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28 September 2023

Dear Carolyn,

Affinity Water – PR24 Support

In accordance with our Statement of Work dated 6 October 2022, we have performed a programme of reviews for Affinity Water Limited (Affinity Water) ahead of your PR24 submission to Ofwat on 2 October 2023.

Alongside this letter, we have provided accompanying reports setting out our findings from our review.

This letter and our accompanying reports have been made available to Affinity Water in order to provide a summary of the review activities that we have performed as of 28 September 2023 and to communicate our findings from our review according to our agreed scope of work. This letter and accompanying reports should be read in full together.

The procedures we performed do not amount to an audit performed in accordance with any standards applicable to auditing, a review performed in accordance with any standards applicable to reviews or an assurance engagement in accordance with any other assurance standards.

We outline below: the scope and approach to the work and an important notice.

1 Scope and approach

Long Term Delivery Strategy (LTDS) Review

- KPMG provided an independent review of the current version your LTDS - we developed and agreed with you a scorecard that reflects the key minimum requirements from the final Ofwat methodology and Ofwat LTDS guidance.
- KPMG conducted walkthroughs for each workstream across the LTDS to understand the approaches used to develop the LTDS, and to provide an assessment of likely compliance against Ofwat's requirements (as part of this scope item KPMG has not reviewed Affinity Water's water resource management plan or its LTDS monitoring plan).
- KPMG reviewed that input data sources align to completed tables and reviewed commentary and methodology and commented on alignment to Ofwat guidance and the data provided (note that no review was undertaken of underlying source data).

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KPMG identified a number of issues with the LTDS data tables. In each instance of a material issue, Affinity Water either corrected the issue or confirmed it would address the issue ahead of submission.

Deliverability Review

KPMG reviewed the following documents:

- A draft 'Deliverability' chapter from Affinity Water's draft PR24 Business Plan. This chapter sets out to review and confirm the deliverability of Affinity Water's Business Plan.
- 13 responses received from your suppliers in relation to a supplier engagement process that Affinity Water has undertaken to confirm their supply chain's ability to deliver.

KPMG assessed these two documents against a set of 'deliverability criteria':

- Are the key outputs/investment proposals of the PR24 business plan clear and summarised?
- Is there sufficient and convincing evidence that the investment proposals in its PR24 business plan are deliverable? (Taking into account delivery in the 2020-25 period and any measures the company has put in place).
- Do each of the outputs of the PR24 business plan have clear activities identified to deliver each output?
- Have PCDs (Price Control Deliverables) been proposed where appropriate?
- Does the amount of evidence provided on deliverability align to the companies outturn performance? (E.g. strong vs poorer).
- Is there evidence of how current and past performance supports the credible delivery of the proposals included in the plan?
- For any gaps between the company's track record of performance, including delivering improvements, and its proposals, does it outline how it intends to apply lessons learnt to successfully deliver the plan it proposes?
- Is there clear evidence that the costs have been challenged/ benchmarked or is there a clear plan in place to do so?
- Is there convincing evidence that the resources outlined will be available for delivery?
- Is there evidence of expected work allocations to supply chain? (I.e. which suppliers will be undertaking which projects/initiatives).
- Is there a clear allocation of work vs supplier capacity and internal work loads?
- Is there confirmation from supply chain of availability of resources and evidence to support the confirmation?
- Is there evidence of risk management?
- Is there governance in place to manage delivery (e.g. a project plan, KPIs etc) and justification for this governance? Is there evidence of design of internal "delivery

organisation" or "delivery director"? Heads of terms with suppliers to manage flexibility and risk?

- Has the company identified how customers will be protected against under or non-delivery of funded enhancements?
- Is there evidence of Board assurance (via the Board challenging and satisfying itself that) for PR24 plans and expenditure proposals within them being deliverable, and that the company has put in place measures to ensure that they can be delivered?
- Is there evidence of Board assurance in relation to supply chain availability and management of supply chain risk?
- Has the company considered alternative delivery routes such as DPC where appropriate and evidenced why they are / are not appropriate?
- Could the structure, tone and/or messaging of the chapter be improved or strengthened?

KPMG conducted an initial review and raised 20 recommendations against the above checklist. KPMG note that Affinity Water has addressed 14 of these recommendations in the Deliverability Chapter and/or updated Appendix and two recommendations had been partially addressed. Four recommendations were updated as being not applicable to the current review, this is because Affinity Water have reported that they are being addressed elsewhere in the business plan and not directly in the Deliverability Chapter/Appendix.

Review of Cost Adjustment Claims

KPMG reviewed a cost adjustment claim that Affinity Water was considering, this comprised:

- An internal consistency check of facts and figures (including supporting evidence).
- A consistency check against Ofwat guidance and the Ofwat template.
- A critical review of the evidence provided against each assessment criterion (need for adjustment; cost efficiency; need for investment optioneering; customer protection).
- A critical review of the calculation of implicit allowance.
- A review of approach to symmetrical adjustments.

KPMG's initial review of the cost adjustment claim raised 47 points of general feedback and identified two minor omissions/weaknesses and 7 significant omissions/weaknesses. Affinity Water updated the cost adjustment claim document based on KPMG's feedback and, upon second review of the document, it was identified that all issues raised had been addressed.

Review of PR19 Reconciliation Spreadsheets

- KPMG reviewed the following PR19 reconciliation documents: Cost Reconciliation, Land Sales Reconciliation, RPI/CPIH Wedge, WINEP and Strategic Resources Reconciliation.
- KPMG reviewed the RCV Feeder spreadsheet and the most material inputs not included in the above.
- KPMG commented on alignment to the reconciliation rulebook, and confirmed correct transposition (as part of this review Affinity Water provided a methodology document showing where each data source comes from).
- KPMG issued a draft report of its findings from the above review, this was followed by a final report following receipt of one round of comments from Affinity Water.

No significant issues were identified during the course of this review, however, KPMG notes that 36 queries were raised relating to requests for additional data (in these instances it was not possible to conduct a full review).

Review of PR24 Energy Cost Forecast Data Submission

- KPMG undertook a review of the PR24 Energy Cost Forecast data table prepared by Affinity Water and associated documentation including mandatory commentary and source data information.
- KPMG conducted a walkthrough with the responsible individual for this table and subsequently reviewed data and documentation shared by Affinity Water.
- KPMG reviewed this documentation to check that information included in the data table traces back to source data provided by Affinity Water.
- KPMG will also reviewed the mandatory commentary document for submission alongside the table and provided comments on this.

Affinity Water responded to all 11 queries raised as part of this review, all 11 of these queries are now closed.

2 Important Notice

Restrictions on distribution

This letter and accompanying report have been released to Affinity Water on the basis that they shall not be copied, referred to or disclosed, in whole or in part (save for Affinity Water's own internal purposes), other than as stated in our contractually agreed terms. Our letter and report are designed to meet the agreed requirements of Affinity Water determined by Affinity Water's needs at the time. Our letter and reports should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than Affinity Water for any purpose or in any context.

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Any party other than Affinity Water who obtains access to our letter and/or report or a copy and chooses to rely on our letter and/or report (or any part of these) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our letter and/or report to any other party.

Basis of preparation

We have prepared this letter and accompanying report in accordance with our Statement of Work dated 6 October 2022.

Limitations on work performed

Our work on the data has relied on management guidance and KPMG interpretation of those requirements. The basis of our report is fieldwork completed until 28 September 2023. As part of our review, we have reviewed a range of documents provided by Affinity Water and conducted remote management walk-throughs with appointed representatives. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Statement of Work. We have indicated within our accompanying reports the sources of the information provided. We have not sought to verify independently those sources unless otherwise stated within the report. Where Affinity Water amends their PR24 submission following KPMG's review this will invalidate our findings. We reserve the right to amend our findings if further facts come to light.

Yours sincerely,



Duncan Michie
Director
KPMG LLP

Provided for full consideration alongside this letter:

- AFW CAC - Review Summary.pdf
- AFW - LTDS DRAFT 22.09.23.pdf
- 230928 KPMG Review of AFW PR24 Energy Costs RFI Data Table.pdf
- AFW Reconciliation Models (update v3) 13.09.23.pdf