not meet the needs of relevant stakeholders.	1. Day-to-day controls are in place to ensure that all data are accurately and completely recorded. Data assurance is carried out by operational management. 2. We have in place well-established responsibilities and accountabilities, policies, methodologies and processes, all of which are subject to frequent self-assessment and independent review by Internal Audit on a cyclical basis. 3. All materials used to communicate directly to customers are developed by our External Communications team in conjunction with other areas of the company dependent upon the nature of the information being reported. 4. Separation of duties is in place wherever possible to ensure that no single individual has complete responsibility for a business process and its constituent controls.	1. Reporting experts in the Regulation team carry out regular detailed reviews of underlying data pertaining to regulatory submissions to ensure accuracy and completeness. 2. Executive / Senior Management review information prior to publication or submission.	1. Individual communications materials are not typically subject to specific external assurance. However, any underlying data used in such communications will typically already have been subject to external review by Atkins as part of their assurance work on our Annual Performance Report and other Regulatory Reporting. 2. CCG comments on and challenges the appropriateness of content and language of relevant customer communication and engagement material across the range of media channels used.

Specific reports in this category

Reports	Description	Assurance
"Our year in review"	This is an annual performance report published in June / July in respect of the most recently completed financial year. It is designed to explain our performance targets and measures in plain-English and is specifically directed at customers. Performance against our various performance commitments is shown, including breakdowns by community where relevant.	The contents of the performance booklet are reviewed in detail by our Audit Committee and members of our executive and senior management teams. All numbers reported are based on data which has already been subject to detailed review by our external auditors PwC and Atkins.
Monthly Community Performance reports	These reports are published on our website for each calendar month and show, by community, performance against the following performance commitments: affected customers not notified of planned works; number of mains bursts on our network; unplanned interruptions to supply of more than 12 hours; planned works taking longer to complete than notified.	These reports include a note to the effect that all performance figures are unaudited and subject to change. However, the contents are based on data reported to and reviewed by our Board and members of our executive and senior management teams.

Ofwat's Assessment

The table below shows the "minor concerns" and "serious concerns" raised by Ofwat in their 2018 Company Monitoring Framework report, published in January 2019 and our responses designed to ensure that these concerns are addressed in future reports and submissions.

Assessment	Response
Charges Engagement – Minor concerns	
Affinity Water has assessed that it had historically been under-recovering the overhead costs of works from developers. It was good that Affinity Water identified and corrected for this issue, though it did suggest that the company had not checked cost-reflectivity over a number of years previously. However, we had concerns arising from a complaint we have received and are still considering regarding the costs Affinity Water uses to calculate the asset payment due to self-lay providers. We have been able to establish from our work to date that Affinity Water did not clearly consult on or explain the detail of how it would implement in practice what is outlined in its charging arrangements.	• We are establishing a Developer Consultation and Engagement programme to ensure our New Connections charges and their practical implications are well understood by all developers.
Water Resources Management Plan and Market Information – Minor concerns	
We had minor concerns in this area due to the unclear presentation of some data elements in the company's draft water resources management plan and market information. Board assurance was described but we had concerns regarding its effectiveness following an initial regulator submission that did not meet requirements prior to public consultation.	• In preparing our revised draft WRMP (published for consultation on 1 March 2019), we reviewed and enhanced our assurance strategy and approach; details are included on page 16 above.
Cost Assessment – Minor concerns	
We had minor concerns in this area. All cost assessment tables were complete with no missing data. However, we had to raise several queries to seek explanation for data variances where there was no supporting commentary. Some of these led to 17-18 and historical data corrections. The company's accounting separation methodology was available, however we were	• Cost assessment tables (tables 4J to 4W) are not required by the RAGs to be included in the APR and so for 2018/19 year-end, we propose taking these out of the APR and publishing them in a separate document on our website by 15 July 2019. This will allow additional time to resolve issues identified by PwC and Atkins in conducting their assurance procedures in respect of these

concerned that many of its cost allocations are still based on management estimate and that the chosen cost allocation methods have not been properly justified. There was also no mention of the assurance that had been undertaken on the accounting separation methodology other than a statement that the accounting separation data can be traced back to the audited accounts through the company's accounting systems.	tables. • We are in the process of reviewing cost allocations which were considered to have not been properly justified in our 2017/18 accounting separation methodology statement; for these, we will either identify potential alternative cost allocation methods or provide further detail in our accounting separation methodology statement regarding the bases for estimates. • We will include in our 2018/19 Data Assurance Summary details of the external assurance procedures performed by PwC and Atkins over the cost allocation tables; this will also be referenced in our accounting separation methodology statement.
PR19 Initial Assessment of Business Plan data consistency – Minor concerns	
We found minor issues overall with the consistency of performance and financial data reported in the company's business plan tables with previous data submissions. This was due to material inconsistencies between the company's business plan tables and Annual Performance Report in the area of cost assessment.	• Please see below.
PR19 Initial Assessment of Business Plan data quality – Serous concerns	
Overall the business plan falls significantly short of providing sufficient and convincing evidence that the company's PR19 business plan tables including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided are consistent, accurate and assured. We identified material issues within our assessments of the data tables in the policy areas of cost assessment, risk and return, financial modelling and cross cutting themes (water resources). For example: • In cost assessment, there were material variances in one table which had not been prepared in accordance with our guidance and definitions; • In risk and return, the financial ratios included in one of the business plan tables were materially different and in some cases higher, and we were unable to verify how they had been calculated; • In financial modelling, the company's submitted financial model includes a material adjustment for 'Allowed revenue'	• We acknowledge that the data forming part of our September 2018 Plan fell significantly short of Ofwat's expectations for consistency and accuracy, including the allocation of costs between business units, information on corporation tax, and the assurance and commentaries provided. • As a "prescribed" company under the Company Monitoring Framework, we are committed to making the improvements necessary to restore Ofwat's confidence and our ambition is to become a "self-assured" company. • For our Revised Plan we have strengthened the assurance of our data and commentaries by reinforcing the "three lines of defence" approach and providing further advice, guidance and support to those responsible for providing data and preparing commentaries. • PwC and Atkins have provided assurance of the data tables and commentaries for our

which is not included in the data tables; and In cross cutting themes (water resources), the company did not follow the definition of bilateral entry capacity and confuses it with bilateral trades.	Revised Plan. KPMG have reviewed our internal financial model to correct errors identified from the September 2018 Plan and provide assurance of its consistency with the Ofwat model; KPMG also undertook technical assurance of financial ratios, pay as you go and RCV run-off rates and their supporting explanations. • We have carried out a deep-dive review to understand the mistakes we made in our initial submission and ensure that we address them in our Revised Plan; more detail is provided on page 16 above.

In addition, we are implementing a number of initiatives to enhance customers', stakeholders' and regulators' trust in our service and confidence in the information we publish about our performance.

- We are implementing the data strategy we outlined in our PR19 Business Plan. This strategy will help us achieve our business objectives by making us more data conscious and assuring the quality of data from the point of capture through its lifecycle.

- We are involving customers and other end-users in our digital development programme to help us develop and implement innovative solutions that meet their requirements for information and data.

- We are undertaking a review of content on our website to ensure that all information is useful, up-to-date, accurate, transparent and has been subject to appropriate levels of assurance; we are also introducing internal processes and controls to ensure that those criteria are met on an ongoing basis.

We will carry out another review of risks, strengths and weaknesses with respect to the information we publish and provide to customers, stakeholders and regulators by the end of July 2019.

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Feedback

We would be pleased to received feedback at any time with regards to our various performance and assurance documents, how we assess data and information and how we present our performance to customers, stakeholders and regulators.

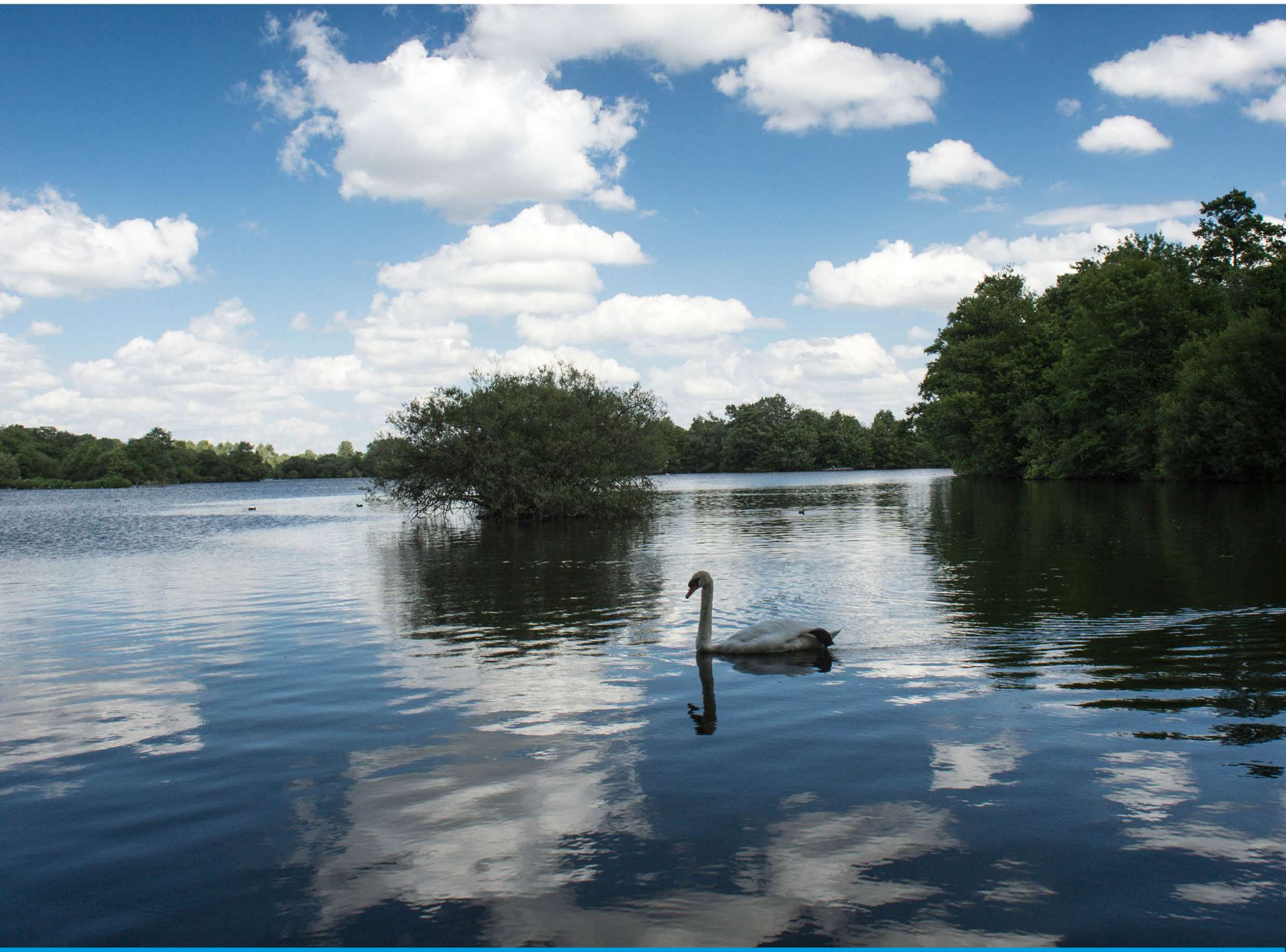
Please contact us at:

assurance@affinitywater.co.uk

Appendix CA.A1.1

Action ref AFW.CA.A1

Supplemental Board Assurance Statement



AFW Supplemental Board Assurance Statement

March 2019

SUPPLEMENTAL BOARD ASSURANCE STATEMENT

1. INTRODUCTION

1.1 As a Board, we are very disappointed that our PR19 Business Plan ("September Plan") has been classified by Ofwat in its Initial Assessment of Plans ("IAP") as requiring significant scrutiny. We have taken steps to appraise ourselves of where, as a business, we have fallen short in meeting Ofwat's expectations and to seek to ensure that our September Plan (as updated by this submission) (our "Revised Plan") provides the evidence and assurance that our plans for AMP7 are of high quality, robust, supported by customers and are stretching and deliverable.

1.2 We remain committed to ensuring our AMP7 Business Plan delivers for customers and the environment for the period 2020 to 2025 and in the longer term. We have been ambitious in addressing the issues identified by Ofwat in its IAP and welcome Ofwat's commitment to consider whether, in light of the changes to our September Plan reflected in our Revised Plan, it remains appropriate to allocate lower cost sharing rates as a 'significant scrutiny' company.

1.3 We have led and overseen the preparation of our Revised Plan, in particular by:

- making ourselves even more visibly accountable to the communities we serve by increasing the number of our performance commitments from 19 to 28;
- stretching ourselves further through our performance commitments, including on leakage where we have increased our reduction target from 15% to 18.5% (equivalent to a 30 Ml/d reduction over AMP7);
- developing additional bespoke performance commitments dedicated to: (a) the longer-term provision of resilience in our supply area; (b) the sustainability of asset health; and (c) supporting the resilience of our service for customers in vulnerable circumstances;
- responding to Ofwat's cost efficiency challenge which brings us to upper quartile on cost and reducing our retail cost to serve from 22% to 5%;
- reducing the average household bill (before inflation) by 1.6% in AMP7 and planning to reduce it by a further 2% in AMP8;
- widening the RoRE range to +0.33% and -2.61%;
- ensuring our Revised Plan continues to align with our revised draft Water Resources Management Plan (rdWRMP) published for consultation on 1 March 2019; and
- re-confirming our intention to reduce the gearing of Affinity Water Limited to 75% in AMP7 and our ambition to reduce gearing to an actual reported level of 70% in the same period.

1.4 In this Supplemental Board Assurance Statement, we provide:

- details of how we, as a Board, have led the development of our Revised Plan and its assurance;

- the assurance requested by Ofwat with respect to the robustness of our large investment proposals (action reference AFW.CA.A1);
- assurance of other matters where we have fallen short of Ofwat's expectations; and
- an update on a number of matters relating to board leadership, governance and transparency.

2. LEADING THE DEVELOPMENT OF THE REVISED PLAN AND ITS ASSURANCE

2.1 We are, and have been, fully engaged in the design, development and preparation of our Revised Plan. We own the strategy and have provided strategic direction to management on their responses to the actions required by Ofwat. We have supplemented our regular meetings with a number of PR19-specific Board meetings to support our oversight, scrutiny and challenge of our Revised Plan.

2.2 We have re-visited the assurance we provided in respect of our September Plan and considered the changes within our Revised Plan and any implications they may have for the assurance provided.

2.3 As a Board, we have:

- reviewed the findings of an external review into data quality;
- scrutinised and informed the scope of the assurance programme for our Revised Plan and approved the appointment of PricewaterhouseCoopers LLP and Atkins Limited to provide strategic and technical assurance as well as assurance of our data tables and commentaries;
- reviewed, challenged and approved the methodology for assuring the accuracy and quality of our data tables and commentaries;
- reviewed third party assurance reports on the data tables and commentaries provided by PricewaterhouseCoopers LLP, Atkins Limited and ChandlerKBS and KPMG with respect to the accuracy of our financial model; and
- met with the Chair of our Customer Challenge Group to discuss the findings of its assurance of relevant aspects of our Revised Plan.

2.4 Since publication of the IAP, we have met formally and informally as a Board on a number of occasions specifically to discuss and set the strategy for and to oversee the development of our Revised Plan.

2.5 We will continue, as a Board, to provide leadership and oversight of the further work we are undertaking and further submissions in respect of our AMP7 Business Plan, and are committed to overseeing and monitoring the delivery of our Revised Plan.

3. ROBUSTNESS OF LARGE INVESTMENT PROPOSALS

3.1 In our September Board Assurance Statement we provided assurance that:

- we had reviewed expenditure forecasts included in the September Plan to satisfy ourselves that they were robust, reliable and efficient, taking account of benchmarked cost data. In this regard, we took into account the Atkins Limited *PR19 Assurance* Report;

- we had challenged management about their plans to achieve the operating and capital cost efficiencies within the September Plan so that we were assured they were both stretching and deliverable;

- we had reviewed how the wholesale investment programme had been developed and the process by which options were assessed;

- we had reviewed the scope and deliverability of the investment programme and, where uncertainties in scope or cost had been identified by our assurance providers, we had satisfied ourselves that those risks and uncertainties were appropriate and that the relevant investment remained the best one for customers; and

- our September Plan was aligned with the revised draft Water Resources Management Plan we were preparing and that we did not envisage there would be any change to the investment programme included in the Business Plan for AMP7.

3.2 The Atkins Limited *PR19 Assurance Report* classified a number of our large AMP7 investment areas 'amber', highlighting uncertainties with respect to these investment areas. Since our September Plan, further work has been undertaken by management on the business cases for these investment areas and for the Supply 2040 scheme. We asked Atkins Limited to revisit these seven investment areas and the Supply 2040 scheme, in particular to provide assurance with respect to:

- their technical suitability;

- the robustness of the challenge and decision-making process;

- their consistency with proposed Performance Commitments; and

- confirming that uncertainties either in relation to the quantum of activities or the costs were not material.

3.3 Atkins Limited has prepared a further assurance report which re-classifies each of the seven 'Amber' investment areas and the Supply 2040 programme 'Green'. The 'Green' classification indicates that these investment areas have clear drivers and that optioneering and costs are underpinned by an appropriate evidence base.

3.4 We recognise that investments driven by our Water Resources Management Plan form a substantial part of our AMP7 enhancement programme. We therefore established a Water Resources Management Plan Committee, chaired by Tony Cocker, to provide oversight and scrutiny of the preparation of our revised draft WRMP, to ensure it represents the most cost effective and sustainable long-term solution and meets legal requirements and relevant guidelines. As part of its duties, the Committee reviewed:

- technical assurance from Atkins Limited with respect to preparation of our rdWRMP and its adherence to the Water Resources Planning Guidelines and the Water Resources Management Plan (England) Direction 2017;

- reviewed technical assurance from Ricardo Energy & Environment of our Strategic Environmental Assessment ("SEA"), Habitats Regulations Assessment ("HRA") and Water Framework Directive Assessment; and

- legal assurance, with specific reference to the requirements of the SEA and HRA.

3.5 The Committee provided the following assurance in Chapter 8 of the revised draft Water Resources Management Plan:

"We have reviewed this rdWRMP and the assurance reports provided by Atkins Limited and Ricardo Energy & Environment and comments and views provided by Counsel following legal review.

We are satisfied that the rdWRMP represents the most cost effective and sustainable long-term solution for managing and developing water resources so as to be able, and continue to be able, to meet the Company's water supply obligations under Part III of the Water Industry Act.

We are further satisfied that our rdWRMP takes account of all statutory drinking water quality obligations, and that it includes plans to meet our statutory obligations in this respect in full. We approve the rdWRMP on behalf of the Board."

3.6 Taking all of these matters into account, we can provide assurance that our large investment proposals for AMP7 are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers.

4. DATA QUALITY

4.1 We acknowledge that the data forming part of our September Plan fell significantly short of Ofwat's expectations for consistency and accuracy, including the allocation of costs between business units, information on corporation tax, and the assurance and commentaries provided. As a 'prescribed' company under the Company Monitoring Framework, we are committed to making the improvements necessary to restore Ofwat's confidence and our ambition is to become a 'self-assured' company. We have appraised ourselves of the risks and weaknesses identified in our revised *Risks, Strengths and Weaknesses* statement and endorsed the actions to address those risks and weaknesses set out in our *Final Assurance Plan 2018/19*.

4.2 We have carried out a thorough review to understand why the above approach did not operate as effectively as it should have done and the changes needed to remedy this. The review identified that we needed to:

- enhance our control environment, in particular by enforcing single sources of data and strengthening our lock down and change control processes;
- improve understanding of how data informs our business planning processes and how data inter-relates; and
- improve our overall framework for data governance and adherence to regulatory reporting guidelines.

4.3 We are committed to taking the necessary steps to implement these improvements and our Audit Committee will oversee this work. For our Revised Plan, we have strengthened the assurance of our data and commentaries by reinforcing the "three lines of defence" approach, strengthening our processes for change control and providing further advice, guidance and support to those responsible for providing data and preparing commentaries.

4.4 Pricewaterhouse Coopers LLP and Atkins Limited have provided assurance of the data tables and commentaries for our Revised Plan. KPMG have reviewed our internal financial model to correct errors identified from the September Plan and provide assurance of its consistency with the Ofwat model. KPMG also undertook technical assurance of financial ratios, pay as you go and RCV run-off rates and their supporting explanations.

4.5 Subject to any limitations identified in the data table commentaries and third-party assurance reports, we are satisfied as to the accuracy, completeness and quality of the data, estimates and forecasts provided in the Revised Plan.

5. CUSTOMER CHALLENGE GROUP

5.1 We greatly value the work undertaken by our Customer Challenge Group in challenging the quality of our customer engagement for our September Plan. We recognise that the timetable envisaged for some of our engagement activities supporting the September Plan was not met and became compressed, causing significant time pressures for and a draw on the resources of the CCG. We fully accept the criticisms made by the CCG in its report in this regard.

5.2 For our September Plan, we engaged extensively with our CCG to obtain feedback on the quality of our customer engagement and to seek assurance that the outcome from that engagement had informed our plan. The CCG confirmed this was the case.

5.3 We were pleased that for our September Plan the CCG assessed 15 of its 18 test areas for engagement on our Business Plan 'Green'. While disappointed that our customer engagement did not fully meet the CCG's tests for effective customer engagement on long term risks, the performance commitment framework as a whole and resilience, we fully accept the shortcomings identified.

5.4 For our Revised Plan, our CCG has provided assurance that we have effectively engaged with customers on:

- the affordability and acceptability of our proposed bill profile for the 2020 to 2025 period; and
- long-term bill profiles for the 2025-30 period and customer support for each of the profiles tested.

5.5 In addition, the CCG has reviewed our response to fourteen other actions which relate to our performance commitments and customers in vulnerable circumstances and provided assurance in its report that our approach is appropriate.

5.6 We take this opportunity to thank the CCG and its chair, Teresa Perchard, for the further work done in reviewing the work we have undertaken (and are continuing to take) with respect to customer engagement on our AMP7 Business Plan.

6. AFFORDABILITY AND VULNERABILITY

6.1 In our Board Assurance Statement we provided assurance that we were satisfied from research that the small increase proposed in average bills over AMP7 would represent a declining share of our customers' projected disposable income (allowing for housing costs) over that period.

6.2 For our Revised Plan, we are proposing a 1.6% reduction in clean water bills (before inflation) across AMP7, with a reduction in each year and an anticipated further 2.0% reduction in clean water bills (before inflation) in AMP8.

6.3 We have considered the further consultation undertaken with customers on these final bill profiles, noting high levels of acceptability and affordability. We note that we will be undertaking further quantitative and qualitative research during May and June 2019. On the basis of the consultation undertaken to date we provide assurance that our final bill profiles for AMP7 and AMP8 are supported by customers.

6.4 In our Board Assurance Statement we also provided assurance that our September Plan included appropriate assistance measures for those struggling, or at risk of struggling, to pay their bills. Our plans to increase the reach of our social tariff to a further 25,000 customers have now been tested with customers and we have provided evidence of their support for increasing the current level of cross subsidy from £3.00 to £4.50 per customer, per annum.

6.5 Our Revised Plan includes a further performance commitment to secure and maintain accreditation to BSI 18477 for Inclusive Services and confirms our commitment to increase the number of customers on our priority services register to 7.22% of total customers by the end of AMP7.

7. ACCOUNTING FOR PAST DELIVERY

7.1 We continue to monitor closely our performance against the challenging performance commitments we set ourselves for AMP6, which include some of the biggest reductions in leakage, demand and water abstraction of any company in the industry. In our September Board Assurance Statement, we acknowledged that:

- our performance on supply interruptions greater than 12 hours had fallen short of the commitment we made in the first three years of AMP6 and that we were continuing to challenge and monitor the robustness of management's plans to meet this performance commitment for the remainder of AMP6; and

- we had continued to rank in the lower quartile for performance against the Service Incentive Mechanism.

7.2 We confirmed that we would continue to monitor the progress of the business in meeting all our performance commitments and our legal and regulatory obligations, and would oversee and challenge management's plans to achieve them.

7.3 In October 2018, we considered the risks to achieving the 2018/19 performance commitments for leakage reduction and per capita consumption. We noted that performance during the Spring of 2018 had been satisfactory but that recorded leakage rose substantially over the hot summer but had not declined as expected as we moved into late summer and early autumn. We scrutinised and endorsed management's plans to secure and deploy additional resources to detect more leaks and repair those leaks more quickly to meet the performance commitment for leakage reduction. We have since monitored performance against these plans on a monthly basis.

7.4 During January 2019, it became apparent that, notwithstanding the measures taken under the action plan we would not meet our leakage reduction performance commitment for 2018/19. Our CEO, Pauline Walsh, informed Ofwat's CEO, Rachel Fletcher, of this on 28 January 2019 and outlined the actions we had taken and are continuing to take to be in the best position we can at the end of 2018/19 to achieve our performance commitment for 2019/20.

7.5 We remain acutely conscious of the public focus on industry performance and we understand the importance of meeting leakage reduction and per capita consumption performance commitments in this context. We remain fully committed to maintaining our track record of delivery this AMP and plan to achieve our overall targeted reductions in leakage and per capita consumption by March 2020.

8. RESILIENCE

8.1 We confirm our commitment by 22 August 2019 to prepare and provide an action plan to develop and implement a systems-based approach to resilience in the round to ensure we can demonstrate in the future an integrated resilience framework that underpins our operations and future plans, showing the connections between risks to resilience, planned mitigations, our package of outcomes and our corporate governance framework.

8.2 Our Revised Plan includes common and bespoke performance commitments associated with operational resilience which are clearly defined, demanding for AMP7 and the long term, and which are supported by the right incentives. We have ensured that there is a clear link to our long term risks, as well as our near term operational risks around the performance of our network and our increasing dependency on cyber and digital technology.

9. GEARING

9.1 We re-confirm our intent and the intent of our shareholders to reduce the gearing of Affinity Water Limited to 75% in AMP7 and our ambition to reduce gearing to an actual reported level of 70% in the same period. In our September Plan, we reported that our shareholders were minded to modify the capital structure of the Daiwater Investment Limited group to meet this intent and to pursue this ambition. We also reported that we were working on a plan to enable this.

9.2 Following our September Plan, we have worked with our external financial advisers to refine the analysis of the options that we have considered. Through this work we have ruled out the option of repaying existing debt, as our existing borrowings are at rates that are efficient and therefore any repayment would be at a significant premium.

9.3 Our Revised Plan will require £120m of new financing. We also have £14m of existing debt maturing during AMP7. If these funding requirements remain in our final determination, we plan to modify the capital structure of the Daiwater Investments limited Group to reduce the gearing level in Affinity Water limited, possibly ahead of AMP7. A further capital injection could then be made at the Affinity Water limited level later in the AMP to keep the gearing at 75% or below.

9.4 We continue to expect to confirm implementation once the AMP7 price controls are finally determined, when the investment and funding needs of the business are finalised. We have assumed in our planning that the fundamentals of our September Plan (as updated in our Revised Plan) are maintained (including Ofwat's initial assessment of the WACC). We have also assumed that current market conditions will continue to prevail. If either of these were to change significantly, our plan to reduce gearing would need to be reconsidered. The change to our Group capital structure could trigger a change in our Dividend Policy.

9.5 There also remains some uncertainty about timing of implementation. We therefore believe it is right for our customers and our assessment of financeability, to base our AMP7 plan at the top level of our current target range of gearing of 80%, for each year of AMP7. We remain satisfied that this level of gearing would be appropriate and that our Revised Plan will facilitate Affinity Water Limited maintaining an investment grade credit rating, as set out in the Risk and Return section of our Revised Plan.

10. FINANCEABILITY

10.1 We recognise that, due to an error in the financial model we used to populate the Ofwat financial model, the ratios we reported in respect of Ofwat's indicators of financeability did not match those in the Ofwat Model. Our model has been reviewed independently by KPMG and fully reconciled to Ofwat's financial model 17z.

10.2 We have assessed the financeability of our Revised Plan on the notional company basis, using the financial ratios produced by the Ofwat model and using Ofwat's early view of the cost of capital.

10.3 Our Revised Plan enables Affinity Water Limited to maintain its Baa1 credit rating based on Moody's current assessment, process and guidance. We expect to meet our covenants and maintain headroom against those covenants. When Ofwat's stress tests are applied, we will continue to be able to meet our covenants and maintain an investment grade credit rating (based on Moody's current assessment process and guidance). Taking these matters into account, we are satisfied that our Revised Plan will enable our appointed business to remain financeable throughout AMP7. Accordingly, we are satisfied of Affinity Water Limited's financeability for AMP7.

11. ALIGNING RISK AND RETURN

11.1 In our September Board Assurance Statement we stated:

- we had considered carefully whether our September Plan represented an appropriate balance of risk between our investors and customers;
- we acknowledge that the regulatory framework provides a number of significant protections for companies with respect to revenue and costs;
- we had taken steps to appraise ourselves of the risks associated with delivering our Plan and reviewed and challenged the work undertaken by management to mitigate those risks;
- we were satisfied that management's risk and mitigation plans were appropriate; and
- that delivery of the September Plan would be stretching, with significant cost efficiencies needing to be achieved to facilitate a fair return to our investors.

11.2 We identified two specific risks (potential investment in treatment for metaldehyde and a potential sustainability reduction in our Brett Region) where we considered uncertainty was such that additional protection was needed to maintain an appropriate balance between customers and investors. We included bespoke uncertainty mechanisms for these two risks, such that there would be an adjustment made at PR24 in respect of costs incurred by the Company during AMP7.

11.3 We are satisfied that the risk of the potential need for investment in treatment for metaldehyde has been mitigated by the ban on sale and use announced in December 2018 by Defra. Accordingly, this bespoke uncertainty mechanism is no longer required.

11.4 We consider it appropriate to retain the bespoke uncertainty mechanism for the potential sustainability reduction in the Brett Region. The EA has stated in correspondence that a sustainability change of up to 20 Ml/day may be required but did not include it in its Water Industry National Environment Programme ("WINEP3") document. If this sustainability change is included in WINEP, it would be included as "amber". The PR19 methodology requires companies to include the cost of 'amber' schemes in its investment programme so the bespoke uncertainty mechanism we are proposing provides equivalent protection.

12 BOARD LEADERSHIP, GOVERNANCE AND TRANSPARENCY

12.1 In our Board Assurance Statement, we explained that we consider our Board is made up of directors with key relevant skills and experiences, who are able to challenge and support the executive management team and focus on customer, operational, regulatory and sector priorities. We stated that we wished to make some further improvements, including:

- ensuring that at least half our Board (excluding the Chairman) are independent;
- appointing a Senior Independent Non-Executive Director; and
- undertaking an externally-facilitated board effectiveness review.

We have implemented each of these changes, as explained below.

12.2 Simon Cocks stepped down as non-executive director on 1 October 2018. In January 2019, Chris Newsome was appointed an independent non-executive director. Chris has extensive experience in the water sector, most recently as Director of Asset Management and Executive Director at Anglian Water Services Limited and previously as Head of Investment and Capital Development at Yorkshire Water. He has a strong track record in asset management and capital delivery. His skills and experience complement those of existing Board members.

12.3 Following these changes, half our Board (excluding the Chairman) is independent. Our Board comprises:

- a non-executive chairman, who is independent;
- five independent non-executive directors;
- two executive directors; and
- three non-executive directors who are affiliated to shareholders, therefore not independent;

12.4 We have appointed Chris Bolt as Senior Independent Non-Executive Director, to provide a sounding board for the Chairman and to serve as an intermediary for the other directors, shareholders and regulators.

12.5 We have recently undertaken an externally-facilitated review of our effectiveness as a Board. We have considered the review's recommendations and we are making improvements in the following areas: the induction and development of directors; succession planning; stakeholder management; board administration; and informal interactions between directors. We will report progress against these actions in our Annual Report.

12.6 Affinity Water Limited has recently been awarded the Fair Tax Mark and we have removed the Cayman Islands subsidiary from our financing structure.

12.7 We welcome Ofwat's revised Board Leadership, Governance and Transparency principles which will apply from 1 April 2019 and the approach Ofwat has outlined to embedding the core objectives in the licence conditions. We have confirmed to Ofwat we are minded to consent to a change of our licence conditions to reflect this approach.

13. SUMMARY

13.1 We have led and overseen the preparation of this Revised Plan to ensure that it effectively addresses the issues raised by Ofwat in its IAP assessment of our September Plan. We have challenged management's proposals and, where appropriate, directed changes to those proposals.

13.2 We believe that our personal and collective Board leadership in respect of our Revised Plan demonstrates our commitment to producing a well evidenced Revised Plan of the highest quality. We are satisfied that the assurance we provided in our September Board Assurance Statement, as supplemented by this Supplemental Board Assurance Statement, provides assurance that:

- all the elements of our Revised Plan add up to a plan that is of high quality, stretching and deliverable;
- the overall strategy for data assurance and governance processes has delivered data for this Revised Plan which is high quality;

- our large investment proposals for AMP7 are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers;
- this Revised Plan will allow Affinity Water Limited to meet its statutory and licence obligations, now and in the future, taking account of the UK Government's strategic policy statement;
- this Revised Plan will deliver financial resilience over AMP7 and the long term; and
- this Revised Plan will enable customers' trust and confidence through high levels of transparency and engagement on issues such as governance, transparency and the resilience of our corporate and financial structure.

13.3 We have considered the risks of delivering our Revised Plan and satisfied ourselves that it continues to be both stretching and deliverable.

Tony Cocker
Chairman

Pauline Walsh
Chief Executive Officer

Stuart Ledger
Chief Financial Officer

Chris Bolt
Independent non-executive director

Patrick O'D Bourke
Independent non-executive director

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Appendix CA.A1.2

Action ref AFW.CA.A1

Atkins Limited: PR19 Assurance Report Investment Case Supplement

AMP6 Technical Assurance

PR19 Assurance Report Investment Case Supplement

Affinity Water

15 March 2019

Contains *sensitive* information

Notice

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Document history

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Rev 1.0	Draft report	JPA	JJ	BA	JPA	06/03/19
Rev 2.0	Final report	JPA	JJ	BA	JPA	15/03/19

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Executive Summary

Atkins has been engaged by Affinity Water to provide technical assurance on its PR19 Business Plan submission to Ofwat. In the Assurance Report dated 17th August 2018 for the Business Plan submission on 3rd September 2018, Atkins provided technical assurance on the Investment Programme amongst other areas. Atkins reported its findings to the Audit Committee on 16th August 2018 and the Board on 28th August 2018.

The technical assurance of the Investment Programme reported findings on 19 investment areas, summarised below.

Classification	Investment Areas by Classification	Totex Value of Investment Areas by Classification
Green	12	£362.5m
Amber	7	£367.4m
Red	-	-

Ofwat released in January 2019 its initial assessment of Affinity Water's Business Plan. As part of its assessment, Ofwat assessed Affinity Water's Board assurance statement as being partially compliant because it *"does not confirm that the large investment proposals are robust."*. Ofwat requires Affinity Water to provide in 1st April 2019 submission *"a restated and compliant Board assurance statement."*

Affinity Water sought assurance in respect of these matters to be provided in a further technical assurance report to be presented to the Board and published alongside Affinity Water's new submission to Ofwat. This review was undertaken in February and March 2019 and was designed to revisit the seven large investment areas classified as 'Amber' and review the Supply 2040 Scheme in order to support the Board in its assessment. The review considered:

- adherence to Ofwat's PR19 Business Plan methodology and regulatory guidance from the EA and DWI
- the reliability and transparency of the processes used to develop the proposals
- their technical suitability
- robustness of the challenge and decision-making process
- consistency of investment proposals with proposed Performance Commitments
- that uncertainties either in relation to the quantum of activities or the costs are not material

To address the above, we considered each of the Investment Cases and assessed the progress made on addressing uncertainties raised in the August 2018 Assurance Report. Unit costs were broadly unchanged and the assurance of costing was not revisited in detail during these audits.

After discussion of the underlying reasons for the original assessment, it became apparent that the focus of the supplementary audits would be on the extent to which the Investment Cases demonstrated that the proposals were well founded. That is, the need was well defined, all reasonable solution options had been considered and the means of implementation of the selected option and the associated risks were understood. The same approach was adopted for the Supply 2040 Scheme.

Based upon a combination of both documented evidence and verbal explanation, we formed the opinion that the concerns raised in the original audits had been addressed to the extent that the Amber statuses could be removed from each of the seven Investment Cases and that the Supply 2040 scheme should be assigned 'Green' status.

1. Background

In the Assurance Report dated 17th August 2018 for the Business Plan submission on 3rd September 2018, Atkins provided technical assurance on the Investment Programme amongst other areas. Atkins reported its findings to the Audit Committee on 16th August 2018 and the Board on 28th August 2018. The technical assurance of the Investment Programme reported findings on 19 investment areas, summarised below.

Classification	Investment Areas by Classification	Totex Value of Investment Areas by Classification
Green	12	£362.5m
Amber	7	£367.4m
Red	-	-

The following definitions underpinned the RAG classification for each investment area:

Green: Clear drivers, optioneering and costs that are underpinned by an appropriate evidence base

Amber: Reasonable clarity over drivers and evidence of reasonable optioneering, but there are notable uncertainties either in relation to the quantum of activities or the costs that have been applied, or there are inconsistencies between the investment proposals and the Performance Commitments within the Business Plan

Red: Areas of investment where we have significant concerns over the derivation of the investment activities or the costs associated with those activities, and those concerns relate to either a defined regulatory issue or cost errors in the programme that are likely to exceed 1% of totex. All 'red' level concerns were satisfactorily addressed by Affinity Water prior to the submission.

Ofwat released in January 2019 its initial assessment of Affinity Water's Business Plan. As part of its assessment, Ofwat assessed Affinity Water's Board assurance statement as being partially compliant because it *"does not confirm that the large investment proposals are robust."*. Ofwat requires Affinity Water to provide in 1st April 2019 submission *"a restated and compliant Board assurance statement."*

2. Scope of Work

To support the Board in providing the required statement, Affinity Water requires further assurance of its AMP7 investment programme to demonstrate in respect of its large investment proposals classified 'Amber' in the Atkins PR19 Assurance Report and the Supply 2040 scheme:

- adherence to Ofwat's PR19 Business Plan methodology and regulatory guidance from the EA and DWI
- the reliability and transparency of the processes used to develop the proposals
- their technical suitability
- robustness of the challenge and decision-making process
- consistency of investment proposals with proposed Performance Commitments
- that uncertainties either in relation to the quantum of activities or the costs are not material

Affinity Water sought assurance in respect of these matters to be provided in a further technical assurance report to be presented to the Board and published alongside Affinity Water's further submission to Ofwat.

3. Summary of Amber Classifications

Table 3-1 below summarises our findings at August 2018 for each of the investment areas assigned 'Amber' status that we reviewed as part of the technical audits.

Our analysis at that time considered the technical adequacy of the proposals including both a review of the calculations and methods used to support the Business Cases, as well as a comparison against the equivalent AMP6 expenditure where appropriate.

Where there had been clear stepped changes from AMP6 investment we commented on this within the table. Only those key issues or concerns that we considered needing to be brought to the attention of the Audit Committee and Board were highlighted in the table. We also identified lesser issues that were either addressed prior to the report or were not considered material enough to warrant inclusion within the report. They were included in the individual audit summary reports that we provide to Affinity Water following each audit, and were tracked through an 'Issues Log'.

There were seven areas of investment where an Amber classification was applied, meaning there were uncertainties beyond those that would normally be expected in an investment programme. Of those, four categories of investment (infrastructure capital maintenance, management of supply interruptions, leakage and the WRMP demand management activities) had direct potential implications on the achievement of PC targets and hence could translate into ODI penalties.

Table 3-1 Summary of Technical Assurance Findings by Investment Area (August 2018)

Investment Area	Summary of any Key Issues or Concerns	AMP7 totex (£m)	RAG classification
Schemes to manage sustainability reductions	All major challenges satisfactorily addressed, although we note that £20m relates to strategic transfers to allow the transfer of water out of the Wey Water Resource Zone. Following our audit challenges, we can confirm that this has clear drivers associated with the Water Resources Management Plan but there is a relatively high level of cost uncertainty. The Sundon scheme is listed separately below.	78.7	Amber – relatively high cost uncertainty
Infrastructure: Distribution mains, trunk mains and communication pipes – Bursts	The modelling of renewals costs was generally well evidenced and carried out, although we note that the AMP7 mains renewals costs have dropped significantly from AMP6 (£64m in AMP6 to £38m for AMP7). Much of this reduction in costs is associated with apparent modelling 'artefacts' in the Pioneer model, which are not well linked to actual delivery efficiencies, and reduce the short-term cost of interventions (mains renewals) to below the longer term sustainable rate. The implications of this reduction in expenditure on burst rates within a single AMP are relatively small (less than 20 bursts/annum likely impact by the end of the AMP). In addition to this, proposed renewals lengths were dropped on a pre-efficiency basis from the 280km in the model down to 210km, which theoretically increases burst rates by a further 30 per annum by the end of the AMP. The 'central' estimate of burst rates by the end of the AMP is therefore theoretically around the 3,050 level (compared with 3,000 current), so still below the target of 3,100 *[note, in terms that are equivalent to the PC, this relates to a risk of +3 bursts/1000km/annum versus the target of 186 bursts/1000km/annum]*. However, there is a large amount of volatility in the burst figure, so Affinity Water is increasing its risk of ODI penalties as a result of the proposed mains renewals investment.	38	Amber – the combination of model uncertainty and reduction in scope means that the risks associated with meeting the bursts target will be higher in AMP7 than they have been in AMP6.
Infrastructure: Operational costs for leakage reduction	Costs for leakage reduction have been assessed through both a 'bottom up' analysis of costs, and through the use of the SALT model to derive Active Leakage Control (ALC) cost curves. We found that the SALT model costs are highly uncertain due to the model's sensitivity to cost allocations between DMAs, but that there is some confidence gained by use of the 'bottom up' engineering analysis of activities and costs, which supports the overall figure. Leakage costs were also evaluated through the WRMP process, which used a combination of the SALT model curves for distribution leakage and 'bottom up' costs for customer side leakage improvements. Overall these indicate a range of totex in the order of £48m to £52m, but there is considerable uncertainty in these costs. Because the majority of the costs are opex rather than capex, leakage control has then been subject to an effective efficiency reduction of 28%. The risk of under-funding for the leakage Performance Commitment (PC) is therefore relatively high.	35.5	Amber – significant uncertainties plus high levels of 'top down' efficiency represent a risk to the leakage PC.

Wholesale operations costs: management of supply interruptions	The achievement of the interruptions to supply PC comprises a trunk mains maintenance programme covering valves, critical crossings, etc (circa £7.5m pre-efficiency), plus two tranches of largely operationally based activities to reduce interruptions from their current levels down to the 3 minute target. The first, larger tranche of activities, to achieve a reduction down to 6 minutes, which is based on an extension of the current operational initiative has been reasonably well costed. The second, smaller tranche of activities, to reduce from 6 to 3 minutes is highly uncertain and requires activities that Affinity Water has limited experience of (e.g. overland temporary connections and tankering). We have assigned this an 'amber' risk as the initial costs that were presented to us totalled £45.8m (£7.5m trunk mains maintenance and £38.3m interruptions response investment), compared with the £33m in the final programme, so not only are the requirements very uncertain but there have also been large levels of efficiency challenge applied to the initiative. A 'red' risk has not been assigned as this has been mitigated by the use of penalty collar 'deadbands' for the PC.	33.0	Amber – high levels of uncertainty for circa 1/3 of the costs, plus very high levels of efficiency applied to this uncertain programme, mitigated by the use of 'deadbands' for the PC
Water Resource Management Plan: meters and water savings	The costs for the continuation of the metering programme (£75m) are straightforward and based on the current programme. They contain some efficiency, but still outturn at a realistic £220 per meter installed. The remainder of the water saving programme is highly uncertain and contains at least £28m of schemes with a very low benefit to cost ratio, which have been selected by the WRMP model as there were no other options to achieve the PCC target. Other options such as fast logging have increased from £7m to £12m following initial audits. As there are no 'top down' efficiency assumptions that have been imposed on water efficiency targets it appears that this part of the programme is well funded, although the costs and benefits of the activities remain inherently uncertain by their very nature, as Affinity Water is effectively pushing the boundary of demand management in the measures that it is proposing to implement in AMP7.	140.2	Amber – very uncertain costs, but this is unavoidable to a large extent and the programme appears to be well funded, so we have not applied a 'red' classification.
Water Resources Management Plan: Strategic Water Resource costs	Costs associated with up-front planning of longer term strategic water resource options, including Abingdon reservoir, plus Water Resources in the South East (WRSE) contributions and an allowance for feasibility studies for strategic investment needs post AMP7. The Abingdon reservoir development costs and WRSE are well evidenced, but £10m of the expenditure (on the Abingdon reservoir public inquiry and future strategic needs) are nominal figures. We checked and confirmed that the public inquiry costs have not been double counted with the Abingdon reservoir costs. Although the Abingdon costs are based on a reasonable apportionment, the exact level of need and timing is very uncertain at this stage, given the very long lead times before the scheme is constructed, and the high level of scrutiny and resistance it is likely to attract.	30	Amber – uncertainty over the timing of Abingdon reservoir expenditure and large uncertainties over the strategic scheme and public inquiry cost elements
IT enhancement strategy	Because there is no linkage between capital costs and operational savings within the programme, the £12m here effectively represents a 'budget' allowance, and the return on investment associated with the enhanced IT spend does not appear to inform the approval process. We note that this amount is much less than the 'minimum case' spend initially put forward by IT (£31m), so it is likely that all of the expenditure contained within this £12m will be cost beneficial.	12	Amber (main issue is the lack of linkage with operational savings, as discussed above)

4. Findings

After discussion on the underlying reasons why the August 2018 Assurance Report had assigned an 'Amber' status to the seven Investment Areas, it became apparent that the focus of the supplementary audits would be on the extent to which the Investment Case documentation demonstrated that the proposals were well founded. That is, the need was well defined, all reasonable solution options had been considered and the means of implementation of the selected option was and the associated risks were understood. Unit costs were broadly unchanged and the assurance of costing was not revisited in detail.

In addition, we reviewed the Supply 2040 scheme. This scheme is an overarching set of projects to manage supply deficits, provide operational resilience and provide operating cost benefits. It is considered separately to the Sustainability Reduction schemes and the Strategic Water resource schemes so as to avoid ambiguity and the potential for either double counting or missing a critical scheme. It has been done in this way to avoid the risk of overlap in the schemes originally tabled for Technical Assurance.

Table 4-2 below summarises our findings from the reviews undertaken in February and March 2019 for each of the investment areas that we revisited and the one new area reviewed.

Table 4-2 Summary of Technical Assurance Findings by Investment Area (February-March 2019)

Investment Area	Summary of any Key Issues or Concerns	Documents Reviewed	RAG classification
Schemes to manage sustainability reductions	Our assessment of an Amber status for the sustainability investment case was based upon the need for further detailed explanation of the component parts of the investment. Four separate Investment Cases have been produced. The delivery of sustainability reductions as listed in the WINEP3 spreadsheet covered by the 4 Investment Cases requires work to be carried out to ensure security of supply. This involves works (pipes, storage, pumps, treatment plant expansions etc) to convey water from other sources to replace the sustainability reductions. In each of the investment cases, alternative means of replacing or supplementing existing supply arrangements are considered and costed. The costing is based upon unit rates for much used asset types. These costs were considered in the original technical assurance audits.	• Summary Pack: Holywell and Mud Lane sources in St Albans area of supply • Summary Pack: Digswell Sustainability Reduction • Summary Pack: Amber Sustainability Reduction sites • Summary Pack: Green Sustainability Reduction sites	On the basis that further detailed explanation of the components and costs of the investment was provided, we believe the Investment Cases for Sustainability Reductions should be a Green status.
Infrastructure: Distribution mains, trunk mains and communication pipes – Bursts	We noted in our previous audit that the modelling of renewals costs was generally well evidenced and carried out. The rate of mains renewal in AMP4 and AMP5 was c.1%, in AMP6 c.0.5% and AMP7 c.0.3%. The Company provided analysis of the rate of rise of bursts and it is apparent that a 0.3% replacement rate may not be sustainable in the long term. The reduction of the renewals length from 280km to 210km results in 40 extra bursts across the AMP7 period. Assuming an "average/typical" year the burst levels will remain below the existing target of 3100 bursts. The Company is not challenging itself to reducing the level of bursts but is allowing the headroom with which it can absorb the effects of weather events to reduce. The rate at which burst rates will increase for the proposed level of renewal appears to be understood. The positive impact of mains stressed less due to network calming and falling demand is not yet understood; and emerging technologies may further improve the targeting of mains renewal. There is a large amount of volatility in the burst figure, so Affinity Water is increasing its risk of ODI penalties as a result of the proposed mains renewals investment	• Summary Pack (Infrastructure: distribution mains, trunk mains and communication pipes - Bursts) • Bursts analysis: summer 2018 report (January 2019)	The change in risk is small and is clear in the Investment Case. On this basis, we change the Investment Case to Green status.
Infrastructure: Operational costs for leakage reduction	The Company has prepared a Leakage Taskforce report which provides detail on how Affinity Water will achieve its stretching leakage targets for AMP7. Five key areas are considered: Organisation; ALC Policy; Data and Reporting; Skills and Competencies; and Performance, Benefits Tracking and Change Control. Findings in each area are both industry wide and company specific and the lessons learned are to be applied in the proposed changes for each of the areas. The document shows ambition and has detail of the actions required, including for the remainder of AMP6 in order that the AMP6 closing leakage levels are at or better than the AMP6 target.	• Summary Pack (Infrastructure: distribution mains, trunk mains and communication pipes - Leakage) • Affinity Water Leak Survey Benefits Assessment • Leakage Taskforce (Initial Review, Assessment and	The Leakage Taskforce document provides detail and its application including the organisational changes to ensure the agility to respond to evolving performance and technologies should give comfort that the risk is being managed. On

	The proposal to reduce leakage by 18.5% across AMP7 will inevitably move the Company into areas of cost uncertainty. The Company is assuming that the marginal cost of high or low levels of active leakage control are a third higher or lower than the unit costs experienced at current leakage levels. The detailed considerations in the Leakage Taskforce document mitigate much of the associated risk. Experience gained in the closing years of AMP6 will be reflected on continuing improvement in AMP7. The downwards pressure on leakage from Ofwat, in response to customer preference, is leading to an industrywide rethink of leakage management. The cross fertilisation of ideas between companies and from experienced contractors with a broad client base is allowing a vision of future good practice to take shape. As with other PCs, there will always remain the inherent risks associated with extreme client events. We understand that the costs within the Investment Case are those that were reviewed previously, and the uncertainty in costs referred to in the original Amber status was a reflection of the lack of clarity in how the leakage effort was going to achieve the targets.	Proposed Changes to Current Leakage Strategy) - Confidential	this basis, we assign this Investment Case a Green status.
Wholesale operations costs: management of supply interruptions	This is an industry wide performance measure that will be subject to cross company comparison and target setting. There is limited scope to make allowance for exceptions when reporting, and the measure will always be vulnerable to extreme weather events. There are limits to the extent to which burst events can be reduced with an affordable level of mains renewal. Network calming and pressure reduction are part of the consideration of the bursts measure. The effective and efficient handling of each interruption is the critical success factor for CML performance. Performance at the annual return 2018 was 33 minutes and the current figure is approximately 10 minutes. The investment case for the interruptions to supply PC comprises a trunk mains maintenance programme plus two tranches of largely operationally based activities to reduce interruptions from their current levels down to the 3-minute target. The first, larger tranche of activities, to achieve a reduction down to 6 minutes, was based on an extension of current operational initiatives. Our earlier Amber assessment was on the basis that the second, smaller tranche of activities, to reduce from 6 to 3 minutes was highly uncertain and required activities of which Affinity Water has limited experience. We have reviewed the Investment Case and the component breakdown of the measures with which it is proposed to reduce the performance level to 3 minutes. None of the proposals are different from the approaches that are have been or will be adopted by the wider water industry.	• Summary Pack (Infrastructure: distribution mains, trunk mains and communication pipes)	The combination of company and industry learning alleviates some of the concerns we raised previously. There will be a lag before new responses to interruption incidents are fully understood and practiced, but the shift to the more customer centric approaches is already leading to improved performance and we believe the cost risk is being managed and have given our assessment that the Investment Case should have a Green status.
Water Resource Management Plan: meters and water savings	Our view in the August 2018 Assurance Report was that the costs for the continuation of the metering programme were straightforward, realistic and based on the current programme; the remainder of the water saving programme was seen as highly uncertain, which had been selected by the WRMP model as there were no other options to achieve the PCC target. The costs and benefits of the activities remained inherently uncertain, as Affinity Water was effectively pushing the boundary of demand management in the measures that it is proposing to implement in AMP7. Subsequently, considerable new work has been carried out on the revised WRMP and these activities have been subject to further audit. The updated results have fed into the Investment Case for Water Savings. The schemes are now considered for each Water Resource Zone and were subject to internal and independent	• Audit Note: Water Savings Programme Costs and Benefit	We believe that the further detailed consideration of the water savings and new information detailing the Water Savings Programme Costs and Benefits have added certainty to the proposals and that the Investment case should now be given a Green status.

	challenge in the development of the revised draft WRMP.		
Water Resources Management Plan: Strategic Water Resource costs	The original Technical Assurance audits considered costs associated with up-front planning of longer-term strategic water resource options, including Abingdon Reservoir, plus Water Resources in the South East (WRSE) contributions and an allowance for feasibility studies for strategic investment needs post AMP7. The Abingdon Reservoir development costs and WRSE are well evidenced, but expenditure on the potential Abingdon Reservoir Public Inquiry and future strategic needs were nominal figures. We observed that although the Abingdon costs were based on a reasonable apportionment, the exact level of need and timing was very uncertain, given the very long lead times before the scheme is constructed, and the high level of scrutiny and resistance it is likely to attract. This Investment Case has been overtaken by Ofwat's rejection of the component costs and allocation of £70.9m as part of a national strategy. The Company explained the strategic options available including the construction of Abingdon Reservoir (and the stages in its development and shared financing), a Grand Union canal transfer, regional transfer in the River Thames to Iver WTW and the Grafham to Affinity transfer. It was the Company position that the £70.9m was adequate to cover any likely costs.	• None	The need for the initial Amber status is therefore removed and the replacement Investment Case which is in preparation can be assigned Green status.
IT enhancement strategy	In preparing our August 2018 Assurance Report, we formed the view that the business case was strong. Though we identified some weaknesses and areas for improvement, overall we thought the expenditure was well-justified and supported the case for the £21.52m enhanced investment across Wholesale and Retail proposed. This was later capped at £12m by the business. Our challenge, which we took up with the team at the time, was that it appeared that the return on investment (ROI) was not taken into account in the approval process – i.e. IT enabled efficiencies across the business, 'spend to save', etc. We identified the risk that the business may not have sight of the benefits and efficiencies that the IT investment would deliver. We considered that the net cost with ROI from IT enhancement may lead to expenditure in most operational areas that could be materially lower. The £12m effectively represents a 'budget' allowance, and the return on investment associated with the enhanced IT is implicit within the £12m rather than identified across the business in areas that benefit directly or indirectly from the IT enhancements. The approach allows the flexibility and agility to plan as a business to become a "fast follower". The Investment Case includes consideration of the basis by which the originally requested investment can achieve the lower allocated figure. Therefore, we believe the Investment Case which included AMP7 Capex of £12m to be justified and supported; indeed, we saw a robust case for the higher figures at our 2018 audits.	• IT Investment Plan Version 2.0 24/07/2018 • Summary Pack (IT)	We were not challenging the costs in August 2018 and are comfortable with a Green status being assigned to this investment area, on the basis that the ROI from IT enhancement investment is understood.

Supply 2040	The Supply 2040 scheme is an overarching set of projects to manage supply deficits, while providing incidental operational resilience and operating cost benefits. AMP7 expenditure is associated with moving 17Ml/d out of WRZ6. Non-drought resilience is incidental and not the primary driver for the investment. The Investment Case supports the use of water envisaged in the WRMP as well as providing operational flexibility, network resilience, reduced risk of drought restrictions, accommodating growth and fitting in with future strategic resources. We were taken through the proposals and were able to confirm that the proposals had considered and avoided the potential for stranded assets caused by the uncertainty associated with the final detail of the strategic water resources schemes. During our audits, we challenged the inclusion of generic power costs and risk contingency in the costings and these were removed.	• Summary Pack (Supply 2040) • Affinity Water Regions Map • Supply 2040 – Egham Surplus 5 schemes • Summary Supply 2040 • Various supporting documents and appendices	Though not part of the original scope of this audit, we formed the opinion that the Supply 2040 proposals were based upon detailed assessment and calculation, taking a strategic perspective of the system enhancements needed to reach 2040, while avoiding any contradictions of the sustainability reduction schemes or strategic resource schemes.

5. Conclusions

Based upon a combination of both documented evidence and verbal explanation, we formed the opinion that the concerns raised in the original audits had been addressed to the extent that the Amber statuses could be removed from each of the seven Investment Cases.

Appendix – Meeting and Audit Schedule

Meeting or Audit	Atkins	Affinity Water	Date
Start-up meeting by teleconf	Jonathan Archer, Julian Jacobs	Tim Monod, Lauren Schogger, Nicola Fomes, Affie Panayiotou, Jen Kirby, Gerald Doocey	12th February 2019
Discussion on scope by teleconf	Jonathan Archer, Julian Jacobs	Marie Whaley, Doug Hunt	18th February 2019
Progress meeting	Jonathan Archer, Julian Jacobs	Tim Monod, Marie Whaley, Chris Offer, David Beesley, Alan Shaw	25th February 2019
IT enhancement strategy	Julian Jacobs	David Clifton	25th February 2019
Infrastructure: Operational costs for leakage reduction	Jonathan Archer	Patrick Campbell, Anton Gazzard	25th February 2019
Wholesale operations costs: management of supply interruptions	Jonathan Archer	Patrick Campbell, Anton Gazzard	25th February 2019
Schemes to manage sustainability reductions	Jonathan Archer	David Watts, Ellie Powers	26th February and 1st March 2019
Water Resource Management Plan: meters and water savings	Jonathan Archer	Doug Hunt	26th February 2019
Supply 2040	Jonathan Archer	Sarah Sayer, Teddy Belrain	26th February and 1st March 2019
Water Resources Management Plan: Strategic Water Resource costs	Jonathan Archer	Doug Hunt	1st March 2019
Infrastructure: Distribution mains, trunk mains and communication pipes – Bursts	Jonathan Archer	Patrick Campbell	1st March 2019
EMT Pre-Board meeting to discuss draft report	Jonathan Archer	EMT members	19th March 2019
Presentation of findings from assurance activities at Board meeting	Jonathan Archer	Board members	21st March 2019
EMT meeting to discuss final audit report	Jonathan Archer	EMT members	25th March 2019
Board meeting to discuss final audit report	Jonathan Archer	Board members	27th March 2019

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Appendix CA.A1.3

Action refs AFW.CA.A1; AFW.CA.A6

Atkins Technical Assurance Report March 2019

AMP6 Technical Assurance

Assurance Report on PR19 Tables Re-Submission

Affinity Water

29 March 2019

Contains *sensitive* information

Notice

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Rev 2.0	Final report	JPA	JAJ	BA	JPA	29/03/19

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Tables

1. Introduction

1.1. Background

Atkins has been engaged by Affinity Water to provide technical assurance on its regulatory reporting and submissions to Ofwat, including its Annual Performance Report and PR19 Business Plan.

Ofwat has released its initial assessment of Affinity Water's Business Plan. As part of its assessment, the regulator identified a number of data quality issues with Affinity Water's submission, of which the data tables were a significant part.

Alongside the publication of the initial IAP assessment, Ofwat has issued a new business plan table template and a new financial model. Companies categorised as slow track and significant scrutiny, which includes Affinity Water, have been required to complete these tables and use this new financial model for their submission of revised plans by 1st April 2019.

Based on the Ofwat feedback actions assigned to the Company as well as other areas identified by the Company itself for strengthening, Affinity Water has revised many of the data tables, evidence base supporting its data and associated commentaries, which contributes to strengthening the overall Plan.

The scope and coverage of Atkins' audits is intended to provide a third-party assurance process that integrates with the financial auditor activities to cover all tables within the PR19 submission.

1.2. Report Structure

A summary of our scope of work for the PR19 audits is provided in **Section 2**.

Our key findings are detailed in **Section 3,** separated into:

- **Section 3.1** which summarises our audit findings for the PR19 Table submissions
- **Section 3.2** which provides assurance commentary on the links between the Performance Commitment targets and the Company management of the risks contained in the Outcome Delivery Incentive rewards and penalties.

2. Scope of Work

The scope of our technical assurance activities was discussed and agreed with Affinity Water during a series of conference calls and email exchanges between 11th and 20th February 2019. Our general remit was to carry out a technical review of the Business Plan Tables (along with a separate stream of work to revisit the investment proposals to evaluate the reasonableness of the proposed activities and costs in light of the PC targets that are being proposed).

Specifically, this includes the following three key assurance objectives:

1. A check on the data tables contained within our scope of work, to comment on whether they are:

    - Reliable, Accurate and Complete (based on our review and given the uncertainties in the base data)

    - Compliant with the table guidance in terms of Methodology (including cost allocations between drivers and price controls)

    - Supported by commentary that complies with Ofwat guidance and reconciles with the technical cases as audited

2. A review of the process used to set Performance Commitments and associated rewards/penalties for the Outcome Delivery Incentives (ODIs) to confirm whether:

- The definition of the metrics, targets and threshold for the proposed PCs and ODIs are clear and transparent in accordance with Ofwat's stated expectations.
- The proposals contained within the totex Investment Programme align with the PC targets that are proposed, and Affinity Water has reasonably considered the uncertainties and marginal cost risks when setting ODI rewards/penalties
- Affinity Waters' modelling of the impact that PC targets and ODIs could have on return on regulatory equity (RoRE) contains risk and uncertainty ranges that are reasonably reflective of the data, processes and investment outputs that were used to generate the ODIs.

As per item 2, in general terms we were engaged to assist in confirming that there is a 'line of sight' between the Performance Commitment (PC) targets that were agreed with the CCG and the totex investment that has been proposed in the Business Plan. The derivation of the PCs themselves and the customer aspects of the ODIs (preferences, willingness to pay etc) have been challenged separately by the Customer Challenge Group, and in line with our activities during the original submission in September 2018, they are not included within our scope of works.

Our audits relate to the technical, rather than financial, aspects of the Business Plan so only covered a specific number of tables and lines. These are summarised in Table 2-1 below, which also highlights variations compared with the scope from the September 2018 submission.

Table 2-1 Tables and Information Blocks Include in our Audits including comparison with scope from September 2018 submission

Table	Block/Line Reference	Observations
App 1 - Performance commitments	All blocks and all lines	Changed the outcomes tables to reflect some of the actions from the IAP assessment, including further information about the P10 and P90 performance levels
App1a - Outcome delivery incentive (ODI) - additional information	All blocks and all lines	New table
App2 – Leakage additional information and old definition reporting	Block A Block B Block C Block D	
App 3 – AIM	All blocks and all lines	Changed the outcomes tables to reflect some of the actions from the IAP assessment, including further information about the P10 and P90 performance levels
App 4 – Affordability	All blocks and all lines	Table substantially revised to incorporate Affordability data table submission requested after original September 2018 submission and also including some previously unreported additional data lines.
App 5 - PR14 Reconciliation: Performance Commitments	All blocks and all lines	Updated to take account of revised forecasts for 2018/19.
App 27 - ODI PR14 reconciliation	All blocks and all lines	
App 30 – Voids	All blocks and all lines	
App 31 - Past Performance	All blocks and all lines	Not applicable in re-submission
R1 – Properties	Block B only	
R2 - Special cost factor data and R8 - PR14 reconciliation	All blocks and all lines	Not applicable in re-submission
R3 - Customer metrics	Block C (17-28)	Not applicable in re-submission
R10 – PR14 Service incentive mechanism	All Blocks	
WS1 - Capex	Block B (12-17, 19, 21))	Split grants and contributions into opex and capex
WS2 – Capex	Block A (1-39)	

Table	Block/Line Reference	Observations
WS2a – Capex	Block A (1-39)	
WS3 - Water populations and properties	All blocks and all lines	
WS4 - Explanatory variables	All blocks and all lines	
WS10 – Capex	Block A (1-42)	
WS17 - Water trading incentive	All blocks and all lines	Not applicable in re-submission
WS18 - Explaining the 2019 FD	Block A Block C Block D Block E Block F Block G Block H	Some lines/blocks not applicable in re-submission.
WR1 - Water resources explanatory factors	All blocks and all lines	
WR6 - Water resources capacity forecasts	All blocks and all lines	
WR7 - Cost of water resources capacity	All blocks and all lines	
WR8 - Wholesale water resources special cost factors	All blocks and all lines	Not applicable in re-submission
WN1 - Wholesale water treatment (explanatory variables)	All blocks and all lines	
WN2 - Wholesale water distribution (explanatory variables)	All blocks and all lines	
WN6 - Wholesale water network plus special cost factors	Block A	

3. Key Findings

3.1. PR19 Data Tables

Our audits of the data tables concentrated on confirming whether the data that have been entered satisfy the three criteria detailed in Section 2 (reliable, accurate, complete; compliant with guidance and supported by commentary). Where table entries link through to PCs and ODIs, we have made comment on whether the tables have been accurately completed in accordance with the guidance and calculations generated from the Business Plan process. Commentary on the PC/ODI targets and rewards/penalties is provided in Section 3.2.

There were 181 issues identified during the course of the audit and assurance activities. All issues in the Issues Log were responded to and action taken by the Company where appropriate. We were therefore able to close off all issues.

The Company's use of a Central Change Log provided a generally effective and efficient mechanism to track changes between the 28th September 2018 and 1st April 2019 submissions in the data tables and commentaries.

The Company has also significantly enhanced its internal quality assurance by producing methodologies which capture how the tables have been populated, capturing data sources, assumptions, internal checks and controls, etc. The main issue that we noted in the methodologies, which was a systemic weakness, was that the section on Ofwat definitions was limited to capturing the relevant line guidance for populating the tables. The methodology did not capture where there was wider PR19 guidance on completing the business plan tables (latest version: May 2018 update v2) or relevant Ofwat responses to Q&As.

We also identified some errors in the table entries which were all subsequently corrected. The commentaries also often did not provide visibility on the changes and the drivers for those changes compared with the previous submission. These were subsequently addressed.

In addition, the Central Change Log either did not capture all the changes, or where it did so, did not always capture effectively the drivers for the changes. Again, the areas we highlighted were subsequently addressed by the Company.

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Summaries of the individual findings, by table, are provided below. The RAG classifications are as follows:

- Green – No risks or issues identified, or risk or issue addressed as a result of assurance process
- Amber – A minor risk or non material issue, e.g. guidance open to different interpretation, non material failure of process or weaknesses in dataset
- Red - A critical risk or material issue, e.g. failure to comply with statutory requirements or guidance, failure of process, failure to disclose, failure to report accurately

Table and Block *App 1 - Performance Commitments*	**Comments**	**RAG Status**
Performance Commitments and Outcome Delivery Incentives	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block *App 1a - Performance Commitments*	**Comments**	**RAG Status**
Outcome Delivery Incentives Additional Information	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block *App 1b - Performance Commitments*	**Comments**	**RAG Status**
PC and ODI supplemental measurement information	The Company has assessed that completion of this table is not required.	N/A

Table and Block	**Comments**	**RAG Status**
App 2 – Block A – Leakage new definition reporting	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	**Comments**	**RAG Status**
App 2 – Block B – Leakage PR14 definition reporting	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	**Comments**	**RAG Status**
App 2 – Block C – PCC old definition	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	**Comments**	**RAG Status**
App 2 – Block D – Supply Interruptions old definition	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	**Comments**	**RAG Status**
App 3 – AIM	No significant issues to method. Forecasts have been set to zero in accordance with App 1, and links to the performance commitments plus ODIs are explained in the commentary.	Green

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Table and Block	Comments	RAG Status
App 4 – Block A – Affordability	Table satisfactory following audit challenges and resulting changes.	Green
App4 – Block B - Vulnerability	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
App 5 - PR14 Reconciliation: Performance Commitments – R-A1 SIM service score	SIM score in App 5 for 2018/19 forecast (81) is an earlier forecast and does not reconcile with the R10 entry (82), the latter of which is the best central estimate. The Company has noted this discrepancy in its App 5 commentary.	Red
App 5 - PR14 Reconciliation: Performance Commitments – Other Lines	Table entries satisfactory following audit challenges and resulting changes.	Green

Table and Block *App 27 - ODI PR14 reconciliation*	Comments	RAG Status
Block A - In-period ODI revenue adjustments by PR14 price control units (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block B -End of period ODI revenue adjustments by PR14 price control units (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block C - End of period ODI RCV adjustments by PR14 price control units (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block D - In-period ODI revenue adjustments allocated to PR19 price controls (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block E - End of period ODI revenue adjustments allocated to PR19 price controls (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block F - End of period ODI RCV adjustments allocated to PR19 price controls (2012-13 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block G - In-period ODI revenue adjustments input to PR19 financial model (2017-18 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block H - End of period ODI revenue adjustments input to PR19 financial model (2017-18 prices)	Table satisfactory following audit challenges and resulting changes.	Green
Block I - End of period ODI RCV adjustments input to PR19 financial model (2017-18 prices)	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
App 30 – Void Properties	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status

AMP6 Technical Assurance
Assurance Report on PR19 Tables Re-Submission

R1 – Block B - Customer numbers	The Company is reallocating 7,000 from business customers to residential customers in 2020/21. It would be incorrect to report these 7k customers as new as they are already Affinity Water residential customers. The Company has decided to treat these as business customers in the water balance calculations. The Company decided not to update the associated R1 table or dependency lines to reflect this reallocation in this submission.	Green

Table and Block	Comments	RAG Status
R10 – PR14 Service incentive mechanism	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WS1- Block B - Capital Expenditure (excluding Atypical expenditure) 2, 2a and 10 Capex Tables	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WS2 – Block A - Enhancement expenditure by purpose ~ capital	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WS2a – Block A - Cumulative capital enhancement expenditure by purpose	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WS3 Wholesale water populations and properties	Table has been updated following audit challenges and resulting changes. There remains a discrepancy between the implied void business properties in WS3 and those directly reported in App30. The Company has exposed this anomaly in the commentary. The Company is reallocating 7,000 business customers to residential customers in 2020/21. It would be incorrect to report these 7k customers as new as they are already Affinity Water residential customers. The Company has decided to treat these as business customers in the water balance calculations. The Company decided not to update the associated R1 table or dependency lines to reflect this reallocation in this submission.	Green

Table and Block	Comments	RAG Status
WS4 Wholesale water other (Explanatory variables)		
Line 1 – Number of lead communication pipes replaced for water quality	We challenged why AMP7 forecasts did not include the balance of the under delivery of the AMP6 obligations. This was a risk of DWI enforcement action against the Company for any failure to deliver on its AMP6 obligations. The Company has demonstrated that plans are in place in order to deliver the programme by the end of AMP6.	Green
Lines 2 to 5 - Total supply and demand side enhancements	2 Ml/d was added to Runleywood Lower Greensand option yield post-submission of the revised WRMP because the current available yield was originally overestimated (thus the option provides an extra 2 Ml/d). While the WRMP EBSD figures therefore do not reconcile with WS4 and WR6, they are correct.	Green

Lines 6 to 8 Energy consumption	Revised as a result of challenges made through the audit process and resulting analysis	Green
Line 9 – Mean zonal compliance	No issues identified.	Green
Line 10 – Compliance Risk Index	Changes made as a result of challenges made at audit.	Green
Line 11 – Event Risk Index	Changes made as a result of challenges made at audit.	Green
Line 12 - Volume of leakage above or below the sustainable economic level	Table satisfactory following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WS10 – Block A - Transition capital expenditure purposes	We have not been informed of any decisions to bring forward AMP7 expenditure into 2019/20	Not applicable
WS10 – Block B - Transition summary totals		

Table and Block	Comments	RAG Status
WS18 Explaining the 2019 FD		
Block A - Customer service	Line 1 updated in line with historic APR reporting. Line 2 revised in line with actual reporting for 2018/19.	Green
Block C – Affordability	Changes made as a result of challenges made during audit process.	Green
Block E – Environmental	Greenhouse gas emission revised to be based on historic trend data and incorporate company energy policy / planned energy efficiency activities.	Green
Block F – Bill Impacts	No issues.	Green
Block G - Total expenditure (real prices ~ 2017-18 FYA CPIH deflated)	No issues.	Green
Block H – Customer engagement	No issues.	Green

Table/ Block	Comments	RAG Status
WR1 Water resources explanatory factors	2017/18 figures were confirmed as part of the APR audits. Forecasts were reviewed against the latest version of the revised WRMP and these reconcile.	Green

Table and Block	Comments	RAG Status
WR6 Water resources capacity forecasts	Figures reconcile with WRMP modelling outputs.	Green

Table and Block	Comments	RAG Status
WR7 Cost of Water resources capacity	The schemes that are listed reconcile with the WRMP model outputs and costs contained in the investment programme. We note that the majority of costs are associated with the initial development of the Abingdon reservoir scheme. One line was changed as a result of the audit process.	Green

Table and Block	Comments	RAG Status
WN1 - Wholesale network plus raw water transport and	Table numbers and commentaries have been updated following audit challenges and resulting changes.	Green

water treatment (explanatory variables) & 2 Network plus explanatory variables		

Table and Block	Comments	RAG Status
WN2 - Wholesale water network plus water distribution (explanatory variables)	Table numbers and commentaries have been updated following audit challenges and resulting changes.	Green

Table and Block	Comments	RAG Status
WN6 - Wholesale water network plus special cost factors – Block A Special cost claim 1: Regional Wages	Table numbers and commentaries have been updated following audit challenges and resulting changes.	Green

3.2. Performance Commitments and Outcome Delivery Incentives

Our draft findings were presented at the Board Meeting on 27th March 2019. In general terms, our audits were aimed at confirming that there is a 'line of sight' between the Performance Commitment (PC) targets and the totex investment that has been proposed in the Business Plan. The derivation of the PCs themselves and the customer aspects of the ODIs (preferences, willingness to pay, etc.) have been challenged separately by the Customer Challenge Group, and in line with our activities during the original submission in September 2018, they were not included within our scope of works.

Our audits relate to the technical, rather than financial, aspects of the Business Plan so they only covered a specific number of tables and lines. These are summarised above.

We discuss our findings from our review of the resubmitted Performance Commitments and associated rewards/penalties for the Outcome Delivery Incentives (ODIs) in the sections below.

3.2.1. Definition of metrics, targets and threshold for the PCs and ODIs

We reviewed the detail of the preparation of the entries to Table App1 and found the definition of metrics, targets and threshold for the PCs and ODIs proposed to be clear and transparent in accordance with Ofwat's stated expectations. The Company has in general accommodated the required changes from Ofwat in the IAP and has provided explanations where it has not done so. Targets and thresholds are aligned with the Company's assessment of their achievability.

We note a particular target that may attract attention is the burst rate. The Company has elected to target the maintenance of stable performance across AMP 7, by continuing at the end-AMP6 level. We believe this to be reasonable in the context of increased burst identification due to the ambitious AMP7 leakage reduction programme, an aging asset stock and the need to resolve low pressure issues.

3.2.2. Totex Investment Programme alignment with proposed PC targets

We reviewed the Totex Investment Programme and found it to align with the proposed PC targets. We believe that Affinity Water has reasonably considered the uncertainties and marginal cost risks when setting ODI rewards/penalties.

We reviewed the proposed Investment Portfolio, which is broken down into Capex and Opex, and includes Base Capex, Enhanced Capex and Enhanced Opex and Contributions. The Investment Portfolio does not include most components of Base Opex, other than some of the overall Leakage expenditure. We considered both the Base Programme and the Enhancement Programme.

We reviewed the enhanced programme and reviewed the larger elements of the programme where the Company had considered Ofwat's IAP challenges in detail. The Company had considered the detailed breakdown of costs and whether efficiencies could be achieved. We saw how the Company was challenging itself to achieve efficiencies through changed operational practices and lessons learned through similar work in AMP6.

For lead communication pipes (CPs) and service pipe replacement, we noted a potentially low unit rate, which will need clear definition of scope, as the rates appear to be based upon more conventional CP and (garden) service pipe replacement, rather than considering work up to the internal stop tap.

For Pesticides Monitors, we noted that costing was based upon the manufacturers price, which will need supply efficiencies to be achieved.

We note that leakage is considered by Ofwat as Base and that this is subject to challenge by the Company. We considered leakage as a block of totex and found that the Company was making assumptions about future efficiency gains through innovation and improved operational practices that are costed and understood.

We reviewed the Investment Portfolio to seek line of sight between PCs and expenditure. We found that each PC had expenditure against it or that it was included in the consideration of other PCs. We also considered the expenditure portfolio and confirmed the reason why each element was included. Overall, we were content that all bases were covered, but achieving the performance with the included expenditure will rely on cross PC synergies, holistic thinking, good operational practice and effective management.

3.2.3. Impact of PC targets and ODIs on RoRE

We reviewed the make-up of the Return on Regulated Equity (RoRE), with the main focus on the penalties and rewards associated with Performance Commitments. We went through the Company's P10 and P90 assessments made for each Performance Commitment and considered the assessed P10 scenario and the impact of PC targets and ODIs on RoRE. We confirmed that the processes applied contain risk and uncertainty ranges that are reasonably reflective of the data, processes and investment outputs that were used to generate the ODIs.

We noted that the proposed RoRE for the "P10 scenario" was less than 3% and that the RoRE proposals are very skewed towards penalty and there is a limited scope for reward. The P10 for individual PCs has been determined through expert judgement. We considered each and found them to be reasonable, based upon historic performance. A particular PC which received our attention was leakage which had a P10 value significantly below the 2018/19 outturn. The P10 figure appears reasonable against historic leakage. The higher 2018/19 value is a "one-off" caused by a single long running burst trunk main, which has triggered internal actions to avoid a recurrence. The suite of PC performance levels coinciding with the overall "P10 scenario" appeared reasonable and possible.

Appendix

Appendix A. Audit and Meeting Schedule

Table	Section	Auditor	AW contacts	Data Lead	Date
App2	Section D - Old Definition Supply Interruptions	Jonathan Archer	Ben Gough, Tim Charlesworth	Martin Hall	11-Mar
App2	App2 line 9 Potable mains	Jonathan Archer	Alex Rigby, Patrick Campbell	Allan Winkworth	11-Mar
Leakage - App2 and App5	App2 and App5 - Leakage	Jonathan Archer	Ritchie Carruthers, Mumin Islam Tony Summerscales, Patrick Campbell	Allan Winkworth	11-Mar
Wn1	Wholesale water treatment (explanatory variables) - All	Simon Ingall	Jon Weaver, Mike Collin, Richard Box, Eldos Then, Alex Rigby, Alice Elder, Natalie Fitzpatrick, Karinn Locke, Patrick Campbell	Allan Winkworth	11-Mar
Wn2	Wholesale Water Distribution (explanatory variables)- ALL	Simon Ingall	Alex Rigby, Natalie Fitzpatrick, Richard Box, Eldos Then, Kiran Ruda, Mike Collin, Mumin Islam, Patrick Campbell	Allan Winkworth	11-Mar
WS4	WS4 - Wholesale water other (explanatory variables) 12	Jonathan Archer	Ritchie Carruthers, Mumin Islam	Allan Winkworth	11-Mar
App1, 1a and 1b	All Sections - Performance commitments (PCs) and outcome delivery incentives (ODIs)	Jonathan Archer	Ben Gough , Tim Charlesworth	Martin Hall	12-Mar
App30	Voids	Julian Jacobs	Martin Hall, Jackie Welsh	Pragya Ahikari	12-Mar
App4	App4 – Common metrics for affordability and vulnerability	Julian Jacobs	Liz Freitas, Jackie Welsh, James Tipler, Katy Taqvi	Pragya Ahikari	12-Mar
R1	R1 - Residential retail - All section B	Simon Ingall	Ben Drake, Michael Calabrese	Ratna Unalkat	12-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section C	Julian Jacobs	Liz Freitas, Jackie Welsh	Pragya Ahikari	12-Mar
WS3	Wholesale water properties and population	Simon Ingall	Ritchie Carruthers, Mumin Islam	Allan Winkworth	12-Mar
App27	App27 - Financial outcome delivery incentives summary	Jonathan Archer	Martin Hall , Tim Charlesworth	Martin Hall	13-Mar
Wn6	Wholesale water network plus special cost factors	Jonathan Archer	Martin Hall , Tim Charlesworth	Martin Hall	13-Mar
Wr8	Wr8 - Wholesale water resources special cost factors	Jonathan Archer	Martin Hall , Tim Charlesworth	Martin Hall	13-Mar
WS18	WS18 - Explaining the 2019 Final Determination for	Julian Jacobs	Eddie Lintott and Fiona Waller	Martin Hall	13-Mar

Table	Section	Auditor	AW contacts	Data Lead	Date
	the water service - Section A Line 2				
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section A Line 1	Julian Jacobs	Ritchie Carruthers, Mumin Islam	Allan Winkworth	13-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section B	Julian Jacobs	Alister Leggatt, Ellie Powers	Allan Winkworth	13-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section E 7	Julian Jacobs	David Watts, Ellie Powers	Allan Winkworth	13-Mar
WS4	WS4 - Wholesale water other (explanatory variables) 1 + 9-11	Julian Jacobs	Eddie Lintott and Fiona Waller	Martin Hall	13-Mar
WS4	WS4 - Wholesale water other (explanatory variables) 6 - 8	Simon Ingall	Charlotte Sutton, Graham Turk	Allan Winkworth	13-Mar
App3	App3 – Abstraction Incentive Mechanism - surface and ground water abstractions under the AIM threshold	Monica Barker	Ilias Karapanos, Dan Yarker, Affie Panayiotou, Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
App5	App5 - PR14 reconciliation – performance commitments - W-A4 (Sustainable Abstraction Reduction) and W-A5 (AIM)	Monica Barker	Ilias Karapanos, Dan Yarker, Affie Panayiotou, Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
Wr1	Wr1 - Wholesale water resources (explanatory variables) - All	Monica Barker	Richard Box, Eldos Then, Jon Weaver, Natalie Fitzpatrick, Alex Rigby, Mike Collin, Nick Honeyball, Patrick Campbell, Karinn Locke, Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
Wr6	Wr6 - Water resources capacity forecasts	Monica Barker	Ritchie Carruthers, Mumin Islam Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
Wr7	Wr7 - New water resources capacity ~ forecast cost of options beginning in 2020-25 - All lines except 15	Monica Barker	Andrea Farcomeni , Mumin Islam, Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
WS4	WS4 - Wholesale water other (explanatory variables) 2-5	Monica Barker	Andrea Farcomeni , Mumin Islam, Max Gamrat, Dina Pope	Allan Winkworth	17-Mar
R3	R3 - Residential retail ~ further information on bad debt (Block C)	Julian Jacobs	Ben Drake, Michael Calabrese, Dina Pope	Ratna Unalkat	18-Mar

AMP6 Technical Assurance
Assurance Report on PR19 Tables Re-Submission

Table	Section	Auditor	AW contacts	Data Lead	Date
WS1	Wholesale water operating and capital expenditure by business unit - PART B lines 12-16 and PARTD Line 25	Jonathan Archer	Sarah Sayer, Gerald Doocey, Ratna Unalkat, Michael Calabrese, Dina Pope	Allan Winkworth	18-Mar
WS10	WS10 - Transitional spending in the wholesale water service	Jonathan Archer	Sarah Sayer, Gerald Doocey Max Gamrat, Dina Pope	Allan Winkworth	18-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section D	Julian Jacobs	Martin Hall, Tim Charlesworth, Dina Pope	Martin Hall	18-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section E 8	Helen Gavin	Georgina Howell, Grant Wordsworth, Dina Pope	Martin Hall	18-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section F	Julian Jacobs	Chris Stavrou, Tim Charlesworth, Dina Pope	Martin Hall	18-Mar
WS18	WS18 - Explaining the 2019 Final Determination for the water service - Section G	Julian Jacobs	Martin Hall, Tim Charlesworth, Dina Pope	Martin Hall	18-Mar
WS2	WS2 - Wholesale water capital and operating enhancement expenditure by purpose	Jonathan Archer	Sarah Sayer, Gerald Doocey, Max Gamrat, Dina Pope	Allan Winkworth	18-Mar
WS2a	WS2a - Wholesale water cumulative capital enhancement expenditure by purpose	Jonathan Archer	Sarah Sayer, Gerald Doocey, Max Gamrat, Dina Pope	Allan Winkworth	18-Mar
App5	App5 - PR14 reconciliation Performance commitments - W-A3 (WAFU)	Jonathan Archer	Charlotte Sutton, Graham Turk, Dina Pope	Dina Pope	19-Mar
App5	App5 - PR14 reconciliation Performance commitments - W-A2 (Ave Water Use)	Jonathan Archer	Andrea Farcomeni , Kiran Rude, Mumin Islam, Max Gamrat, Dina Pope	Allan Winkworth	19-Mar
Investment Portfolio - Enhancements		Jonathan Archer, Ellie Derbyshire	Marie Whaley, Tim Charlesworth, Gerald Doocy		25-Mar
App1, App2, App5 and PC/ODI linkages		Jonathan Archer, Ellie Derbyshire	Ben Gough, Tim Charlesworth, Gerald Doocy		26-Mar

Table	Section	Auditor	AW contacts	Data Lead	Date
Full investment portfolio		Jonathan Archer, Ellie Derbyshire	Sarah Sayer, Marie Whaley, Patrick Campbell, Tim Charlesworth, Gerald Doocy		27-Mar
Board Meeting		Jonathan Archer	Board members and Exec members		27-Mar
Board Meeting		Jonathan Archer	Board members and Exec members		29-Mar

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Appendix CA.A1.4

Action ref AFW.CA.A1

Summary of Board Governance relating to the Revised Plan

Appendix for the Confidence and Assurance Evidence Document

Meeting	Date	Matters Considered	Decisions confirmed
AWL Board call	31 Jan 2019	Briefing on the outcome of Ofwat's IAP and next steps	• Board to lead and oversee development and preparation of submission required for 1 April 2019
AWL Board Meeting for PR19	14 Feb 2019	• Business Plan submission • Confidence and assurance • Risk and return • Performance commitments and ODIs • Wholesale cost efficiency • Resilience • Retail cost efficiency • Customer engagement	• Endorsement of the approach, objectives, timeline, forward decisions and accountabilities for the Business Plan submission across test areas
AWL Audit Committee	20 Feb 2019	• Ofwat's findings on Business Plan Data Quality • Ofwat's Company Monitoring Framework assessment for 2017/18 • Addressing year-end reporting deficiencies identified by Ofwat in Company Monitoring Framework assessment	• Audit Committee to oversee necessary improvements in control environment for data quality • Third party review to be undertaken of why controls for ensuring the quality of data in the PR19 Business Plan submission did not operate as expected, with reporting back to the Board and Audit Committee
AWL Board Meeting for PR19	26 Feb 2019	• Programme Overview • Wholesale Totex and Retail Expenditure • Delivering Outcomes for Customers • Risk and Return • Resilience • Addressing vulnerability & affordability • Confidence and Assurance	• Approval of revisions to the Performance commitment framework, including 18.5% leakage reduction by 2024/25 • Approval of the use of the Ofwat WACC post inflation • Review of gearing over AMP7; • Review of the financeability of the revised Business Plan • Agreement that dividend policy be amended to clarify that 5% yield of appointed business is a 5% yield on average across AMP7; • Review the PAYG and RCV run-off.

Meeting	Date	Matters Considered	Decisions confirmed
			• Approval of response to the IAP actions on executive pay • Endorsement of approach for the IAP response to resilience • Approval of the addition of 2 new PCs for Priority Services Register and for BSI certification • Amendment to 2 PCs originally submitted around vulnerability satisfaction & ease, now with more challenging targets and split out into 4 PCs • Endorsement of the approach to strengthen assurance for the Revised Plan • Endorsement of asking Customer Challenge Group to provide assurance of certain actions (where CCG assurance is not mandatory)
AWL Board Meeting for PR19	14 Mar 2019	• Overview • Tactics for Business Plan • Wholesale Totex and Retail Expenditure • AMP7 Water Quality Driven Investments • Addressing Vulnerability and Affordability • Risk and Return • Risks post 1 April 2019 Submission • Accounting for Past Delivery • Securing Confidence and Assurance	• Approval of the wholesale totex and retail expenditure for the Revised Plan • Approval to retain Value for Money as a PC (non-financial) • Approval of draft bill and bill profile (subject to any further changes in totex and customer engagement) • Approval of PAYG and RCV run off rates and the methodology applied to setting these • Approval of inclusion of claim for lost revenue from unforeseeably high numbers of new connections • Approval of the removal of the metaldehyde uncertainty mechanism and retention of the sustainability uncertainty mechanism • Approve the inclusion in the resubmission of the claim for lost revenue on developer services relating to the substantial increase in new connections

Meeting	Date	Matters Considered	Decisions confirmed
Board Review Group	20 Mar 2019	The Board Review Group was a subset of the main AWL Board including three independent non-executive directors. Draft test area evidence documents shared with the attendees ahead of the meeting.	An all-day review of each of the 9 draft test area evidence documents that form our Revised Plan and resubmission to Ofwat by 1 April.
AWL Board Meeting	21 Mar 2019 Other attendees 1. CCG Chair 2. Assurance Providers (PwC, Atkins)	• Delivering outcomes for customers • Risk and Return • Gearing • Final Bill Profile Approval • Final Assurance Plan 2018/19 • Feedback from Board Review Group on 20 March • Executive Summary • Supplemental Board Assurance Statement **<u>Assurance</u>** • Draft CCG Report • Atkins - Large Investment Proposals • Atkins – Performance Commitments • PwC – Data Tables and Commentaries • Atkins – Data Tables and Commentaries • KPMG – Financial Model • ChandlerKBS - Tax • PwC – Strategic Assurance • Management Response	• Approval of the final PC framework for the revised plan following endorsement of the approach presented to the Board on 26 February 2019 • Approval of the final ODI proposals for the revised plan following approval of key decisions presented to the Board on 26 February 2019 • Approval of response to the action on gearing • Approval of the Final Assurance Plan 2018/19 • Approval of the final bill and bill profile and the Pay As You Go (PAYG) rates and RCV run off rates. • Approval of the financeability of the revised Business Plan.
AWL Board Meeting for PR19	27 Mar 2019 Other attendees Assurance Providers (PwC, Atkins)	• Delivering Outcomes for Customers • Risk and Reward Overview • Leakage submission for 1 April • Executive Summary • Supplemental Board Assurance Statement • Revised Plan **<u>Assurance</u>** • Atkins – Investment Programme • PwC – Data Tables and Commentaries	• Approval of the final ODI proposals for following approval of key decisions presented to the Board on 26 February 2019 • Noted the final financial figures • Noted and reviewed the financeablilty of the Revised Plan • Approval of the financebaility conclusion and statement • Approval of the revision to the dividend policy and response to the IAP action

Meeting	Date	Matters Considered	Decisions confirmed
		• Atkins – Data Tables and Commentaries and Performance Commitments • KPMG – Financial Model • PwC – strategic assurance	• Approval of the response to the IAP action on gearing • Discussion of response • Discussion on Executive Summary • Discussion on Supplemental Board Assurance Statement • Review of draft Assurance Reports for the Revised Plan • Management response to draft assurance response
AWL Board Meeting for PR19	29 Mar 2019 Other attendees Assurance Providers (PwC, Atkins)	• Programme update • Leakage submission • Final report Atkins – Data tables and performance commitments • Final report PwC – Data Tables and Commentaries • Final strategic assurance report – PwC • Final report KPMG – Financial Model • Final CCG Report • Executive Summary • Supplemental Board Assurance Statement • Revised Plan	• Approval of leakage submission • Consideration of final assurance reports • Approval of Executive Summary • Approval of Supplemental Board Assurance Statement • Approval of submission of Revised Plan

Appendix CA.A2.1

Action ref AFW.CA.A2

Affinity Water Limited Dividend Policy

Dividend Policy

Affinity Water Limited

March 2019

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1 Policy Date and Review

This Dividend policy has been approved by the Board of Affinity Water Limited (the ‘company’) and is effective from 1 September 2018. All dividends must be declared and paid in accordance with this policy.

The policy will be reviewed by the Board at least annually. Any changes in the policy will be clearly signalled in the company’s Annual Performance Report.

2 Dividend Policy Summary and Reporting

The dividend policy of Affinity Water Limited is to pay a dividend commensurate with the long-term returns and performance of the business and allowing shareholders to earn an appropriate return from an investment in the company, whilst not impairing the company's longer term financeability and taking into account commitments to its stakeholders and customers.

In determining the level of dividend, the financial performance of the appointed and non-appointed businesses are considered separately. The base dividend for the appointed business will be in reference to the company's internal business plan and will not exceed a nominal 5% yield on equity as an annual average over the Asset Management Plan ('AMP'), based on the company's actual financial structure. This is in line with Ofwat's expectations and the allowance for the cost of equity in the Retail Price Index ('RPI') Weighted Average Cost of Capital ('WACC') for AMP7. This will apply for the period from the effective date of this policy. Dividends can be increased or lowered from the base depending on the actual performance of the company.

An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to stakeholders, which includes the following areas: customer service; operational commitments; community commitment; and employees and the health of the pension schemes.

Finally, the Board should test any proposed dividend payments against legal and regulatory requirements and restrictions, including the management of economic risk and compliance with financial covenants.

The dividends declared or paid in a year are to be reported in the Annual Performance Report of the company. This should include how they relate to the policy and any changes in the policy.

3 Calculating the Value of the Dividend

Dividends for the appointed business are declared after considering a holistic view of the company's performance. The Board should asses the value of the dividends to be paid for the appointed and non-appointed businesses separately. The value of the dividend declared will depend on the performance of each business.

3.1 Non-Appointed Dividend

The policy is to pay dividends in respect of the non-appointed business reflecting the profitability and performance of this business.

3.2 Appointed Dividends

The base dividend of the appointed business is set in line with the company's internal business plan approved by the Board following the determination of the price controls for each asset management period and will not exceed a nominal 5% yield on equity as an annual average over the AMP, based on the company's actual financial structure. This is in line with Ofwat's expectations and the allowance for the cost of equity in the RPI WACC for AMP7. This will include any sharing mechanism within the price controls related to the financing structure of the company. The Board will assess the financial performance against this base dividend and accordingly increase or decrease the dividend to be paid as appropriate. This assessment will consider the whole asset management period.

4 Assessment of Service and Commitments to Stakeholders

The Board should consider if the payment or part payment of the dividend reflects or would compromise the long-term social, financial and operational commitments made to stakeholders, including customers, employees and pensioners. The Board should exercise judgement in four areas:

1 **Customer Service –** The company's performance in the round on customer delivery. This is assessed against the targets the company sets on its customer performance. This would include but is not limited to:

- C-MEX (AMP7 only)
- D-MEX (AMP7 only)
- Complaints
- SIM (AMP6 only)

2 **Operational Commitments –** The company's performance in the round on the Performance Commitments levels set in the company's business plan. This includes but is not limited to:

- Leakage
- Consumption
- Water Quality
- Interruptions to Supply
- Pressure (AMP7 only)

3 **Community Commitments –** The company's performance in the round on the Performance Commitments levels set in the company's business plan. This includes but is not limited to:

- Vulnerable customers
- Sustainable abstraction
- Community investment
- Environmental innovation (AMP7 only)

4 **Employees and Pensions –** The company's performance in respect of its employees. This will include but is not limited to:

- Safety
- The health of the pensions schemes

5 Financeability Considerations

In assessing the dividend to be paid, the Board is required:

– to ensure that sufficient liquidity is maintained after a dividend payment to enable the business to, for at least 15 months, meet its financial obligations and finance its operations, including the payment of its creditors as they fall due.

– to make a reasonable judgment as to the amount of the distributable profits of the company when determining both whether a dividend should be declared and its value. This will consider the latest balance sheet position and forecast.

– to assess the long-term viability of the company. This is assessed through the viability tests maintained by the company, reviewing the cash facilities available to the company.

– to ensure that the company maintains ratios that are in line with a credit rating equal to or above investment grade and to maintain the headroom target set for gearing as measured by the Regulated Asset Ratio covenant and the Interest Cover Ratio covenant over a two-year period.

6 Licence Condition Requirements

Licence Condition F provides that:

"The Appointee shall declare or pay dividends only in accordance with a dividend policy which, has been approved by the Board of the Appointee and which complies with the following principles:

1. *The dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and*

2. *Under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk."*

Further, in assessing the dividend to be paid, directors are required to ensure that:

a) *"The dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk"; and*

b) *"no director of the Appointee should vote on any contract or arrangement or any other proposal in which he has an interest by virtue of other directorships."*

7 Legal Requirements

The company must comply with all legal requirements with respect to the declaration and payment of dividends including, but not limited to, Part 23 of the Companies Act 2006.

In declaring and paying dividends, the directors must meet their duty under Section 172 of the Companies Act 2006 to act in the way they consider most likely to promote the success of the company for the benefit of the company's members as a whole, having regard to:

- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

8 Dividend Frequency

A maximum of one dividend can be paid per quarter.

9 Special Dividend

A special dividend can be approved by the Board. This could for example relate to the sale of an asset or part of the business.

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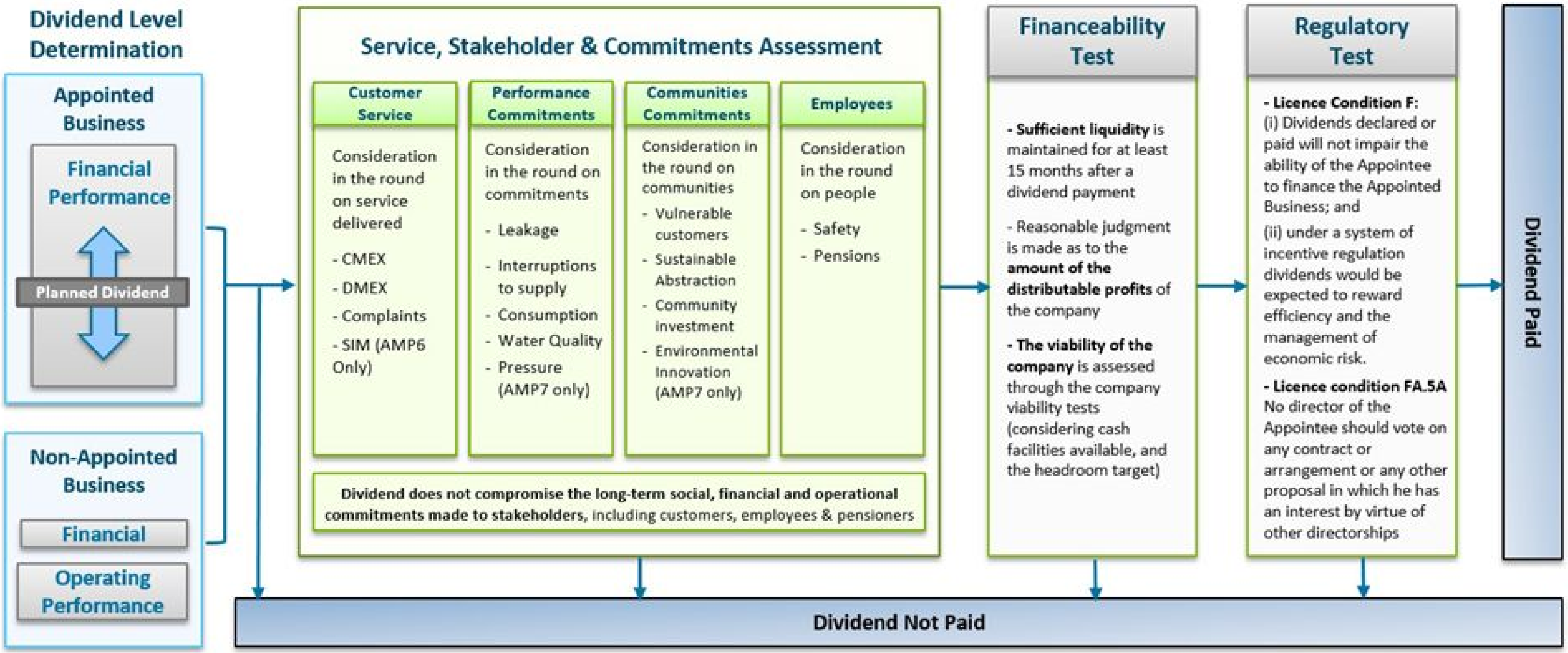
Appendix one

Dividend Policy Summary



Dividend Level Determination
Appointed Business
Financial Performance
Planned Dividend
Non-Appointed Business
Financial
Operating Performance
Service, Stakeholder & Commitments Assessment
Customer Service
Consideration in the round on service delivered
- CMEX
- DMEX
- Complaints
- SIM (AMP6 Only)
Performance Commitments
Consideration in the round on commitments
- Leakage
- Interruptions to supply
- Consumption
- Water Quality
- Pressure (AMP7 only)
Communities Commitments
Consideration in the round on communities
- Vulnerable customers
- Sustainable Abstraction
- Community investment
- Environmental Innovation (AMP7 only)
Employees
Consideration in the round on people
- Safety
- Pensions
Dividend does not compromise the long-term social, financial and operational commitments made to stakeholders, including customers, employees & pensioners
Financeability Test
- Sufficient liquidity is maintained for at least 15 months after a dividend payment
- Reasonable judgment is made as to the amount of the distributable profits of the company
- The viability of the company is assessed through the company viability tests (considering cash facilities available, and the headroom target)
Regulatory Test
- Licence Condition F:
(i) Dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and
(ii) under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk.
- Licence condition FA.5A
No director of the Appointee should vote on any contract or arrangement or any other proposal in which he has an interest by virtue of other directorships
Dividend Paid
Dividend Not Paid

Appendix CA.A2.2

Action refs AFW.CA.A2; AFW.CA.A4; AFW.CA.A5

KPMG Assurance Report: financial model

KPMG

Data table review

Prepared for Affinity Water

Private and confidential

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28th of March 2019

Scope of review

KPMG was commissioned by Affinity Water Limited (AFW) to provide a series of reviews of aspects of AFW's response (the April submission) to Ofwat's initial assessment of plans (IAP).

The review comprised to two principal elements:

1) A 'second line review' of data tables.

This was a risk-based review of AFW's data tables supporting its submission. The review took place over the period 1st of March 2019 to the 16th of March, with the majority of the tables being reviewed over a five-day period. The financial model outputs tables were made available on the 15th of March, and were reviewed on the 16th of March.

There was a further review on the 23rd of March of the financial model output tables following changes in the revenue figures. This included an additional table that had not previously been completed (App26).

Every table was assessed in terms of whether there had been changes made since the business plan submission, whether any changes aligned to AFW's change log, and whether figures were of a generally expected magnitude (i.e. were there any clear errors).

AFW data providers were requested to highlight any lines in their data tables that they considered to be high risk / would appreciate a closer second review on. The data providers did not identify any such data lines, and so KPMG provided further review on tables WS1 and R1, as these cost tables have significant impacts on many of the other tables.

Where supporting information was provided, KPMG checked that the data had been correctly transposed to the data tables.

The review was carried out prior to the data tables being submitted to AFW's assurance partners for final review, and formal assurance.

For the avoidance of doubt, the KPMG review does not constitute formal assurance of AFW's data tables and/or April submission.

2) Additional checks with regard to AFW's financial ratios.

In its IAP, Ofwat identified a series of issues with AFW's 'App10' data table. As such, KPMG was commissioned to provide a series of additional checks in this area. These issues were largely driven by the fact that AFW used its own model (the 'Splash' model) to assess financial ratios, rather than Ofwat's financial model.

The agreed checks were:

- Check that the updated Splash model is producing the same results as the updated Ofwat model for financial ratios.
- Check that the financial ratios in App10 in the updated business plan tables align to the ratios calculated in the updated Ofwat model.
- Check whether the calculated ratios fall within an expected range (range to be proposed by KPMG, and agreed with Affinity Water), and are of the correct sign (i.e. positive or negative).
- Check that given the changes since the business plan submission (to the calculations used, and the supporting input data) that any changes in ratio values appear to be in an intuitive direction.
- Check that all of the data in the updated 'business plan table – Financial model mapping tool' that links to the Splash model correctly link through to the model outputs sheets in the Splash model.
- Check that the PAY-G, and run-off rates correctly feed through from the updated Splash model to the data tables.
- Check that Affinity Water's general approach to PAY-G and run-off rates across the different revenue controls comply in principle to Ofwat's stated methodology and policy objectives.

KPMG

Second line review of data tables

The 'second line' review covered the following data tables:

App1	App1a	App1b	App2	App3	App4*	App5**
App7	App8	App9	App10	App11	App11a	App12
App12a	App13	App14	App15	App15a	App16	App17
App18	App19	App21	App23	App24	App24a	App25
App26	App27	App28	App29	App30	WS1	WS1a
WS2	WS2a	WS3	WS4	WS5	WS7	WS8
WS10	WS12	WS12a	WS13	WS15	WS18***	Wr1
Wr2	Wr3	Wr4	Wr6	Wr7	Wn1	Wn2
Wn3	Wn4	Wn5	Wn6	R1	R2	R3
R7	R8	R9	R10****			

*With the exception of lines 3-8.

**With the exception of SIM and VfM

***With the exceptions of sections H and D

****Section D only

Summary of process

Any issues were fed-back to the relevant data providers. A full summary of the review was logged in a tracker, and regularly shared with the AFW programme team.

The most common type of issue identified was changes made in the tables not reflected in the change log. In almost every instance, the data provider took the action of updating the change log.

For tables WS1 and R1, we did not identify any clear errors, however, we note that with WS1 the allocation of costs to business units was based on an historical allocation, and the allocation of cost by year was based on the profile used in the business plan. We note that both of these tables were changed following our review.

For a large number of data tables, we were not provided with supporting information. For these tables, our review focused on changes made since the business plan submission, whether any changes aligned to AFW's change log, and whether figures were of a generally expected magnitude (i.e. were there any clear errors).

Where supporting information was provided, we note that models were not in line with spreadsheet best practice (e.g. they did not always read left to right, inputs were not clearly separated from calculations, assumptions were not clearly highlighted, etc.). This increases the risk of errors across the piece, and will make the full reviews by AFW's assurance partners more challenging.

The review identified errors on a small number of tables. These were fed back to data providers, who confirmed that the issues would be addressed prior to the assurance partner review.

Additional checks with regard to AFW's financial ratios

A summary of our findings against each one of the agreed checks is set out below:

Check that the updated Splash model is producing the same results as the updated Ofwat model for financial ratios

Following the changes to the Splash model since the business plan submission, differences to Ofwat's financial model are small.

We understand that AFW will be using the Ofwat model to populate the data tables (App10). As such, there is less need for the figures in the Ofwat model and the Splash model to align perfectly, although large differences would raise questions as to the accuracy of the models.

While the figures are not identical, they are not so different that it could be expected that an 'in the round' assessment of the company's financeability would lead to a different set of conclusions from either set of figures. We have not undertaken a financeability assessment of AFW.

Actual - Ofwat	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	79.86%	79.96%	79.85%	79.37%	79.40%
Interest cover	3.69	3.94	3.97	3.73	3.73
Adjusted cash interest cover	1.63	1.75	1.79	1.72	1.65
Adjusted cash interest cover (alternative calculation)	1.02	1.09	1.12	1.10	1.10
FFO/Net Debt	8.78%	9.00%	9.06%	8.65%	8.88%
FFO/Net Debt (alternative calculation)	7.23%	7.52%	7.63%	7.24%	7.46%
Dividend cover	0.00	0.00	0.00	2.31	0.78
RCF/Net Debt	8.78%	9.00%	9.06%	8.38%	8.02%
RCF/Capex	59.48%	61.67%	67.58%	74.60%	86.52%
Return on capital employed	4.61%	4.56%	4.46%	4.04%	4.11%
RORE	4.55%	4.60%	4.63%	4.66%	4.68%

Source: 'AW Data Tables April Master Post-audit.xlsb', Last modified at 3/22/2019 9:13 pm

Actual - Splash	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	79.81%	79.91%	79.80%	79.35%	79.36%
Interest cover	3.70	3.94	3.97	3.73	3.73
Adjusted cash interest cover	1.63	1.75	1.79	1.72	1.65
Adjusted cash interest cover (alternative calculation)	1.02	1.09	1.12	1.10	1.10
FFO/Net Debt	8.79%	9.01%	9.06%	8.65%	8.88%
FFO/Net Debt (alternative calculation)	7.24%	7.53%	7.63%	7.24%	7.46%
Dividend cover	0.00	0.00	0.00	2.38	0.81
RCF/Net Debt	8.79%	9.01%	9.06%	8.38%	8.02%
RCF/Capex	59.48%	61.68%	67.57%	74.58%	86.51%
Return on capital employed	4.68%	4.63%	4.53%	4.10%	4.17%
RORE	4.55%	4.59%	4.62%	4.65%	4.67%

Source: 'Project Splash v2.25cs22.02.19.xlsb', Last modified at 3/22/2019 5:49 pm

Additional checks with regard to AFW's financial ratios

Check that the financial ratios in App10 in the updated business plan tables align to the ratios calculated in the updated Ofwat model

We reviewed one version of the data tables on the 15th of March 2019. That set of data tables had one line (line 33) erroneously linking to the wrong line within the financial model.

Following our early feedback, this was amended. Our review of the data tables on the 16th of March 2019 confirmed that all the App10 ratios were correctly linked to the Ofwat model (for both the actual and notional structures). We conducted a further review on a slightly updated set of tables on the 23rd of March 2019.

Check whether the calculated ratios fall within an expected range (range to be proposed by KPMG, and agreed with Affinity Water), and are of the correct signage

All of the ratios are of the correct signage. Our proposed range is the range derived from other companies' business plan submissions.

For the actual financial structure: With the exception of gearing (where AFW is the highest), all ratios fall within the range of what other companies had in their business plans. Excluding United Utilities, AFW has the lowest AICR (alternative calc) in the sector. This still falls within the range of what Moody's would expect for a Baa rated company.

For the notional financial structure: For the last two years of the control period, AFW has the lowest gearing figures in the sector. For the last year of the AMP, AFW has the highest interest cover in the sector. For every year of the control period, AFW has the highest RCF/net debt in the sector.

See the appendix for a full set of charts illustrating AFW's comparative position.

Check that given the changes since the business plan submission (to the calculations used, and the supporting input data) that any changes in ratio values appear to be in an intuitive direction

Since the business plan submission, there have been numerous changes to the Splash model. Ofwat has also issued multiple updates of its financial model. Therefore, there is limited benefit in attempting to develop a full reconciliation between the business plan submission and the April submission.

Instead, we have reviewed whether changes in the ratios since the business plan submission bring the AFW figures closer to the rest of the industry's business plan submissions. This is set out on the subsequent two slides, and should be read in conjunction with the full set of charts illustrating AFW's comparative position included in the appendix.

Additional checks with regard to AFW's financial ratios

Business plan submission – actual financial structure

	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	79.20%	79.13%	79.16%	79.32%	79.33%
Interest cover	4.24	3.52	3.55	3.65	3.31
Adjusted cash interest cover	2.85	1.98	1.94	2.02	1.64
Adjusted cash interest cover (alternative calculation)	2.63	1.84	1.77	1.96	1.64
FFO/Net Debt	12.26%	8.96%	8.96%	9.50%	8.40%
FFO/Net Debt (alternative calculation)	11.25%	7.99%	8.02%	8.57%	7.46%
Dividend cover	3.12	0.00	3.88	0.88	0.73
RCF/Net Debt	11.32%	8.96%	8.52%	8.05%	7.14%
RCF/Capex	75.93%	62.15%	65.23%	75.49%	85.84%
Return on capital employed	4.59%	4.83%	4.87%	4.57%	4.31%
RORE	0.06%	3.05%	3.19%	3.30%	3.36%

Source: 'PR19_data-tables28_09_18.xlsb', As submitted to Ofwat.

April submission – actual financial structure

	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	79.86%	79.96%	79.85%	79.37%	79.40%
Interest cover	3.69	3.94	3.97	3.73	3.73
Adjusted cash interest cover	1.63	1.75	1.79	1.72	1.65
Adjusted cash interest cover (alternative calculation)	1.02	1.09	1.12	1.10	1.10
FFO/Net Debt	8.78%	9.00%	9.06%	8.65%	8.88%
FFO/Net Debt (alternative calculation)	7.23%	7.52%	7.63%	7.24%	7.46%
Dividend cover	0.00	0.00	0.00	2.31	0.78
RCF/Net Debt	8.78%	9.00%	9.06%	8.38%	8.02%
RCF/Capex	59.48%	61.67%	67.58%	74.60%	86.52%
Return on capital employed	4.61%	4.56%	4.46%	4.04%	4.11%
RORE	4.55%	4.60%	4.63%	4.66%	4.68%

Source: 'AW Data Tables April Master Post-audit.xlsb', Last modified at 3/22/2019 9:13 pm

- **Gearing –** gearing has not significantly changed, with AFW continuing to target a level just under 80%.
- **Interest cover –** the most material change was in the first year. This brings AFW closer to the industry average position of 3.8.
- **Adjusted interest cover –** the most material change was in the first year. This brings AFW closer to the industry average position of 1.7.
- **Adjusted interest cover (alternative calculation) –** the most material change was in the first year. This brings AFW closer to the industry average position of 1.3.
- **FFO/Net Debt** - the most material change was in the first year. This brings AFW closer to the industry average position of 9%.
- **FFO/Net Debt (alternative calculation) -** the most material change was in the first year. This brings AFW closer to the industry average position of 8%.
- **Dividend cover –** this has changed to reflect the updated dividend profile.
- **RCF/Net Debt** - the most material change was in the first year. This brings AFW closer to the industry average position of 7%.
- **RCF/Capex** - the most material change was in the first year. This brings AFW closer to the industry average position of 66%.
- **Return on capital employed –** no material changes.
- **RORE -** the most material change was in the first year. This brings AFW closer to the industry average position of 4.8%.

Additional checks with regard to AFW's financial ratios

Business plan submission – notional financial structure

	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	60.24%	60.28%	59.93%	58.56%	56.84%
Interest cover	5.10	4.03	3.97	4.13	3.81
Adjusted cash interest cover	3.41	2.27	2.16	2.28	1.89
Adjusted cash interest cover (alternative calculation)	3.15	2.11	1.98	2.22	1.89
FFO/Net Debt	16.81%	12.35%	12.32%	13.43%	12.38%
FFO/Net Debt (alternative calculation)	16.81%	12.35%	12.32%	13.43%	12.38%
Dividend cover	0.00	0.00	0.00	0.00	0.00
RCF/Net Debt	16.81%	12.35%	12.32%	13.43%	12.38%
RCF/Capex	85.72%	65.28%	71.42%	93.04%	106.67%
Return on capital employed	4.52%	4.76%	4.81%	4.51%	4.25%
RORE	1.53%	3.03%	3.10%	3.15%	3.18%

Source: 'PR19_data-tables28_09_18.xlsb', As submitted to Ofwat.

April submission – notional financial structure

	2020-21	2021-22	2022-23	2023-24	2024-25
Gearing	59.19%	59.66%	59.78%	58.92%	57.68%
Interest cover	4.71	4.72	4.69	4.57	4.77
Adjusted cash interest cover	2.08	2.10	2.11	2.11	2.10
Adjusted cash interest cover (alternative calculation)	1.30	1.31	1.32	1.35	1.40
FFO/Net Debt	12.79%	12.73%	12.72%	12.43%	13.18%
FFO/Net Debt (alternative calculation)	11.85%	11.85%	11.86%	11.58%	12.30%
Dividend cover	0.00	0.00	0.00	0.00	0.00
RCF/Net Debt	12.79%	12.73%	12.72%	12.43%	13.18%
RCF/Capex	64.22%	65.08%	71.01%	82.16%	103.31%
Return on capital employed	4.60%	4.56%	4.46%	4.03%	4.10%
RORE	4.49%	4.56%	4.59%	4.63%	4.66%

Source: 'AW Data Tables April Master Post-audit.xlsb', Last modified at 3/22/2019 9:13 pm

- **Gearing –** gearing has not significantly changed, with AFW continuing to target the notional level of gearing of 60%.
- **Interest cover –** the most martial change was in the first year. This brings AFW closer to the industry average position of 4.2.
- **Adjusted interest cover –** the most material change was in the first year. This brings AFW closer to the industry average position of 1.7.
- **Adjusted interest cover (alternative calculation) –** the most material change was in the first year. This brings AFW closer to the industry average position of 1.4.
- **FFO/Net Debt -** the most material change was in the first year. This brings AFW closer to the industry average position of 11%.
- **FFO/Net Debt (alternative calculation) -** the most material change was in the first year. This brings AFW closer to the industry average position of 10%.
- **Dividend cover –** this has changed to reflect that no cash is available for distribution on the notional structure.
- **RCF/Net Debt -** the most material change was in the first year. This brings AFW closer to the industry average position of 8%.
- **RCF/Capex -** the most material change was in the first year. This brings AFW closer to the industry average position of 64%.
- **Return on capital employed –** no material changes.
- **RORE -** the most material change was in the first year. This brings AFW closer to the industry average position of 4.6%.

Additional checks with regard to AFW's financial ratios

Check that all of the data in the updated 'business plan table – Financial model mapping tool' that links to the Splash model correctly link through to the model outputs sheets in the Splash model

Our review of the data tables on the 16th of March 2019 confirmed that all the data in the financial model mapping tool that linked to the Splash model, correctly linked to the Splash model. We conducted a further review on a slightly updated set of tables on the 23rd of March 2019.

Check that the PAY-G, and run-off rates correctly feed through from the updated Splash model to the data tables

Our review of the data tables on the 16th of March 2019 confirmed that the PAY-G, and run-off rates correctly feed through from the updated Splash model. We conducted a further review on a slightly updated set of tables on the 23rd of March 2019.

Check that Affinity Water's general approach to PAY-G and run-off rates across the different revenue controls comply in principle to Ofwat's stated methodology and policy objectives

Ofwat's framework does not specify the use of any particular values for PAY-G and run-off rates. Instead, Ofwat asks companies to justify their approaches. Therefore, we have reviewed AFW's justification for its proposed PAY-G and run-off rates, as set out in 'AFW Aligning Risk and Return: Evidence Document', as provided on the 27th of March 2019.

AFW has used a three stage approach:

- Estimating the natural rates.
- Adjusting the PAYG to ensure the company is financeable on the notional structure, and the run-off to off-set the impact for customers.
- Further adjusting the run-off rates to smooth bills.

Estimating natural PAY-G and run-off rates

AFW has estimated the natural PAY-G rate by dividing opex (including expensed IRE) by totex. This does not seem like an unreasonable approach, and at a company level, appears to be broadly in line with what other companies proposed in their business plans (see Ofwat's comparison of PAY-G rates set out in 'Aligning risk & return –webinar').

At a price control level, AFW is proposing a PAY-G rate for water resources that is the second lowest in the industry (behind Portsmouth Water) comparing to companies' business plan submissions. This may not be 'wrong', as it could reflect the underlying cost structure, but perhaps would benefit from further explanation. The water network plus PAY-G rate appears to be broadly in line with what other companies proposed in their business plans.

AFW has estimated the natural run-off rate by dividing the depreciation charge by average net book value. AFW do not provide an explanation as to why this is an appropriate way to estimate run-off rates. Furthermore, the analysis is undertaken for years 2016/17 and 2017/18. Other companies have considered how AMP7 investment profiles impact rates. Ofwat's methodology states:

"In carrying out our assessment, we will look at the impact of the proposed PAYG and RCV run-off rates on allowed revenue, relative to the levels of both historical and forecast operational and capital expenditure, and RCV depreciation. Looking at both historical and forecast rates allows us to assess how the proposals reflect current expenditure plans. It also allows us to take into account the impact of any historical capital expenditure (capex) bias on the chosen rates."[1]

At a company level, the run-off rate is in line with what other companies proposed in their business plans (see Ofwat's comparison of PAY-G rates set out in 'Aligning risk & return –webinar'). At a price control level, AFW's proposed run-off rates appear to be broadly in line with what other companies proposed in their business plans.

[1] Ofwat (2018) 'Delivering Water 2020: Our final methodology for the 2019 price review', page 195

Additional checks with regard to AFW's financial ratios

Adjusting the PAYG to ensure the company is financeable on the notional structure, and the run-off to off-set the impact for customers

Ofwat's methodology states that:

"In some cases, companies may wish to increase cash flows, so that they exceed the level underpinned by the economic substance of the forecast expenditure, to address financeability constraints under the notional capital structure. Where they do so, we expect companies to provide compelling evidence that their approach benefits customers and has the support of customers."[1]

AFW has included some customer research in its response. However, it is quite high level. Portsmouth Water for example (a company that proposed a material adjustment to PAYG and was rated as 'B' by Ofwat in the IAP for the relevant test) tested the bill impact of customers of re-profiling the rate, and found support for an impact of £3-£4 per bill.[2]

If AFW were able to elaborate on its customer research, it may improve its chances of meeting the Ofwat requirement of 'providing compelling evidence'.

Furthermore, in this section of its response to the IAP, AFW does not demonstrate that it would be unfinanceable (on the notional structure) without adjusting the rates.

Further adjusting the run-off rates to smooth bills

Ofwat's methodology states that:

"If companies consider it appropriate to adjust their PAYG or RCV run-off rates further for other reasons (for example, to address financeability for the notional financial structure or to smooth customer bills), we will look for evidence that this has been fully explained within business plans, with evidence of customer preferences"[2]

AFW reference customer research that supports bill smoothing. It is not included within 'AFW Aligning Risk and Return: Evidence Document', and so we have not performed a review of that evidence.

The PAYG adjustment is larger than any other company proposed in their business plan submissions. Therefore, we would expect this to be supported by compelling customer research. It is also not clear from the document provided, how much of the adjustment relates to ensuring financeability, and how much relates to bill smoothing.

Conclusion

We have not found any issues of clear non-compliance with regard to AFW's use of PAY-G and run-off rates. However, the submission would benefit from further evidence to support the rates proposed. In particular with regard to:

- AFW's approach to the natural run-off rate.
- Demonstrating that AFW would be unfinanceable (on the notional structure) without adjusting the rates.
- Customer support for the adjustments made.

[1] Ofwat (2018) 'Ofwat (2018) 'Delivering Water 2020: Our final methodology for the 2019 price review', page 196.

[2] Portsmouth Water (2018) 'Business Plan 2020-25', page 117.

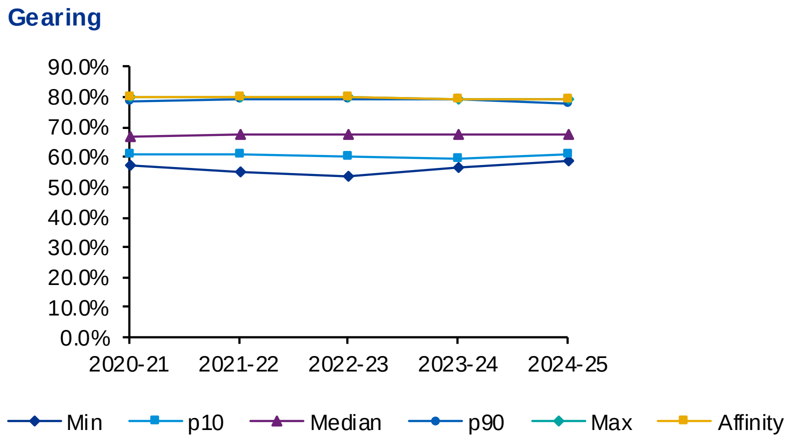
[3] Ofwat (2018) 'Delivering Water 2020: Our methodology for the 2019 price review - Appendix 12: Aligning risk and return', page 110.

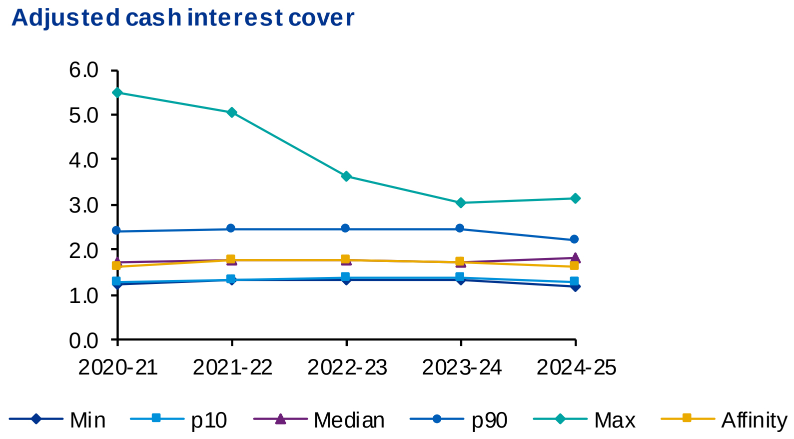
KPMG

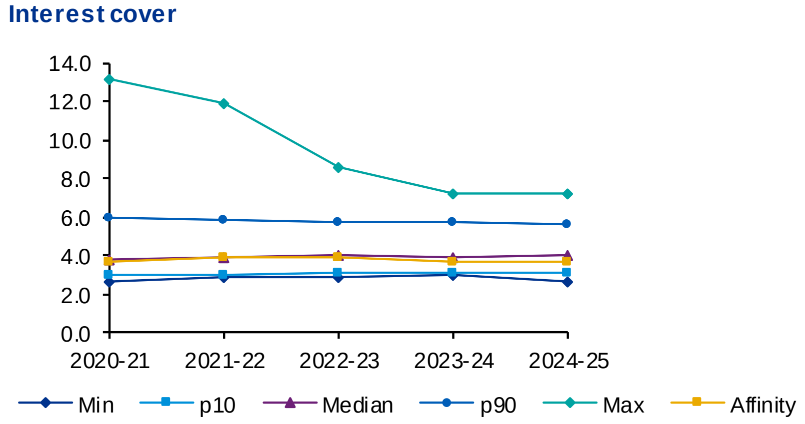
Appendix - comparison of financial ratios

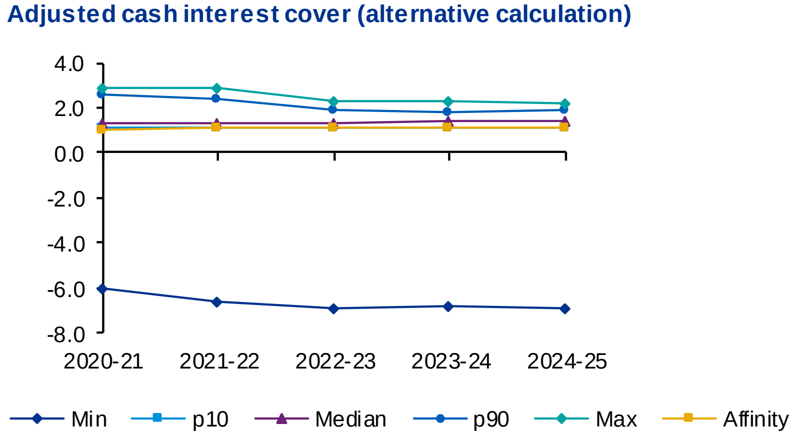
Appendix – comparison of financial ratios

Comparison of ratios - actual financial structure (1 of 3)





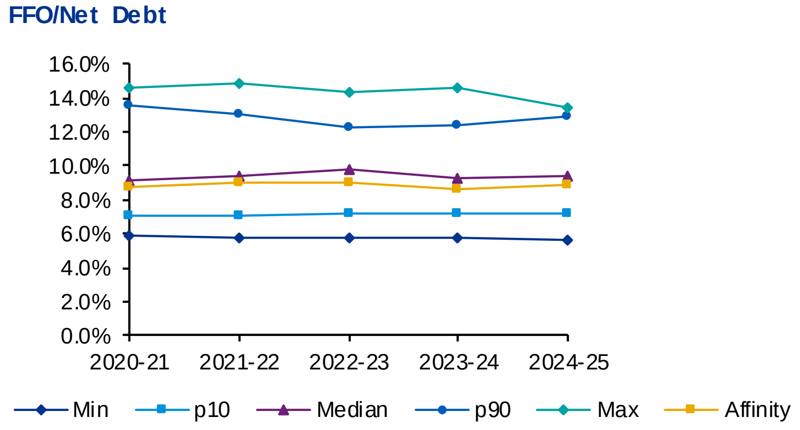


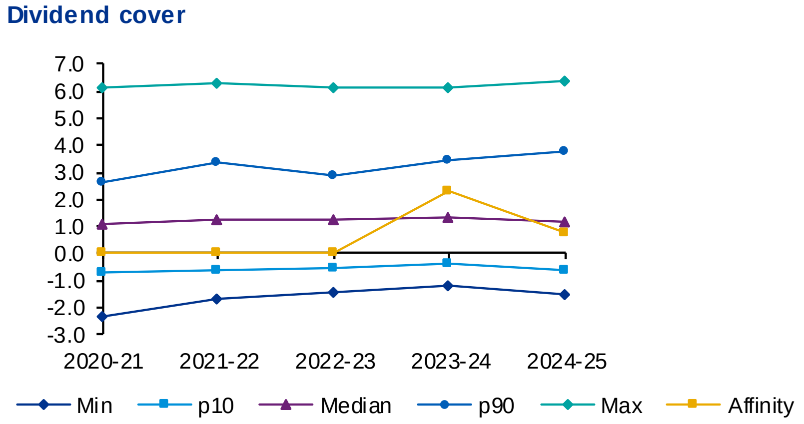


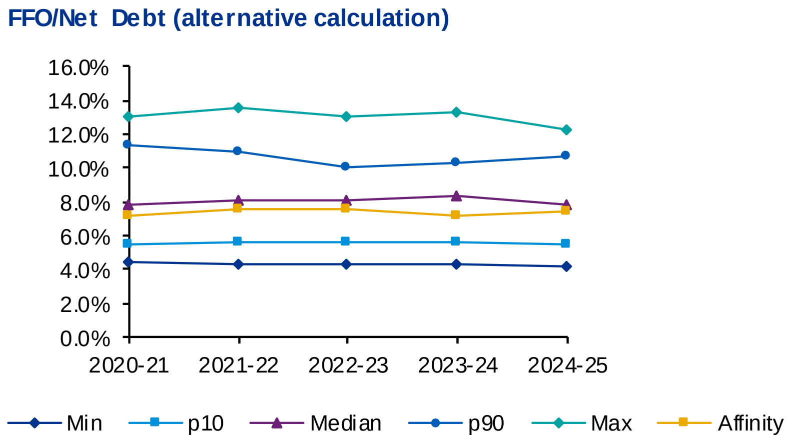
Document Classification: KPMG Confidential

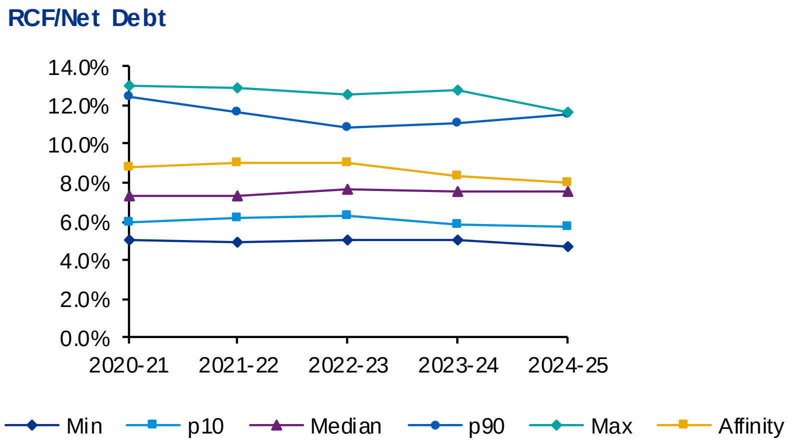
Appendix – comparison of financial ratios

Comparison of ratios - actual financial structure (2 of 3)





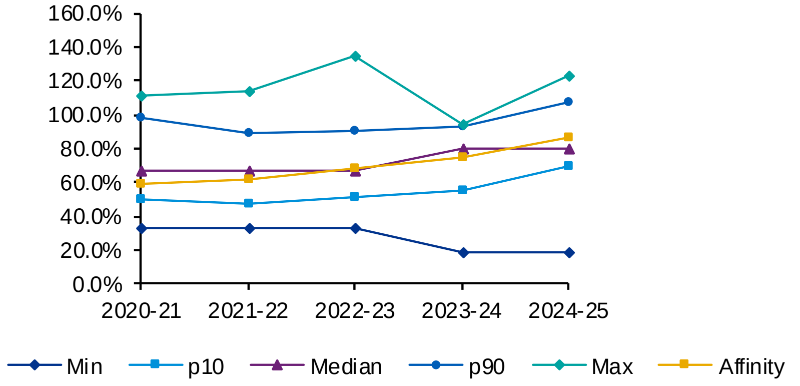




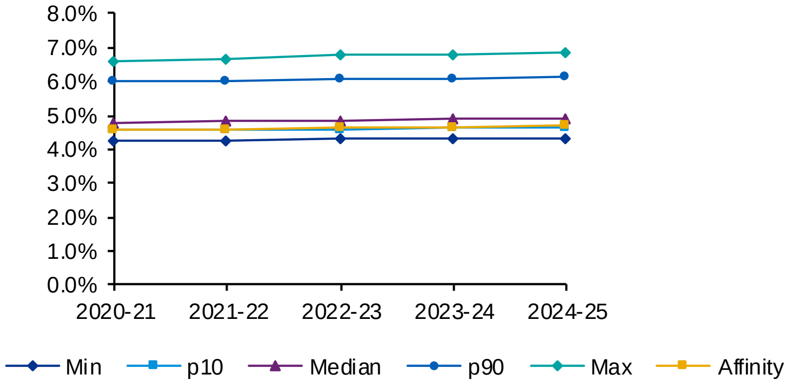
Appendix – comparison of financial ratios

Comparison of ratios - actual financial structure (3 of 3)

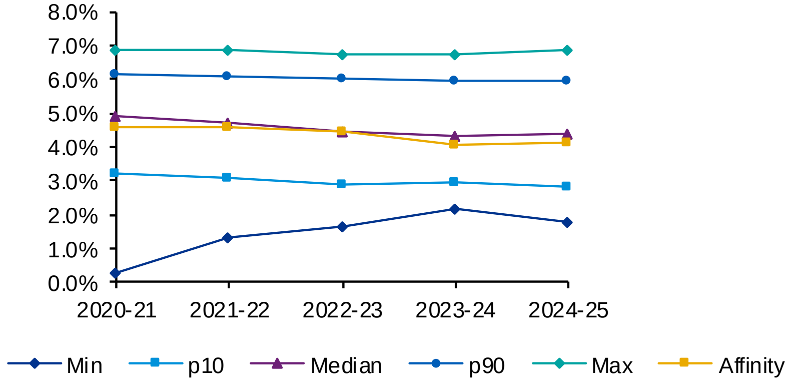
RCF/Capex



RORE

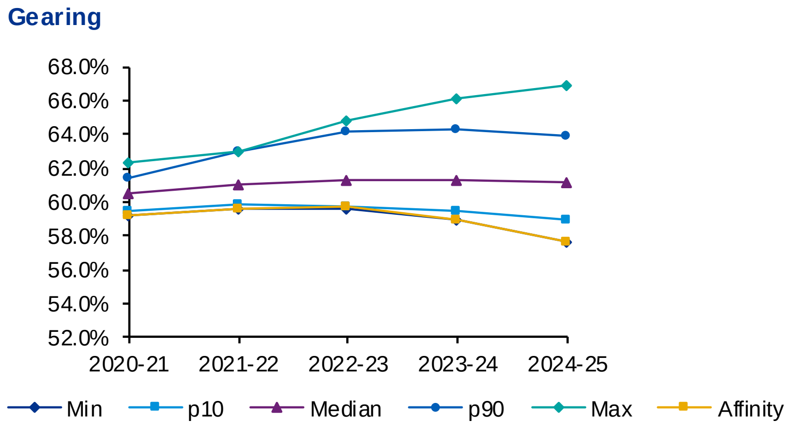


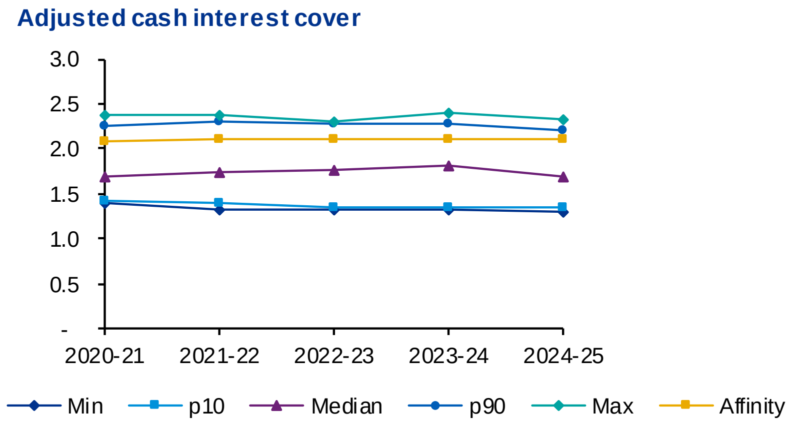
Return on capital employed

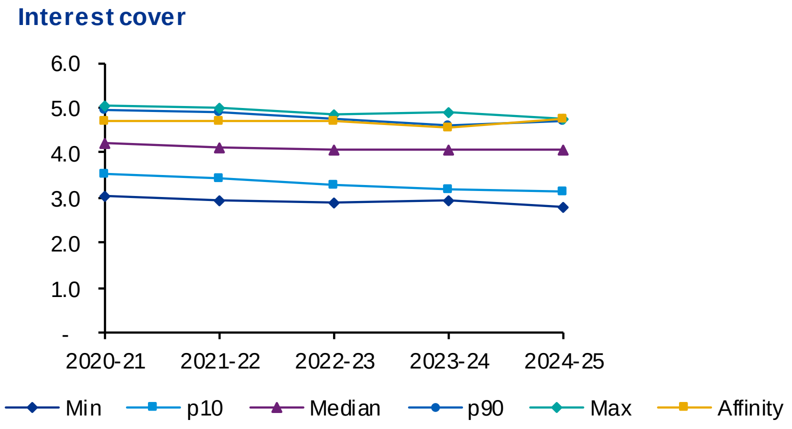


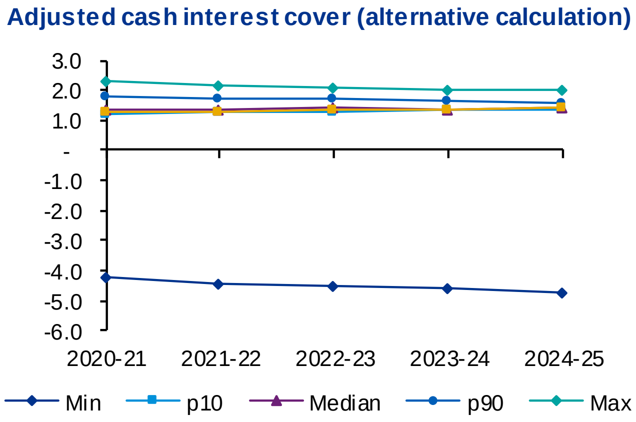
Appendix – comparison of financial ratios

Comparison of ratios - notional financial structure (1 of 3)



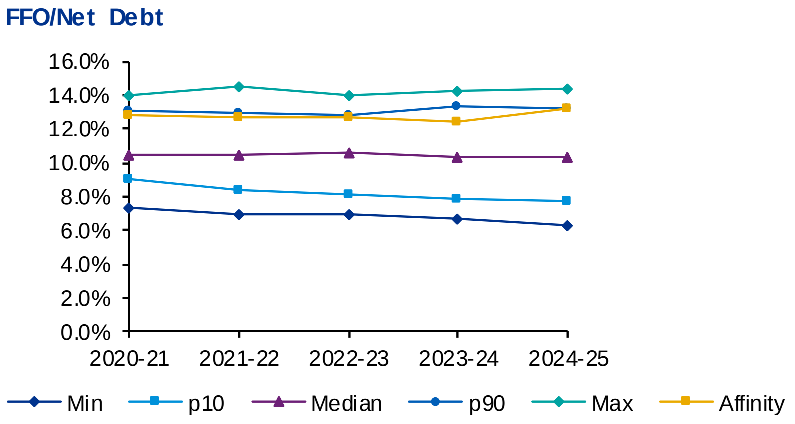


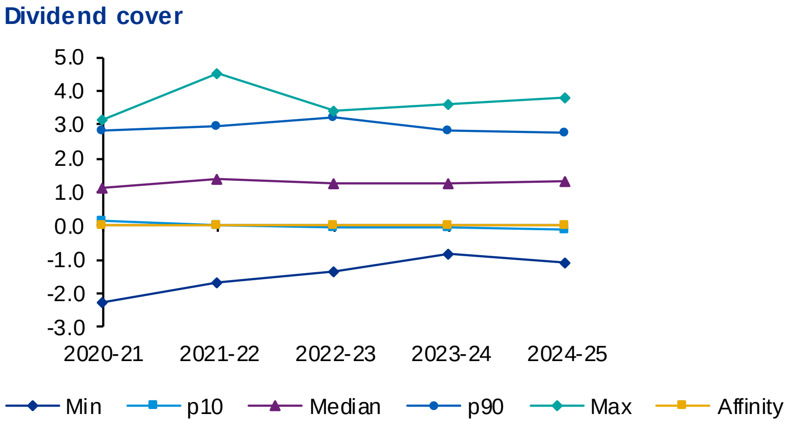


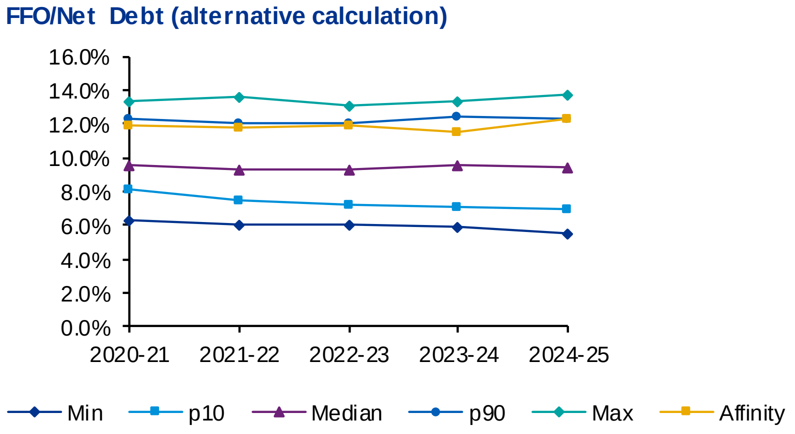


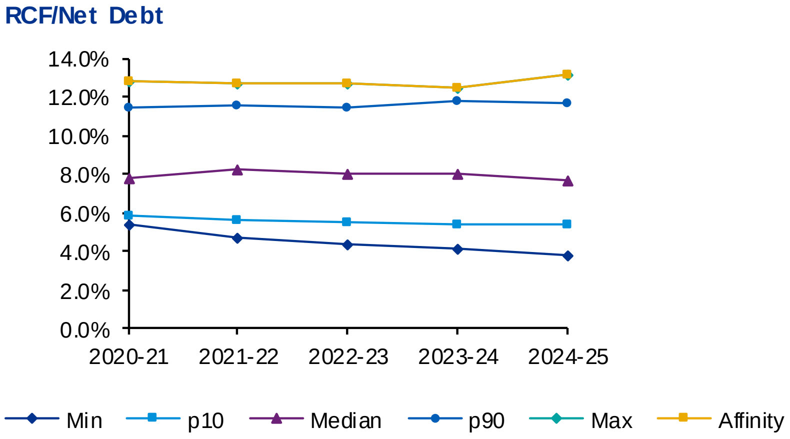
Appendix – comparison of financial ratios

Comparison of ratios - notional financial structure (2 of 3)





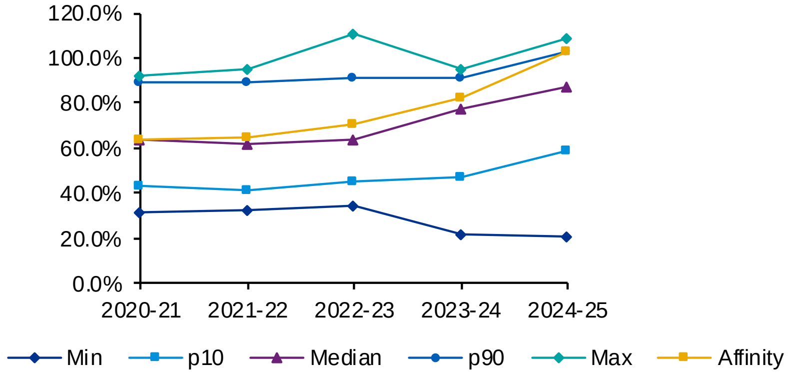




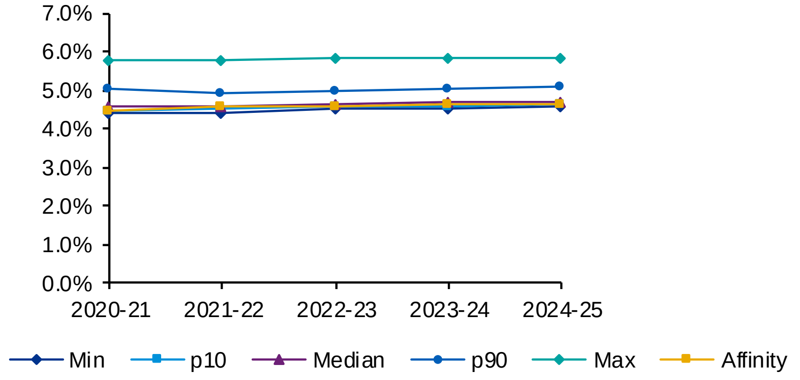
Appendix – comparison of financial ratios

Comparison of ratios - notional financial structure (3 of 3)

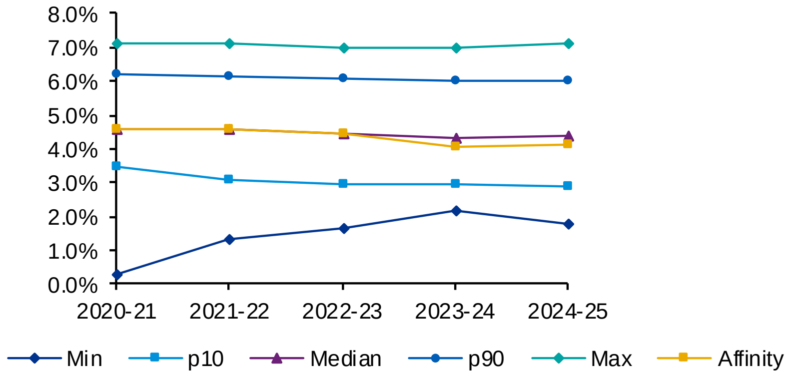
RCF/Capex



RORE



Return on capital employed



Important notice

This note has been prepared on the basis set out in our scope of work addressed to Affinity Water Limited (the ‘Client’) in accordance with our agreed written terms of the engagement letter dated 7th of February 2019 (the ‘Engagement Letter). This note was designed to meet the requirements of Affinity Water Limited only and should be viewed solely in conjunction with the oral briefing provided by KPMG LLP.

This note is provided solely for the benefit and information only of the addressees of our Engagement letter and should not be copied, referred to or disclosed in whole or in part without our prior written consent. We accept no responsibility to anyone other than the parties identified in our engagement letter for the information contained in this note.

The information contained in this note, including market data, has not been independently verified. No representation, warranty or undertaking, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, the opinions, or the estimates contained herein. The information, estimates and opinions contained in this note are provided as at the date of this note and are subject to change without notice.

In preparing our note, our primary source has been publically available information, and data from Affinity Water Limited management. We do not accept responsibility for such information which remains the responsibility of management. We have satisfied ourselves, so far as possible, that the information presented in our note is consistent with other information which was made available to us in the course of our work in accordance with the terms of our Engagement Letter. We have not, however, sought to establish the reliability of those sources by reference to other evidence. In addition, references to draft financial information relate to indicative information that has been prepared solely for illustrative purposes only.

This engagement is not an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed. Nothing in this note/document constitutes legal advice or a valuation.

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Appendix CA.A2.3

Action refs AFW.CA.A4; AFW.CA.A5

PwC Assurance Report: data tables

www.pwc.com

PR19
Review of the Financial Data Tables

Affinity Water Limited

Confidential

27 March 2019

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Strictly Private and Confidential

The Directors,
Affinity Water Limited,
Tamblin Way,
Hatfield,
Hertfordshire
AL10 9EZ

27 March 2019

Data Tables Assurance: Report in response to Ofwat queries

Dear Sirs,

We are pleased to enclose our report to the Board in respect of our review of the updated financial data tables prepared for re-submission by 1 April 2019 to Ofwat, as part of the PR19 process.

The primary purpose of this report is to:

- Communicate our approach to the work
- Confirm the scope of our review; and
- Provide you with a record of any findings from our work.

Our work has been conducted to provide assurance to you in response to the changes to financial data tables following feedback from Ofwat on 31 January 2019.

Yours faithfully

D. Gandee

Dave Gandee
Partner
PricewaterhouseCoopers LLP

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1. Our approach

Our detailed approach to reviewing changes to data tables

As outlined in Ofwat's review methodology, high quality data underpins the 2019 Price Review (PR19) and information quality is vital for trust and confidence in the water sector. It is essential that Affinity Water's Business Plan and supporting data is accurate and consistent with Ofwat's information requirements, and updated in accordance with any actions identified by Ofwat in their IAP assessment that was shared with Affinity Water on 31 January 2019, following the 28 September 2018 submission.

Approach to test changes in data tables

Affinity Water retain responsibility for the final content in the documents to be re-submitted. Our role has been to review the change log maintained by Affinity Water, and actions raised by Ofwat, to assess if the changes made by Affinity Water are accurate, in line with Ofwat's raised actions and supported by an appropriate and quality evidence.

For each of the changes in data table, we have undertaken the following procedures:

1. Obtained the relevant table, which had been through the necessary reviews by Affinity Water, and signed off as being of sufficient quality to pass to PwC for review;
2. Discussed the methodology used to generate the data with the Data Owner. This conversation was supported by documented processes as appropriate, being the Methodology Statements;
3. Confirmed that the data tables were prepared in accordance with the agreed methodology.
4. Compared the data within re-submission data tables to the 28 September 2018 data tables to identify changes and traced the input data back to an appropriate source (as per the Methodology Statement); and
5. Fed back any exceptions identified to the Data Owner for them to address. Where no exceptions were noted we confirmed this to the Data Owner.

For each of the data tables where there has been a change, we considered the associated Commentary to also be in scope of our work. For each Commentary, we reviewed the wording as prepared by Data Owner, and undertook the following:

1. Compared the updated Commentary to the 28 September 2018 commentary, to identify where changes were made;
2. By reference to the change log, confirmed that all changes to Commentaries were consistent and notified Data Providers of any conflicts ; and
3. Reviewed each Commentary and challenged whether the level of detail was appropriate, and whether the Commentary was aligned to the Ofwat guidelines for the data table in question.

This report contains the outcomes of the procedures above.

Check of all changes to data tables

In addition to the above, to provide you comfort over changes to all data tables, we have used an automated tool to compare the final data tables that you submitted in September 2018 to the final versions of the re-submission data tables which will be submitted on 1 April 2019. The purpose of this comparison is primarily to identify all changes between tables to facilitate the management with a completeness check over all changes.

2. Summary of findings

Our review identified a number of recurring issues

Having reviewed all 51 data tables in the scope of our work, we have identified a number of exceptions that are summarised below:

- Data tables were not always appropriately signed off by the relevant layers of management, which meant that in certain regards we have acted as a 2nd line of defence;
- Commentaries have not always been updated fully, and explanations for the changes in data from 28 September 2019 to March 2019 are not as complete and transparent as we would expect;
- We have identified a number of instances whereby the data in the data table has not been calculated in accordance with the methodology;
- The Change Log, which was expected to be the central repository of all changes made to the data tables, has not been maintained in line with those changes. Hence it has not been possible to always use the Change Log as a complete and accurate summary of the changes;
- Using an automated tool to compare the data between 28 September 2018 data tables and 1 April 2019 re-submission data tables, we have identified changes in certain tables where Data Owners initially confirmed that no such changes will be made;
- Certain key pieces of information were not always included, such as the Ofwat IAP reference, or a breakdown of sections or lines that have changed, which makes it difficult to follow the 'audit trail'; and
- A number of isolated 'one-off' errors that were identified and required rectification by Affinity Water.

Whilst we identified a number of exceptions, as above, it should be noted that in all cases the exceptions were passed to the relevant Affinity Water staff on a timely basis and were subsequently addressed. We then undertook a follow up review of the resulting changes to confirm that the exceptions were remediated appropriately, and can confirm that this is the case.

3. Change Analysis

Data Tables reviewed and changes identified

To identify all changes in the Data Tables we used an automated tool that utilised scanning analytics, comparing changes between the September 2018 Data Tables and the April 2019 re-submission Data Tables. We were able to reconcile these changes with the change log, and identify additional changes. In total, we identified 2,920 changes.

The table below shows the detail of the data tables we have re-examined, and the outcome of change analysis.

Note that we have included a complete list of data tables that were in scope for our work in 28 September 2018 submission, with those that have changed since that date being in scope for re-submission work. The data tables which are out of scope, as there were no changes, are highlighted in grey.

No	Business Plan Data Sheet	Number of changes
1	App10 - Financial ratios	104
2	App11 - Income statement based on the actual company structure	49
3	App11a - Income statement based on a notional company structure	45
4	App12 - Balance sheet based on the actual company structure	78
5	App12a - Balance sheet based on a notional company structure	90
6	App13 - Trade receivables	24
7	App14 - Trade and other payables	37
8	App15 - Cashflow based on the actual company structure	31
9	App15a - Cashflow based on a notional company structure	25
10	App16 - Tangible Fixed assets	60
11	App17 - Appointee revenue summary	0
12	App18 - Share capital and dividends	4
13	App19 - Debt and interest costs	46
14	App21 - Direct procurement for customers	22
15	App22 - Pensions	0
16	App23 - Inflation measures	312
17	App24 - Input proportions	70
18	App24a - Real price effects (RPEs) and productivity assumptions	101
19	App25 - PR14 reconciliation adjustments summary	3
20	App26 - RoRE Scenarios	145
21	App28 - Developer services (wholesale)	12
22	App29 - Wholesale tax	71
23	App32 - Weighted average cost of capital for the Appointee	0
24	App33 - Wholesale operating leases reclassified under IFRS16	0
25	App7 - Proposed price limits and average bills	8
26	App8 - Appointee financing	11
27	App9 - Adjustments to RCV from disposals of land	3
28	R1 - Residential retail - All sections NOT B	162
29	R3 - Residential retail ~ further information on bad debt	7
30	R7 - Revenue and cost recovery for retail	25
31	R8 - Net retail margins	0
32	R9 - PR14 reconciliation of household retail revenue	10
33	Wn3 - Wholesale revenue projections for the water network plus price control	81
34	Wn4 - Cost recovery for water network plus	50
35	Wn5 - Weighted average cost of capital for the water network plus control	0
36	Wr2 - Wholesale water resource opex - Part A	120
37	Wr3 - Wholesale revenue projections for the water resources price control	61
38	Wr4 - Cost recovery for water resources	65
39	Wr5 - Weighted average cost of capital for the water resources control	0
40	Wr7 - New water resources capacity ~ forecast cost of options beginning in 2020-25 - Line 15	578
41	WS1 - Wholesale water operating and capital expenditure by business unit - PART A, C and D	190
42	WS1 - Wholesale water operating and capital expenditure by business unit - PART B 18 + 20	
43	WS12 - RCV allocation in the wholesale water service - PART A+B	10
44	WS12 - RCV allocation in the wholesale water service - PART C	

Data tables and narrative documents review

No	Business Plan Data Sheet	Number of changes
45	WS12a - Change in RCV allocation in the wholesale water service	5
46	WS13 - PR14 wholesale revenue forecast incentive mechanism for the water service	15
47	WS15 - PR14 wholesale total expenditure outperformance sharing for the water service	15
48	WS1a (DRAFT) - Wholesale water operating and capital expenditure by business unit including operating leases reclassified under IFRS16	154
49	WS5 - Other wholesale water expenditure	6
50	WS7 - Wholesale water local authority rates	15
51	WS8 - Third party costs by business unit for the wholesale water service	0

4. Testing by Data Table

Data tables and narrative documents reviewed

The table below shows the detail of data tables we have re-examined, and the outcome of our testing.

Note that we have included a complete list of data tables that were in scope for our work in 28 September 2018 submission, with those that have changed since that date being in scope for re-submission work. The data tables which are out of scope are highlighted in grey.

No	Business Plan Data Sheet	Data Table in scope	Data agreed to source	Commentary reviewed	Data methodology reviewed	Work completed & exceptions resolved
1	App10 - Financial ratios	Y	Y	Y	Y	●
2	App11 - Income statement based on the actual company structure	Y	Y	Y	Y	●
3	App11a - Income statement based on a notional company structure	Y	Y	Y	Y	●
4	App12 - Balance sheet based on the actual company structure	Y	Y	Y	Y	●
5	App12a - Balance sheet based on a notional company structure	Y	Y	Y	Y	●
6	App13 - Trade receivables	Y	Y	Y	Y	●
7	App14 - Trade and other payables	Y	Y	Y	Y	●
8	App15 - Cashflow based on the actual company structure	Y	Y	Y	Y	●
9	App15a - Cashflow based on a notional company structure	Y	Y	Y	Y	●
10	App16 - Tangible Fixed assets	Y	Y	Y	Y	●
11	App17 - Appointee revenue summary	Y	Y	Y	Y	●
12	App18 - Share capital and dividends	Y	Y	Y	Y	●
13	App19 - Debt and interest costs	Y	Y	Y	Y	●
14	App21 - Direct procurement for customers	Y	Y	Y	Y	●
15	App22 - Pensions	N				
16	App23 - Inflation measures	Y	Y	Y	Y	●
17	App24 - Input proportions	Y	Y	Y	Y	●
18	App24a - Real price effects (RPEs) and productivity assumptions	Y	Y	Y	Y	●
19	App25 - PR14 reconciliation adjustments summary	Y	Y	Y	Y	●
20	App26 - RoRE Scenarios	Y	Y	Y	Y	●

Data tables and narrative documents review

No	Business Plan Data Sheet	Data Table in scope	Data agreed to source	Commentary reviewed	Data methodology reviewed	Work completed & exceptions resolved
21	App28 - Developer services (wholesale)	Y	Y	Y	Y	●
22	App29 - Wholesale tax	Y	Y	Y	Y	●
23	App32 - Weighted average cost of capital for the Appointee	N				
24	App33 - Wholesale operating leases reclassified under IFRS16	N				
25	App7 - Proposed price limits and average bills	Y	Y	Y	Y	●
26	App8 - Appointee financing	Y	Y	Y	Y	●
27	App9 - Adjustments to RCV from disposals of land	Y	Y	Y	Y	●
28	R1 - Residential retail - All sections NOT B	Y	Y	Y	Y	●
29	R3 - Residential retail ~ further information on bad debt	Y	Y	Y	Y	●
30	R7 - Revenue and cost recovery for retail	Y	Y	Y	Y	●
31	R8 - Net retail margins	N				
32	R9 - PR14 reconciliation of household retail revenue	Y	Y	Y	Y	●
33	Wn3 - Wholesale revenue projections for the water network plus price control	Y	Y	Y	Y	●
34	Wn4 - Cost recovery for water network plus	Y	Y	Y	Y	●
35	Wn5 - Weighted average cost of capital for the water network plus control	N				
36	Wr2 - Wholesale water resource opex - Part A	Y	Y	Y	Y	●
37	Wr3 - Wholesale revenue projections for the water resources price control	Y	Y	Y	Y	●
38	Wr4 - Cost recovery for water resources	Y	Y	Y	Y	●
39	Wr5 - Weighted average cost of capital for the water resources control	N				
40	Wr7 - New water resources capacity ~ forecast cost of options beginning in 2020-25 - Line 15	Y	Y	Y	Y	●
41	WS1 - Wholesale water operating and capital expenditure by business unit - PART A, C and D	Y	Y	Y	Y	●
42	WS1 - Wholesale water operating and capital expenditure by business unit - PART B 18 + 20	Y	Y	Y	Y	●
43	WS12 - RCV allocation in the wholesale water service - PART A+B	Y	Y	Y	Y	●
44	WS12 - RCV allocation in the wholesale water service - PART C	Y	Y	Y	Y	●
45	WS12a - Change in RCV allocation in the wholesale water service	Y	Y	Y	Y	●

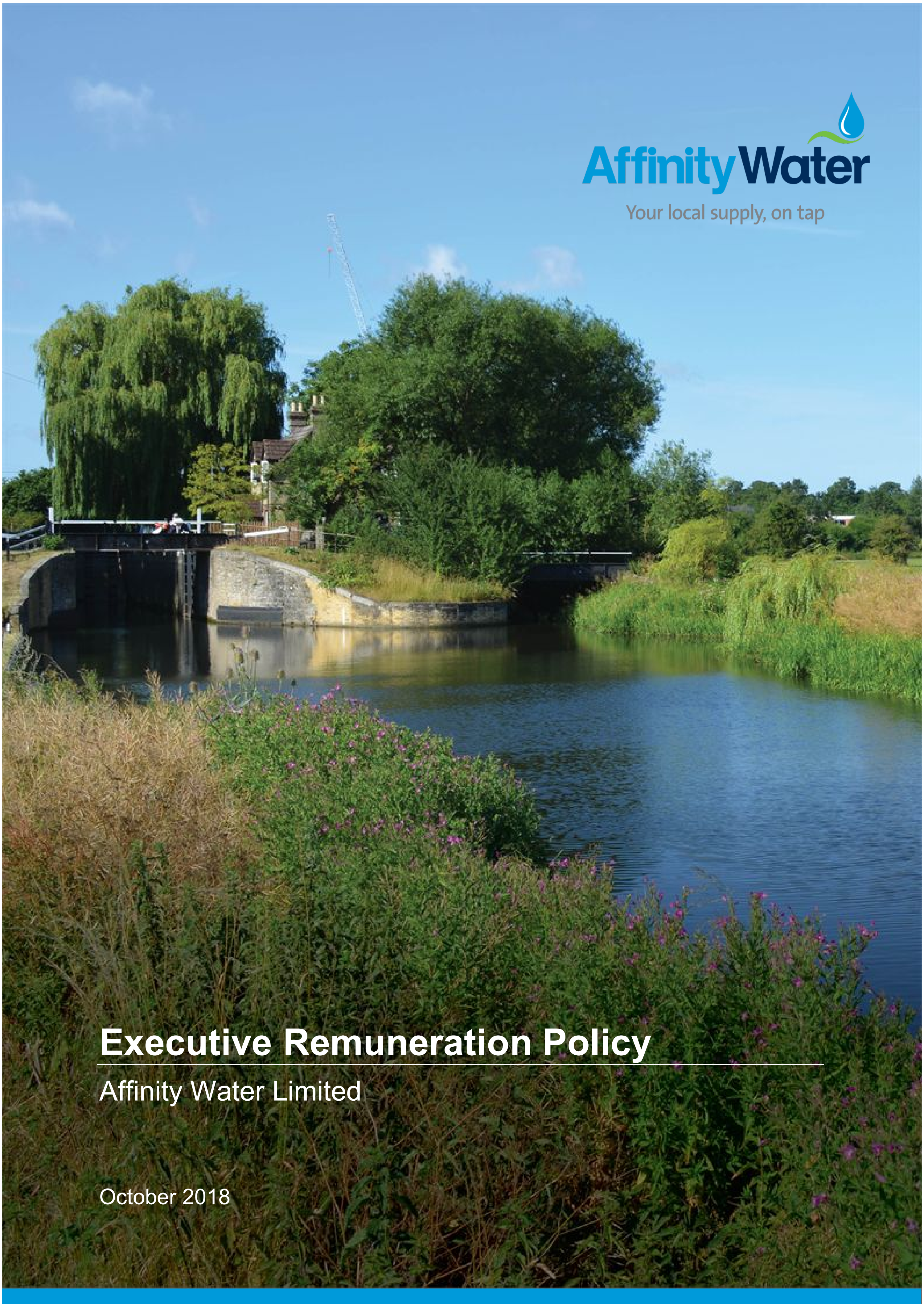
Data tables and narrative documents review

No	Business Plan Data Sheet	Data Table in scope	Data agreed to source	Commentary reviewed	Data methodology reviewed	Work completed & exceptions resolved
46	WS13 - PR14 wholesale revenue forecast incentive mechanism for the water service	Y	Y	Y	Y	●
47	WS15 - PR14 wholesale total expenditure outperformance sharing for the water service	Y	Y	Y	Y	●
48	WS1a (DRAFT) - Wholesale water operating and capital expenditure by business unit including operating leases reclassified under IFRS16	Y	Y	Y	Y	●
49	WS5 - Other wholesale water expenditure	Y	Y	Y	Y	●
50	WS7 - Wholesale water local authority rates	Y	Y	Y	Y	●
51	WS8 - Third party costs by business unit for the wholesale water service	N				

Appendix CA.A3.1

Action ref AFW.CA.A3

Executive Remuneration Policy



Executive Remuneration Policy

Affinity Water Limited

October 2018

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1 Aim of Policy

The executive remuneration policy of Affinity Water Limited ('the company') aims to continue to align executive pay to the company's performance and strategy of delivering value through high quality customer and operational performance whilst ensuring the cost of water remains affordable for customers by incentivising financial efficiencies as well as the value created for shareholders.

2 The Remuneration Committee

The Remuneration Committee (the ‘Committee’) is responsible for determining the remuneration policy and terms and conditions of employment of the directors and senior executives. The Committee is chaired by an Independent Non-Executive Director. The Chief Executive Officer, the Chief Financial Officer and the Human Resources Director, may attend the meetings when requested by the Committee. Members of the Committee and attendees are excluded from discussions regarding their own remuneration and conditions of employment.

The Committee meets to review the performance of the business as well as the performance of executive directors and senior executives against planned targets. The Committee also meets to consider and apply an appropriate remuneration framework to retain high calibre management. Its focus is on ensuring that the company can attract, motivate and reward executives who can lead the business to achieve short and long-term targets and on ensuring those targets are closely linked to standards of performance which are of benefit to customers.

3 Reporting and Transparency

The company will continue to report remuneration in the Annual Report and Financial Statements in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the ‘Regulations’), which are applicable to companies whose equity shares are listed. The Regulations are not applicable to the company. The remuneration report will also continue to meet the relevant requirements of the Listing Rules of the Financial Conduct Authority and describe how the company has applied the principles relating to directors’ remuneration in the UK Corporate Governance Code (the ‘Code’).

The Regulations require the external Auditor to report to the members of a quoted company on certain parts of the directors’ remuneration report and to state whether in their opinion those parts of the remuneration report have been properly prepared in accordance with the Accounting Regulations of the Act. The company will continue to ask its auditors to report on this basis notwithstanding the Regulations do not apply to the company.

A resolution to approve the remuneration report will be proposed at the Annual General Meeting (‘AGM’) of the company. The shareholders will have a single vote in the AGM to approve the remuneration policy report. An annual advisory vote to approve the remuneration implementation report, will also be required at the AGM.

Annual bonuses and Long Term Incentive Plan (‘LTIP’) awards are to be made in line with the maximum limits outlined in the prior year remuneration policy report.

From 2019, the company will produce a separate report published on its external website that provides a summary of the executive pay for the year.

A copy of this policy is to be published on the company’s external website.

3.1 Non-Executive Directors

Each Independent Director has a written agreement relating to his or her services. They receive a fee for their services which is not related to company performance. They are not in receipt of share options or an LTIP. The fees for these directors are set taking into account the market rate for non-executive directors, with particular reference to the water industry in the United Kingdom. There are no specific termination payments applicable to these appointments. The appointment of the directors may be terminated by either the director or the company giving to the other three months' written notice.

Directors appointed by the shareholders do not receive any fees or other forms of remuneration from the company in respect of their services.

At each AGM any director appointed since the previous AGM, or any director appointed since the previous two AGMs without retiring or being re-elected, must retire and seek re-election.

3.2 Executive Directors

The remuneration framework is structured and appropriately balanced between fixed elements and incentive pay, to ensure that executives deliver a high standard of performance, whilst minimising risk. The Committee ensures that the performance measures are objective, easy to understand and motivational to the participants. The Committee also reviews and approves the senior managers' and selected managers', and company-wide bonus schemes.

The remuneration is designed to attract, retain and motivate executive directors of the calibre required to deliver the business strategy. Individual remuneration packages are structured to align rewards with the performance of the company for customers and stakeholders and the interests of shareholders.

The Committee takes into account, in arriving at a total remuneration package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing the best candidate.

The remuneration package for executive directors includes base salary, other taxable benefits, pension related benefits, annual bonus and an LTIP. These are explained further in the tables below and in appendix one and two.

3.3 Executive Directors' Fixed Pay and Other Benefits

Purpose and link to strategy	Policy and approach	Changes for 2018/19	Further Changes for AMP7
Base Salary			
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the company.	To target around market median, dependent on experience in the role.	No changes were made to the policy for 2018/19.	No changes are made to the policy for AMP7.
Other taxable benefits			
To provide market competitive benefits.	Private health care insurance cover, life assurance and income protection are provided, together with a fully expensed company car or car allowance.	No changes were made to the policy for 2018/19.	No changes are made to the policy for AMP7.
Pension related benefits			
To provide competitive post-retirement benefits.	Executives joining the company after 2004 are invited to participate in the company's defined contribution pension scheme. No current executives joined prior to this date. Under the defined contribution scheme, the executive contributes at a rate of 7% of salary and the company contributes at 20%.	No changes were made to the policy for 2018/19.	No changes are made to the policy for AMP7.

3.4 Annual Bonus Plan

Purpose and link to strategy	Policy and approach	Changes for 2018/19	Further Changes for AMP7
Annual bonus plan			
The annual bonus plan is designed to provide a direct link between executive and company performance for customers, stakeholder and investors.	Maximum bonus potential is set at a market competitive level. The bonus is based on budgeted non-financial and financial targets aligned to the company's commitments for AMP6 and AMP7, plus individual targets (AMP6 only).	Increase in the weighting of customer service in the bonus. Removal of quarterly targets to avoid a bonus being awarded on a metric that is not met for the year and/or incurs an ODI penalty. Provide clear guidance on how the Committee can apply its discretion.	Reduction in the personal element of the bonus to 20% from 25%. Further improve the balance of the bonus with 40% relating to financial performance and 40% performance on customer service and stakeholder commitments. Reduce the discretion of the Committee to award outside of the performance delivery. Achieving below target/plan no payment will be awarded on a metric. Introduction of a check that stops pay-out of the bonus if either the customer or the financial elements of the bonus fall below a set level.

3.5 Long Term Incentive Plan ('LTIP')

Purpose and link to strategy	Policy and approach	Changes for 2018/19	Further Changes for AMP7
LTIP			
To incentivise executives to achieve long-term shareholder value whilst achieving high levels of customer experience performance, although both award and payment are discretionary.	Base awards are granted as a percentage of salary and are paid out in cash at the end of a three-year performance period, subject to the achievement of performance conditions. There is therefore a deferral period of three years. Base awards include clawback and malus provisions, as detailed below*. Awards vested in full on a change of control. The scheme operates on a rolling three year basis. The LTIP is aligned to the company's commitments for AMP6 and AMP7 and the company's internal business plan.	Full review by Deloitte and shareholders. New scheme implemented with a focus on delivering the remainder of AMP6 and the start of AMP7. 50% award on financial performance and 50% on strategic outcomes, including service and performance commitments. 33% of the amount earned pays out at the end of year three, with 33% of the amount paying out the end of year four and 33% at the end of year five. Performance measures for 2018/19 and 2019/20 have been set and the performance conditions for 2020/21 will be set on agreement of performance commitments in the AMP7 business plan. Introduction of a cap on the pay-out. Removed the automatic crystallisation on change of control.	Further balanced the scheme with 50% awarded available on service and commitments, 40% on financial targets and 10% on people and employee commitments. Removal of threshold performance and all targets linked to the stretching commitments in the AMP7 business plan. No award will be made for a metric if performance is below target/plan. Financial metrics are only included in the financial measures section of the LTIP.

*Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage.

4 Additional Cash Awards

The Committee may make additional cash awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions.

Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

5 Review of Pay and Policy

The policy will be reviewed every three years.

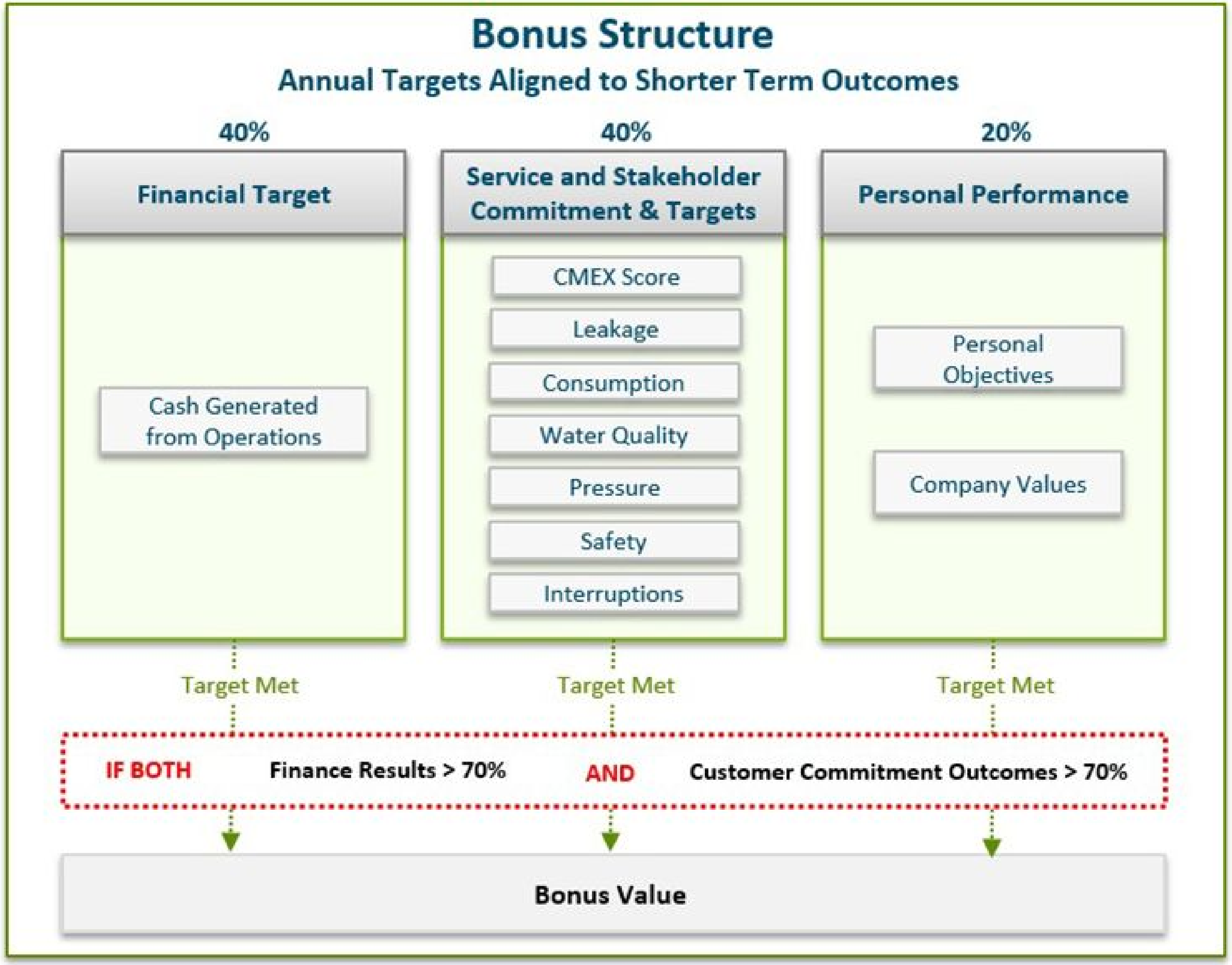
Executive pay is to be reviewed annually.

Affinity Water

Your local supply, on tap

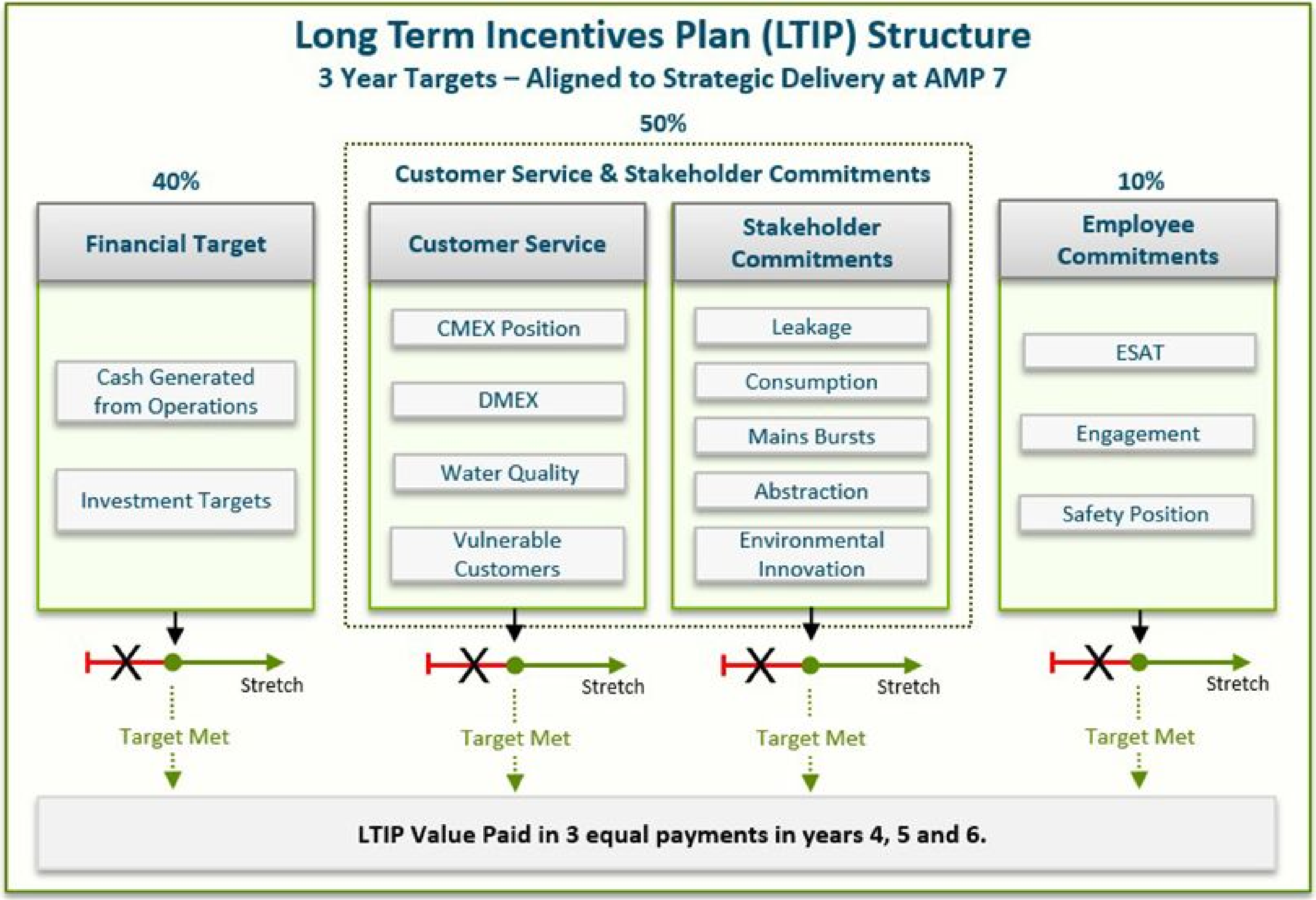
Appendix one

Bonus Determination Process


Bonus Structure
Annual Targets Aligned to Shorter Term Outcomes
40%
Financial Target
Cash Generated from Operations
40%
Service and Stakeholder Commitment & Targets
CMEX Score
Leakage
Consumption
Water Quality
Pressure
Safety
Interruptions
20%
Personal Performance
Personal Objectives
Company Values
Target Met
Target Met
Target Met
IF BOTH
Finance Results > 70%
AND
Customer Commitment Outcomes > 70%
Bonus Value

Appendix two

LITP Determination Process


Long Term Incentives Plan (LTIP) Structure
3 Year Targets – Aligned to Strategic Delivery at AMP 7
50%
Customer Service & Stakeholder Commitments
40%
Financial Target
Cash Generated from Operations
Investment Targets
Customer Service
CMEX Position
DMEX
Water Quality
Vulnerable Customers
Stakeholder Commitments
Leakage
Consumption
Mains Bursts
Abstraction
Environmental Innovation
10%
Employee Commitments
ESAT
Engagement
Safety Position
Stretch
Target Met
LTIP Value Paid in 3 equal payments in years 4, 5 and 6.

Appendix CA.A4.1

Action ref AFW.CA.A4

Ofwat email on new financial model dated 6 March 2019

Centre City Tower, 7 Hill Street, Birmingham B5 4UA
21 Bloomsbury Street, London WC1B 3HF

06 March 2019

Dear Regulatory Director,

PR19 –financial model

Today we have published an updated version of our PR19 financial model on our website (URL: https://www.ofwat.gov.uk/initial-assessment-of-business-plans-updated-models-and-data-tables/).

Consistent with our PR19 methodology, we use econometric models to estimate an efficient cost allowance in residential retail. The econometric approach yields a single average cost to serve per company, which we will use to adjust our allowed revenue at the end of AMP7.

To allow us to calculate bills for different type of customers, in particular, between single service and dual service customers, we have added an additional worksheet and input lines into the financial model. The details are set out in the cover sheet to the financial model. The calculation of retail allowed revenue per customer used in the average bill calculations has been amended to reflect the weighting of costs and customers in the company plan.

If you have any questions on this please speak to your engagement lead and manager.

Yours sincerely

Andy Duff

Director, PR19 Data and Modelling