



AFW Addressing Affordability and Vulnerability

Evidence Document

March 2019

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1 High level response to Ofwat Feedback

1.1 Summary

We have engaged customers on affordability and acceptability using the bill profile for 2020-2025 from the September Plan and have strong levels of acceptability and affordability from customers. Bill profile 1 in the latest survey was considered acceptable by 81% of customers and affordable by 76% of customers (when the responses to the proposed bills for clean water only and without inflation are considered). In addition, we engaged with customers on the bill profile for 2025-2030. This too had high levels of acceptability and affordability. We will complete the final stage of research on the combined bill in April 2019, following revised inputs from the waste water companies that we bill on behalf of.

In the September Plan, we gave the detailed supporting evidence base of our engagement programme and specifically included the Social Tariff Cross-Subsidy survey element, where we had presented customers with different levels of cross-subsidy. We had high acceptability and affordability for an additional cross-subsidy. Given that subsequently, the bill in our Revised Plan has reduced and that we have a variety of financial options outlined below, tailored to our customers, this further strengthens affordability for customers.

We will increase the percentage of customers on our Priority Services Register (PSR) from 6.3% to 7.22% by 2024-2025 and also check at least 90% of the PSR data every 2 years. Furthermore, our service for customers in both financial and non-financial vulnerable situations has been assessed by a BSI auditor. In February 2019, we were given positive feedback towards achieving BSI certification (subject to final compliance review) for fair, flexible and inclusive services for all.

Key options to further support affordability

Leak Allowance: Customers are eligible for a leakage allowance to compensate where water has leaked from customer-owned pipework. The impact of water leaked can dramatically increase bills and present customers with an affordability 'shock' if they have to pay for the leaked water.

Social Tariff/WaterSure: We cap our bills for customers who are in receipt of certain benefits/below income threshold.

Trust Fund £0.5m for AMP: Customers who are in severe financial hardship may be eligible for a payment towards their water bill. We expect our third party/debt charity partners to refer suitable cases, along with customers identified by our specialist debt management teams.

Payment Matching £2m for AMP: We plan to help up to 3200 customers per year by matching their payments made towards their water bill. We believe this will assist those customers who have historic debt and will incentivise them to make regular payments.

Affordability Home Visits: Up to 9600 customers per year will receive a home visit where we can discuss customer affordability needs, agree payments or register them for one of our social tariffs or the PSR.

Payment Plans: We plan to increase the number of customers who benefit from a payment plan to repay their water bill over the AMP and we are committed to increase the overall penetration of direct debit payers from 60% to 68%, with over 48,000 using the payment plan.

Repayment plans, payment breaks and breathing space: Following an assessment of affordability, we will allow customers to make reduced payments towards their water bill, a break from payments or provide 'breathing space' to allow the customer time to seek advice and find a suitable and sustainable solution for their problem debt.

Move to measured billing: We will proactively identify customers who will benefit from moving to a measured bill and therefore receive lower bills.

We received five actions from Ofwat within the test area Addressing Affordability and Vulnerability. We have committed to respond to all of these by 1 April 2019. Summary below:

AFW.AV.A1 **Engage with customers on affordability and acceptability using actual bill profile for 2020-25.** We have responded to this action and engaged with customers on affordability and acceptability, using the September Plan bill profile for 2020-25, and have strong levels of acceptability and affordability from customers. This is the only action of the five which we are continuing to respond to after 1 April, through a final stage of research once we have the confirmed final bill, including both clean and waste water elements – which is to be provided after 1 April 2019 by the three WASCs we bill on behalf of.

AFW.AV.A2 **Engage with customers on actual bill profile for 2025-30.** We have completed additional customer research on our bill profile from 2025-30 with strong levels of acceptability and affordability from customers.

AFW.AV.A3 **Customer support for affordability assistance. Improve evidence of customer support for social tariff cross-subsidy.** We have provided evidence that was included in our September Plan.

AFW.AV.A4 **The company should propose a Performance Commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020-25 period.** We have agreed to create a new performance commitment for BSI certification.

AFW.AV.A5 **Ofwat propose a Common Performance Commitment on the Priority Services Register and that the company should increase its PSR reach to at least 7% of its customer base and commit to check at least 90% of the customers on the register every 2 years.** We have agreed to create a new performance commitment for PSR growth, including a more ambitious target and a commitment to review at least 90% of the customers on the register every 2 years.

2 Detailed response to Ofwat feedback actions

2.1 AFW.AV.A1

2.1.1 Overview of test area action

Table 1: Action details for AFW.AV.A1

| Action Ref. | Action |
|-------------|---|
| AFW.AV.A1 | Affinity Water proposed a higher bill than what it tested with customers and it also proposed a different bill profile for the 2020 to 2025 period. The company should provide sufficient and convincing evidence that it has engaged with its customers on affordability and acceptability of its proposed bill profile for the 2020 to 2025 period. Affinity Water should demonstrate that its customers find its proposed bill profile acceptable and affordable. This should include testing of the combined water and wastewater bill. Affinity Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice. |

Nature of adjustment: alternative approach

2.1.2 Our response

We have completed the action, undertaking research around our customer bill profile. We will be following this up with a second phase during April 2019, once we have received final profiles from the 3 sewerage providers that we provide billing services for.

New customer engagement on bill profiles

During Spring 2018 we undertook customer engagement on several bill profiles. During March 2019, we undertook additional quantitative research using an online panel to test two bill profiles for the 2020-25 period with customers, consulting with our CCG throughout the design process and incorporating their feedback. This tested affordability and acceptability (see Appendix AV.A1.1 for full report of findings) of two bill profiles that we have named Bill Profiles 1 and 2. Bill Profile 1 used for this research was based on profiles submitted by ourselves and by the 3 sewerage providers we provide billing for (Anglian Water, Southern Water, Thames Water), in our September Plan. We also tested a second clean water profile with a smoother gradient – Profile 2. 1000 customers were surveyed, shown either Profile 1 or Profile 2 (500 customers shown each), with socio-demographics and water resource zone areas weighted, to ensure best possible representation across the customer base.

Table 2 AMP7 bill profiles tested March 2019

| | AMP6 | AMP7 | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Profiles tested | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 |
| Profile 1 without inflation (September plan) £ | 170.9 | 174.0 | 176.6 | 177.5 | 178.1 | 174.4 |
| Profile 2 without inflation (Smoother plan) £ | 170.9 | 172.6 | 174.3 | 176.1 | 177.9 | 179.6 |

The results as follows:

Table 3 Please note that 1 and 2 denote the Profile (see Appendix AV.A1.1 for values) and combined bill shows a combined view of scores across all waste water suppliers

| | Clean only bill (no inflation) | | Clean only bill (with inflation) | | Combined bill (no inflation) | | Combined bill (with inflation) | |
|---------------|-----------------------------------|-----|-------------------------------------|-----|---------------------------------|-----|-----------------------------------|-----|
| | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 |
| Acceptability | 82% | 78% | 59% | 54% | 69% | 67% | 51% | 42% |
| Affordability | 77% | 72% | 60% | 57% | 70% | 62% | 48% | 43% |

Testing shows high levels of acceptability and affordability pre-inflation, which decreases when inflation is added. There is no statistically significant difference between Profile 1 and Profile 2. Levels of stated acceptability for combined clean and waste water bills from 2020-2025 are generally lower, however, both profiles receive similar levels of acceptance rating by customers with each plan rated *very or fairly acceptable* by around two thirds overall. Profile 1 is considered to be slightly more acceptable but not significantly so. Note, customers were not shown details of customer affordability help options available, which certain customers would be eligible for, who may have perceived these profiles as not affordable. We are confident these levels demonstrate positive support for the two profiles tested. Furthermore, when comparing to South East Water – considered a comparable water company, being a water-only company and with a similar geographic location - we note their bill profile testing within their September Plan showed similar acceptability and slightly lower affordability levels than we had (see Appendix AV.A1.2):

- 2020-25 bill profile £204 stable through the AMP; online panel, water only, pre-inflation
 - Acceptability – 78% (compared to Affinity Water Profile 1 82%; Profile 2 78%)
 - Affordability – 67% (compared to Affinity Water Profile 1 77%; Profile 2 77%)

Additionally, research prepared for CCWater in July 2013 (see Appendix AV.A1.3 p4) confirmed the threshold for acceptability to be between 70% and 75%. The Affinity Water bill received levels aligned to this, as outlined in Table 2; ranging between 72% and 82%.

Final bill profile

Since conducting this research, as part of the resubmission, we have confirmed that our bill profile (clean water only) will be reducing and will be lower than Profile 1 (as submitted in the September Plan) and lower than Profile 2 which was tested (see test area Aligning Risk and Return, action RR.A10). Pre-inflation, this new bill profile will show a reduction in value each year during AMP7, with a 1.6% decrease across the AMP. This follows the 7.7% decrease during AMP6 and precedes a planned 2% decrease within AMP8.

Table 4 Average bill by AMP

| Average Bill | AMP6 | | | | | AMP 7 | | | | | AMP 8 | | | | |
|--|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| Year | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| £/Customer Real 2017/18 CPIH | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 |
| Average Customer Bill for revised Plan | 183.5 | 185.1 | 182.6 | 172.3 | 170.5 | 169.9 | 169.5 | 169.0 | 168.4 | 167.8 | 167.4 | 167.0 | 166.5 | 165.8 | 164.5 |
| Bill Movement from AMP to AMP | - 7.7% | | | | | -1.6% | | | | | - 2.0% | | | | |

During Spring 2018 we conducted qualitative customer engagement on various bill profiles, including one which showed a bill of £170.0 in 2020/21 and £168.0 in 2024/25. This very closely mirrors the new final bill profile in our Revised Plan. The plan tested, received acceptability levels of 74%.

This new profile will be tested with customers once we have received final profiles from the three waste water suppliers that we undertake billing activities for, who are also reviewing final bill profiles for 1 April 2019.

Social research best practice

This research during March 2019 was conducted in line with social research best practice and was undertaken by an independent market research agency – Verve - which is a member of the Market Research Society (MRS) and ISO27001 certified and adheres to MRS Code of Conduct in research. While MRS guidelines are not definitive, they set out accepted best practice across the research lifecycle.

Next phase of research

The second piece of research referenced above, is planned for April 2019 and will align to the survey format undertaken during March 2019. This will enable testing of our final bill profile and to account for any changes made by the three waste water suppliers, who are reviewing final bill profiles for 1 April 2019. We will also be including qualitative research as part of this second phase - including focus groups - exploring reasons behind perceptions and preferences expressed and including groups of customers in vulnerable circumstances. This will allow us to ensure we engage further with customer groups that may have been less well represented in this current piece of research – due to the tight time constraints – which was completed during March 2019.

Phase 2 research plan referenced above will include the following:

Table 5 Phase 2 research

| Engagement | Scope | 2019 | | | | |
|---|---|------|-----|-----|-----|-----|
| | | Apr | May | Jun | Jul | Aug |
| Quantitative survey on final bill profile | Re-test very final bill profile with 3 sewerage companies | x | x | | | |
| Qualitative focus groups on bill profile | Customer groups less likely to have been engaged with as part of quantitative online survey during March 2019 | | x | x | | |

2.1.3 Implications across the plan

Data tables: App 4 row 1 – this shows Profile 1 of the bill profile tested with customers, and WS18 section H13 – this shows number of customers engaged with as part of our September Plan.

2.1.4 Assurance

Social research best practice was followed: validation provided by Verve. See Appendix AV.A1.1, page 3.

We consulted with CCG members about the draft of the research method and survey tools created to respond to this action point and asked the CCG for comments on the survey and the Engaging Customers plan. We responded to this within the timeframes and incorporated the CCG feedback. Research results were shared at a meeting of CCG members on 13 March 2019 and the CCG report to be submitted to Ofwat on 1 April 2019 by the group has commented on this response.

2.1.5 Evidence

Table 6 Evidence to support the response to AFW.AV.A1

| Appendix | Description |
|----------|--|
| AV.A1.1 | Verve research report – published 11 March 2019 |
| AV.A1.2 | South East Water bill profile testing for comparison |
| AV.A1.3 | Threshold of Acceptability Research prepared for CCWater |
| AV.A1.4 | Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) |

2.2 AFW.AV.A2

2.2.1 Overview of test area action

Table 7 Action details for AFW.AV.A2

| Action Ref. | Action |
|-------------|--|
| AFW.AV.A2 | Affinity Water has provided insufficient evidence that it has engaged with customers on bills beyond 2025. For example, although it has provided a long-term view of its forecast bills for the next three asset management plan (AMP) periods to 2040, there is insufficient evidence of engagement with its customers on these long-term bill profiles after the 2020 to 2025 period. Furthermore, there is insufficient evidence of how acceptable customers find the long-term bill profile. The company should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to outline customer support for each of the profiles tested. Affinity Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice. |

Nature of adjustment: action completed

2.2.2 Our response

We have completed the action, undertaking research around our customer bill profile.

During March 2019, we undertook additional quantitative research using an online panel to test two bill profiles for the 2025-30 period with customers. This tested affordability and acceptability (see Appendix AV.A1.1 for full report of findings) of two bill profiles that we have named Profile 1 and 2. Profile 1 was submitted as part of our September Plan. We also tested a second clean

water profile, with a smoother gradient – Profile 2. 1000 customers were surveyed, shown either Profile 1 or Profile 2 (500 customers shown each), with socio-demographics and water resource zone areas weighted, to ensure best possible representation across the customer base.

Table 8 AMP8 bill profiles tested March 2019

| Profiles tested | AMP7 | AMP8 | | | | |
|---|-------|-------|-------|-------|-------|-------|
| | 24-25 | 25-26 | 26-27 | 27-28 | 28-29 | 29-30 |
| Profile 1 without inflation (September plan) £ | 174.4 | 178.2 | 178.6 | 179.0 | 179.4 | 179.9 |
| Profile 2 without inflation (Smoother plan) £ | 179.6 | 179.4 | 179.2 | 179.0 | 178.8 | 178.6 |

Results as follows:

Table 9 Profiles 1 and 2 are shown (see Appendix AV.A1.1 for values)

| | Clean only bill (no inflation) | | Clean only bill (with inflation) | |
|---------------|-----------------------------------|-----|-------------------------------------|-----|
| | 1 | 2 | 1 | 2 |
| Acceptability | 74% | 81% | 49% | 51% |
| Affordability | 73% | 78% | 45% | 46% |

Testing shows high levels of acceptability and affordability pre-inflation with Profile 2 considered to be statistically significantly more acceptable than Profile 1. Customers also found Profile 2 to be more affordable than profile 1 but not statistically significantly so. As with action AV.A1, scores are lower when inflation is added. Note: customers were not shown details of customer affordability help options available, which certain customers would be eligible for, who may not have perceived these profiles as affordable.

Additionally, research prepared for CCWater in July 2013 (see Appendix AV.A1.3 p4) confirmed the threshold for acceptability to be between 70% and 75%. Our bill received acceptability levels aligned to this, as outlined in Table 9; ranging between 74% and 81%.

This research was conducted in line with social research best practice undertaken by an independent market research agency – Verve - a member of the Market Research Society (MRS) and ISO27001 certified and it adheres to MRS Code of Conduct in research. While MRS guidelines are not definitive, they set out accepted best practice across the research lifecycle.

Final bill profile for AMP8

Since conducting this research, as part of the resubmission, we have confirmed that our bill profile (clean water only) will be reducing and will be lower than Profile 1 (as submitted in the September Plan) and lower than Profile 2 which was tested (see test area Aligning Risk and Return, action RR.A10). Pre-inflation, this new bill profile will show a reduction in value each year during AMP8, with a 2% decrease across the AMP. This follows the 7.7% decrease in AMP6 and 1.6% decrease during AMP7.

Table 10 Average bill by AMP

| Average Bill | AMP6 | | | | | AMP 7 | | | | | AMP 8 | | | | |
|--|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| Year | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| £/Customer Real 2017/18 CPIH | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 |
| Average Customer Bill for revised Plan | 183.5 | 185.1 | 182.6 | 172.3 | 170.5 | 169.9 | 169.5 | 169.0 | 168.4 | 167.8 | 167.4 | 167.0 | 166.5 | 165.8 | 164.5 |
| Bill Movement from AMP to AMP | - 7.7% | | | | | -1.6% | | | | | - 2.0% | | | | |

We raised a query with Ofwat during February 2019, and received the following response; this has guided our action response:

Table 11 Ofwat query February 2019

| Post IAP Query | Ofwat Response |
|---|---|
| AFW.AV.A2 requests for Affinity Water to retest long-term bill profiles for AMP8. Please can you confirm if this also includes testing the combined bill? | We expect the company to consider what is in its customers best interests when deciding what engagement to undertake on its AMP8 bills. We note that the Water Only Companies who did submit details of AMP8 bill profile testing as part of their original business plans did this for the water bill only |

2.2.3 Implications across the plan

Data tables – new line App 4 row 1 –shows Profile 1 of the bill profile tested here with customers

2.2.4 Assurance

Social research best practice was followed: validation provided by Verve. See Appendix AV.A1.1, page 3

We consulted CCG members about the draft of the research method and survey tools created to respond to this action point and considered comments received. Research results were shared at a meeting of CCG members on 13 March and the CCG report to be submitted to Ofwat on 1 April by the group has commented on this response.

2.2.5 Evidence

Table 12 Evidence to support the response to AFW.AV.A2

| Appendix | Description |
|----------|--|
| AV.A1.1 | Verve research report - published 11 March 2019 |
| AV.A1.3 | Threshold of Acceptability Research prepared for CCWater |
| AV.A1.4 | Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) |

2.3 AFW.AV.A3

2.3.1 Overview of test area action

Table 13 Action details for AFW.AV.A3

| Action Ref. | Action |
|-------------|---|
| AFW.AV.A3 | Affinity Water has provided insufficient evidence on social tariff cross-subsidy research – little evidence has been provided on what customers were asked, the different levels of cross-subsidy they were presented with, and the levels of support these gathered. The company should undertake customer engagement on different levels of social tariff cross-subsidies and provide sufficient evidence to outline customer support for the same. |

Nature of adjustment: action completed

2.3.2 Our response

We provided evidence within our September Plan covering this action item. We will outline this here in more detail.

During 2018, three market research activities were conducted on our behalf by Ipsos MORI and Arup. The findings of the research were in the September Plan on page 33 and 34 and in Appendix 3: Listening to Customer and Stakeholders. These findings were also reflected in the September CCG report.

Table 14 Location of Evidence Table from the September Plan

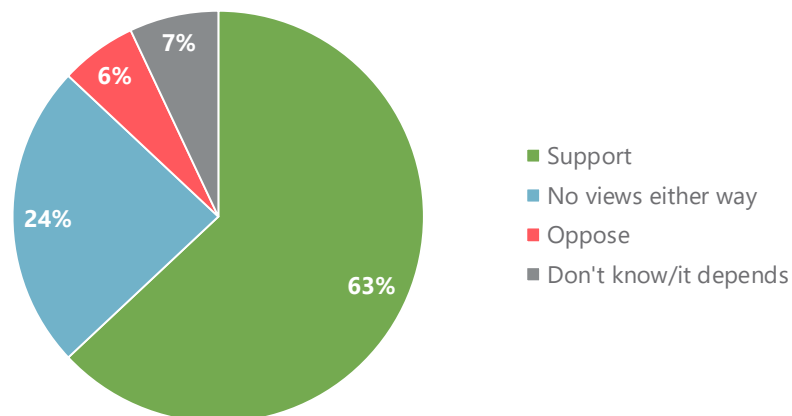
| Reference | Page | Section |
|---|-------|---|
| Engagement Programme | 12 | Listening and Learning, Testing and Valuing & Revisiting and assuring |
| Summary of activities | 38 | Market Research |
| Key themes emerging from phase 1 | 41 | Engagement |
| Phase 3 | 49 | Summary of activities & general findings |
| Customers and Stakeholders | 61 | Corroboration |
| Summary of Customer Engagement. Performance Commitments | 16 | Customer satisfaction |
| PR19 Summary of engagement Phase 3 | 148 | Section 11 – customer satisfaction |
| Phase 1 Activities & Methods | 49 | Vulnerability |
| Annex 4 Phase 1, listening and learning | 1-19 | PH1.4 Social Tariffs |
| Phase 1, Activities & Methods | 49-52 | Vulnerability |
| Annex 5 Phase 2 Testing | 18-23 | 4.1 Social Tariff |
| Annex 6 Phase 3 Acceptability Survey | 22-26 | 4.1 Social Tariff |

During 2019/20, the average bill includes an estimated £3.33 to cover the cost of the current social tariff. Support for this was established at PR14. We focused therefore in 2018 on testing customer views of increasing the amount from this level, along with how many additional customers we should seek to help.

Engagement interviews were conducted online and face to face. The surveys allowed us to understand customer attitudes towards different options for the Social Tariff and - through a deliberative approach - to test the impact of providing more information.

Phase 1 - 500 customers surveyed online, conducted between 23 and 30 January 2018, recruitment and quotas targets a representative sample of adults aged 18-75 resident in our service areas. The data is weighted to match the profile of the population living in our area by age by water resource zone.

- 63% supported us providing support to those in financial difficulty.



Base: 500 adults aged 16-75 from across the Affinity Water customer areas

Figure 1 Results online survey January 2018

Example question (see appendix AV.A3.2)

Water companies have the Government’s permission to introduce Social Tariffs in order to reduce the water bill of those customers finding it difficult to pay. This is subject to guidance and water companies need to show that they have the support of customers.

Customers who live in a household with an income less than £16,105 per annum are eligible to have their water bill reduced. This is funded by an increase in other customers’ bills. The monies raised fund the Social Tariff at cost i.e. we make no profit on this. The Tariff does not apply to the sewerage part of the bill.

As part of developing a Business Plan for 2020-2025, Affinity Water is considering what to do next with its Social Tariff.

Q. To what extent would you support or oppose Affinity Water continuing to offer a Social Tariff if it meant an extra few pounds on your household’s water bill each year?

Results

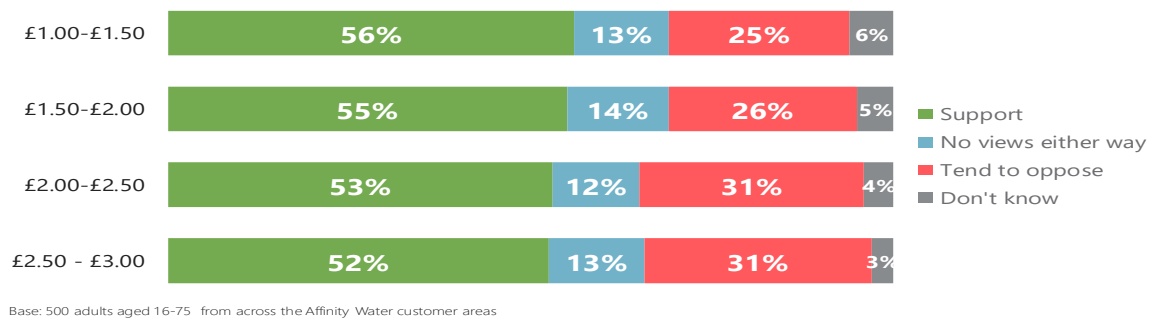


Figure 2 Results reflecting customer preferences on Social Tariff

Phase 2 - 825 customers interviewed face to face, in-home between 4 April and 24 May 2018 across the eight water resource zones, weighted by age, gender and tenure, asking about support to continue providing a social tariff (see appendix AV.A3.3)

- 63% agreed on spending more if it meant customers in difficulty could be helped.

Varying the Social Tariff

Customers were given information on the type of discount offered by the Social Tariff, and two options for how it might be applied: a. The discount offered through the Social Tariff should be larger for households with the lowest incomes. b. The discount offered through the Social Tariff should remain the same for all households.

- 50% agreed a larger discount should be given and 32% agreed to keeping it the same. 17% agreed with neither.

Feedback received from Stakeholders felt the questions in Phase 1 & 2 were not explicit in informing customers that we were asking for additional funding to the £3.00 (excluding inflation) already being paid as part of their annual bill. CC Water gave feedback and recommended we use 'don't mind' instead of 'no views either way'.

We conducted a final phase of engagement (see Appendix AV.A3.4)

Phase 3 - 1000 customers interviewed, aged 16+ through Ipsos MORI online panel between 10 and 22 July 2018, in this survey the feedback had been followed with the question emphasising the additional cost per customer for cross subsidy.

- Customers were asked views on: "Affinity Water propose adding an *extra* £1.50 each year to all households' water bills, to support an additional 25,000 customers and taking the total spend to £4.50 a year (excluding inflation) from 2020 to 2025"
- 60% felt it acceptable to extend the social tariff and add an *extra* £1.50 to the £3.00 already paid, totalling £4.50 (excluding inflation) (see Appendix AV.A3.4)

Across the three phases we saw a consistent level of acceptance of support for a Social Tariff and confirm that £4.50 is the cross-subsidy level taken forward for future support.

2.3.3 Implications across the plan

This is reflected in data tables App 4.

2.3.4 Assurance

CCG Report September 2018 (Appendix AV.A3.5) Question 11.

We consulted CCG members about our response to this action and considered comments received. The response was shared at a meeting of CCG members on 13 March 2019 and the CCG report to be submitted to Ofwat on 1 April 2019 by the group has commented on this response.

2.3.5 Evidence

Table 15 Evidence to support the response to AFW.AV.A3

| Appendix | Description |
|----------|--|
| AV.A1.4 | Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) |
| AV.A3.1 | Reference of evidence submitted in September Submission |
| AV.A3.2 | Ipsos Mori & Arup Phase 1 Social Tariff Survey |
| AV.A3.3 | Ipsos Mori & Arup Phase 2 Affinity September Plan Acceptability Survey |
| AV.A3.4 | Ipsos Mori & Arup Phase 3 Final Acceptability Survey |
| AV.A3.5 | CCG Report September 2018 |

2.4 AFW.AV.A4

2.4.1 Overview of test area action

Table 16 Action details for AFW.AV.A4

| Action Ref. | Action |
|-------------|---|
| AFW.AV.A4 | Affinity Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services by 2020 but has not provided a Performance Commitment or plan on how it will do so. The company should propose a Performance Commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020 to 2025 period. |

Nature of adjustment: action completed

2.4.2 Our response

We propose to introduce a performance commitment to maintain the BSI certification 18477 for Inclusive Services that was achieved in February 2019 (subject to BSI internal verification),

throughout AMP7 through a yearly external verification audit conducted by BSI (see Appendix AV.A4.1 for detail).

In our September Plan we had not proposed a Performance Commitment on *achieving* the BSI 18477 certification, as we planned to achieve this before the start of AMP7 and therefore did not feel it was appropriate to put forward a commitment we intended to have already achieved. We had discussed with and taken our CCG members through our plans in 2018, to achieve the BSI 18477, as this gave a framework to ensure we provided an inclusive service. The CCG members were fully supportive of our plan to achieve the certification and had put forward that we consider a performance commitment associated with this. (see Appendix AV.A3.5).

On 15 February 2019, following reviews and an audit by BSI, we were certified with the BSI 18477 for Inclusive Services, subject to sign off from the BSI Compliance & Risk Team. Confirmation and receipt of the certification is imminent, ahead of the wider water industry and a year earlier than originally planned. The verification demonstrates we are providing an inclusive service that is available, usable and accessible to all customers equally regardless of personal circumstances.

2.4.3 Implications across the plan

New Performance Commitment.

2.4.4 Assurance

To maintain the certification an annual audit by BSI will take place to verify we are continuing to follow the framework for Inclusive Services.

We consulted CCG members about our response to this action and considered comments received. The response was shared at a meeting of CCG members on 13 March 2019 and the CCG report to be submitted to Ofwat on 1 April 2019 by the group has commented on this response.

2.4.5 Evidence

Table 17 Evidence to support the response to AFW.AV.A4

| Appendix | Description |
|----------|--|
| AV.A1.4 | Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) |
| AV.A3.5 | CCG Report September 2018 |
| AV.A4.1 | Framework for BSI 18477 |

2.5 AFW.AV.A5

2.5.1 Overview of test area action

Table 18 Action details for AFW.AV.A5

| Action Ref. | Action |
|-------------|--|
| AFW.AV.A5 | Affinity Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 2.5% in 2019/20 to 6.3% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has checked no PSR data over the past two years. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): The company should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to check at least 90% of its PSR data every two years. For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage. |

Nature of adjustment: action completed

2.5.2 Our response

We have taken on board the feedback to our proposed 6.3% increase in households signing up to our Priority Services Register (PSR). We will introduce a performance commitment for our PSR to reach 7.22% of our customer base by 2024/25 (106,817 households) and this will be tracked monthly.

We plan to increase awareness and support more households through proactive initiatives, managed as part of our Inclusive Services programme. Our current initiatives include:

Data sharing: Working in collaboration with UK Power Networks (UKPN), we have cross referenced data giving insight into the areas which overlap, enabling a proactive joint venture programme to dual sign customers to both of our PSRs through the 'Tell us once' campaign.

Online sign up through our new PSR platform: Promotion across our website and literature will assist in awareness of the simple online sign up process for customers who have long term or short-term needs. Priority Services Frontline Signup: Introduction of our new PSR platform allows frontline teams to sign up customers onto our register without form filling. This will provide instant support for customers and reduce the drop off between promotion of our PSR to registration.

Data Segmentation: Segmentation of internal and external data to focus support within our communities.

Innovation

Since our September Plan we have continued to work with UKPN and multiple charities and are planning several projects to optimise data sharing and promotion of our services.

As part of our September Plan we were unable to provide evidence of the number of accounts that had been reviewed during the AMP, due to the PSR database not date stamping updates. Without categorical evidence, we therefore did not provide numbers. However, in readiness for data sharing and improving the accessibility of our register we have since implemented a new

PSR platform which will enable us to provide evidence of the number of households whose data has been reviewed.

We commit to reviewing at least 90% of household data held on the PSR every 2 years. This will take place on a rolling basis. Our new PSR platform date stamps registrations and will automate the review process by sending notifications to customers. The database will capture the date of the review to ensure an auditable process is in place for reporting. We will commit to a non-financial Performance Commitment.

2.5.3 Implications across the plan

Data tables have been updated showing numbers of customers – App 4 Line 22-29 & 31 & App 1 for the Performance Commitment.

2.5.4 Assurance

We consulted CCG members about our response to this action and considered comments received. The response was shared at a meeting of CCG members on 13 March 2019 and the CCG report to be submitted to Ofwat on 1 April 2019 by the group has commented on this response.

2.5.5 Evidence

Table 19 Evidence to support the response to AFW.AV.A4

| Appendix | Description |
|----------|--|
| AV.A1.4 | Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) |
| AV.A3.5 | CCG Report September 2018 |

3 Additional Ofwat Feedback

3.1 AFW.AV.C1

PR19 Initial assessment of plans: summary of test area assessment p6, section 1.2.2 Addressing affordability and vulnerability

Ten companies provide enough convincing evidence to be high quality. These companies give evidence of initiatives that will positively impact customers, including:

- *bills that are falling in real terms;*
- *significant increases in the number of customers who will be helped by affordability support schemes; and*
- *an increase in the number of customers getting, and satisfied with, priority services (services for customers in need).*

3.1.1 Our Response

Bills that are falling in real terms

Our new proposed bill profile is included in RR.A10 (in the test area Risk and Return) and falling 1.6% in real terms between 2020 and 2025. This builds from the 7.7% decrease during AMP6 and we also plan a 2.0% further decrease in AMP8. This means a declining bill over a 15 year period from AMP6 to AMP8.

Significant increases in customers helped by affordability support schemes

We have revised the volume of customers who will receive support with their bill during AMP7. A total of 200,758 or 13.6% of household customers will be supported (vs. 100,000 or 6.8% in our September Plan) by a range of assistance measures including our social tariffs, affordable repayment plans, payment breaks/breathing space, Customer Assistance fund, Trust fund, affordability checks home visits, providing an allowance to compensate for a leak and by moving customers to a meter when they would benefit from lower bills (outside of our universal metering program).

Increase in customers getting, and satisfied with, priority services (services for customers in need)

Using advanced data, we have mapped priority services need codes to our communities to be able to deliver support and a relevant service. Additionally, we have partnered with specialist third parties, such as Dementia Friends, to create bespoke priority services training in order to upskill our frontline advisors to identify triggers for customers in vulnerable circumstances.

Action AFW.AV.A5 demonstrates the increase in identifying customers getting priority services. Actions AFW.OC.32 & 33 in the test area Delivering Outcomes for Customers outline the new 90% target for the satisfaction Performance Commitment, an increase from 82%.

3.2 AFW.AV.C2

PR19 Initial assessment of plans: summary of test area assessment p6, section 1.2.2 Addressing affordability and vulnerability

Companies that fall short of high quality do not provide evidence that their plans will have a positive impact on customers. Poor practice includes companies:

- *not giving enough evidence to show that customers think companies' bill proposals are acceptable or affordable; and*
- *not challenging themselves enough to increase the number of customers receiving affordability support or priority services*

3.2.1 Our Response

Action AFW.AV.A1 demonstrates strong acceptability and affordability for our bills during period 2020-25, and Action AFW.AV.A2 demonstrates strong acceptability and affordability for bills during period 2025-30.

Action AFW.AV.A5 shows an increase in the target level we are setting as a Performance Commitment, for increasing customers on the Priority Services Register. In our September Plan, our target was to increase to 6.3% of household by 2025. We have increased this to 7.22%.

3.3 AFW.AV.C3

PR19 Initial assessment of plans: summary of test area assessment p41, section 5.3.4 Vulnerability

We are concerned that some companies have not considered how to get more people on their priority services registers in enough detail.

3.3.1 Our Response

This was outlined in our September Plan within chapter 7 and appendix 7 of Delivering Great Customer Service.

To meet our Performance Commitment outlined within response AFW.AV.A5, we will use the following to ensure we reach and support customers through our Priority Services Register:

Data Sharing

Working in collaboration with the energy sector UK Power Networks (UKPN), customers who sign up to the UKPN PSR will be given the option to consent to their information being shared with us, with a view to signing up to our PSR, this will cover both new priority services registrations and renewals.

Dedicated Resource

Promotion of the Priority Services Register includes a dedicated Advanced Care Manager whose role includes developing partnerships working to promote support available.

Training

Priority services training for all front-line colleagues to raise awareness and identify triggers of vulnerability.

Priority Service Frontline Signup

Introduction of our new priority services platform allows frontline teams to register customers onto the register efficiently. This will provide instant support for customers.

Data Segmentation

Looking at the England Indices of Deprivation from 2015 we have considered matching the bottom two indices – bottom 20% for Health and Disability, which means we will be able to have a more segmented approach to promote the Priority Services Register through community events, marketing, social media and our partners.

The new reporting now available as part of the new Priority Services Register also allows us to identify which (locations and needs) codes to focus on. This is a similar approach to that used by UKPN and as part of the Utility Networks group (DNO, GDN and water companies in the same geographic footprint).

Proactive promotion

Through our different channels we will proactively communicate with our customers to promote our PSR.

3.4 AFW.AV.C4

PR19 Initial assessment of plans: summary of test area assessment p41, section 5.3.4 Vulnerability

Many companies provide evidence of high-quality partnerships with third parties, like local authorities, energy companies and charities. The work of these partnerships includes identifying vulnerable customers and reaching out to them with practical help. However, we are concerned that companies have not got a robust approach to keeping their priority services registers up to date. So, we are including data checking in our common performance commitment proposal.

3.4.1 Our Response

Identifying vulnerable customers and reaching out to them with practical help

Evidence provided that this is already underway is outlined in Action AFW.AV.A5.

Robust approach to keeping their priority services registers up to date

Evidence provided within AFW.AV.A5.

We have designed our new PSR platform and processes to support the data accuracy of the register:

- Accounts will be flagged, enabling our frontline teams to check the data held, if a customer makes contact with us. Review of data will be date stamped.
- Proactive alerts will be raised where customers have not had their data reviewed in 24 months.
- Dedicated resource to proactively review data where automation has not been possible.

- Transient support for short-term vulnerability will be supported through proactive alerts to customers and to our teams.
- PSR platform will date stamp interactions providing auditable records.

3.5 AFW.AV.C5

PR19 Initial assessment of plans: Affinity Water test question assessment p2

Whilst the company has shown that bills are set to fall as a proportion of real disposable income in the region, the use of mean real disposable income will likely skew this calculation to the higher end of the income spectrum. Therefore, it is unlikely to reflect the most accurate view of customers incomes (compared to using another measure such as median income).

3.5.1 Our Response

The average income data for our region to provide evidence for affordability has been updated to use the median average data.

3.5.2 Evidence

The following table shows our average water bill against the median weekly household income, after housing costs.

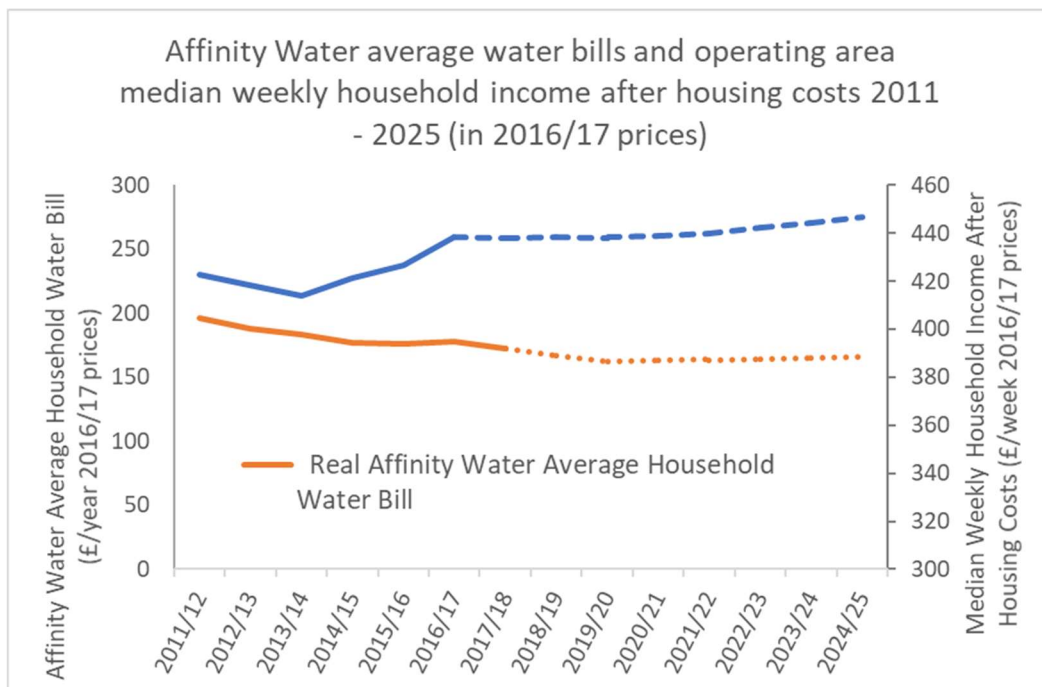


Figure 3 Affinity Water average water bills and operating area median weekly household income after housing costs 2011 – 2025 (in 2016/17 prices)

3.6 AFW.AV.C6

PR19 Initial assessment of plans: Affinity Water test question assessment p2

The company proposes a 3% increase in real bills over the 2020-2025 period. This is the second highest bill increase proposed for the 2020-2025 period across the sector. The bill profile included in the business plan is both higher than consulted on with customers, and follows a different profile. In addition, the CCG has commented that it does not know why the company has expressed so many different 2019/20 average bill values, which suggests poor quality engagement with the CCG throughout.

3.6.1 Our Response

Since Ofwat's feedback in January 2019, the CCG members have been heavily involved in discussions and updates towards our Revised Plan.

Additionally, the bill profile has been reviewed (see test area Aligning Risk and Return Action RR.A10) and is now decreasing by 1.6% in real terms between period 2020-2025. This builds on the 7.7% decrease within AMP6 and additionally a planned 2.0% decrease during AMP8, resulting in 3 consecutive AMPs of reducing bills.

Table 20 Average bill over AMP 6 – AMP 8

| Average Bill | AMP6 | | | | | AMP 7 | | | | | AMP 8 | | | | |
|--|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| Year | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| £/Customer Real 2017/18 CPIH | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 |
| Average Customer Bill for revised Plan | 183.5 | 185.1 | 182.6 | 172.3 | 170.5 | 169.9 | 169.5 | 169.0 | 168.4 | 167.8 | 167.4 | 167.0 | 166.5 | 165.8 | 164.5 |
| Bill Movement from AMP to AMP | - 7.7% | | | | | -1.6% | | | | | - 2.0% | | | | |

3.7 AFW.AV.C7

PR19 Initial assessment of plans: Affinity Water test question assessment p2

The company also has a highly inefficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices

3.7.1 Our Response

Proportion of customers getting debt advice

We have reviewed the types of support and number of customers which we plan to assist during the AMP. A total of 200,758 customers will receive support from our affordability assistance measures, shown in the table below, such as social tariff, repayment plans and by either a Trust Fund payment or via our proposed paying matching scheme. The number of customers supported increases throughout the AMP to a total of 13.6% of all households supplied.

Since submitting our September Plan, we have reviewed and benchmarked our bad debt charge as a percentage of our revenue. Our intention when submitting our September Plan was to push into the upper quartile in the industry. We have since benchmarked our September Plan against the industry and believe we can achieve further reductions and achieve frontier performance on

bad debt through introducing a more efficient approach to debt management and increasing the number of customers who will receive support with their bill.

Planned write-offs have reduced by £9.7m or 26% against our September Plan by introducing a more efficient approach to debt management, profiling this impact on lowering write-offs and importantly, supporting more customers with their bill.

Net benefit of water efficiency devices

Of the customers that go onto a meter via our Universal Metering Programme, 70% are better off and 30% worse off. We support this 30% by offering a Home Water Efficiency Check (HWEC) which is only available to those metered through the Universal Metering Programme. These checks include a 60 minute appointment to engage with them regarding their water use habits and to install water efficiency devices if appropriate. We have other specific tariffs to help the most financially vulnerable.

HWECs achieve water saving through changing customers' water use behaviours, installing Water Saving Devices and detecting and fixing small leaks. To understand the effectiveness of HWECs in giving the customer more control over their usage we conducted a trial study on 2000 properties. The high-level findings were that:

- Overall HWECs result in savings of an average of 540 litres per household per day. This is equivalent to an annual bill reduction of £208 on water or £416 reduction on sewerage and water.
- 20 litres per household per day is saved due to behaviour change and water efficiency devices. This is equivalent to an annual bill reduction of £8 on water or £15 reduction on sewerage and water.
- 520 litres per household per day is saved due to leaks being detected and fixed. (22% of properties had a leak). This is equivalent to an annual bill reduction of £200 on water or £401 reduction on sewerage and water.

Overall:

- 66% of properties that had a HWEC showed reduced consumption
- 12% did not see consumption change between pre-and post HWEC.
- 18% saw water usage stay consistent
- 4% saw consumption rise after the HWEC was completed

From this analysis, there are several points of learning, the most obvious that the largest benefit of a HWEC is in finding leaks. These leaks are not sizeable so - at 520 l/d - would be very difficult for a leakage technician to detect with a listening stick. The majority of leaks are toilets or malfunctioning ball valves which are detected by the Home Water Efficiency Technician and corrected on site. As such, we do not believe that leakage visits are a substitute for Home Water Efficiency Checks. Encouragingly, due to the majority of the benefit coming from fixing or highlighting leaks, the benefits in water saving are maintained over time.

The results above highlight that the HWECs are not returning a substantial reduction in water usage as a result of behavioural change and the use of water saving devices. To further investigate the potential impact of behavioural change, we teamed up with behavioural specialists Hubbub to explore where most water was used, what we can do to change their behaviour and if installation of devices helped reduce consumption. Through this intense study and education of 40 households, we found that the average household showed 46.3 litres per household per day reduction in usage. Taking these learnings, we are now scaling the programme up, from the

original 40 to 7933 households, to put what we have learned into practice on a much larger scale and to understand the impacts of behavioural change over a two-year period. From the insights gained from the Hubbub trial, we are targeting an average saving of 25 litres per household per day next AMP from the improvements being made to HWEC's in AMP7. This is equivalent to an annual bill reduction of £10 on water or £19 reduction on sewerage and water.

3.7.2 Evidence

The following table sets out the types of support and volume of customers who we will support with affordability help during the AMP.

Table 21 AMP7 Customer affordability help

| Customer Affordability Help | AMP7 | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Social tariff | 76,000 | 77,500 | 80,000 | 79,000 | 82,000 |
| Leak allowance | 7,555 | 7,555 | 7,555 | 7,555 | 7,555 |
| WaterSure | 3,698 | 2,624 | 3,552 | 3,480 | 3,411 |
| Repayment plans | 25,556 | 28,906 | 28,256 | 29,606 | 30,956 |
| Payment break & Breathing Space | 4,000 | 6,000 | 8,000 | 10,000 | 12,000 |
| Moved to Measured (outside of WSP) | 4,756 | 4,349 | 3,880 | 3,455 | 3,118 |
| Customer Assistance Fund/Pay matching | 2,800 | 2,934 | 3,067 | 3,200 | 3,200 |
| Trust Fund | 500 | 540 | 560 | 580 | 580 |
| Affordability Home Visits | 9,600 | 9,600 | 9,600 | 9,600 | 9,600 |
| Increase in budget plan DD | 8,000 | 18,000 | 28,000 | 38,000 | 48,338 |
| Total customer affordability help | 142,465 | 156,008 | 172,470 | 184,476 | 200,758 |
| Total HH supplied | 1,408,608 | 1,428,685 | 1,445,408 | 1,462,132 | 1,478,856 |
| Total customer affd help / HH supplied % | 10.1% | 10.9% | 11.9% | 12.6% | 13.6% |

The following graph shows how the volumes of customers supported increases throughout the AMP to a total of 200,758 (blue bar), while planned write-offs reduce (green line), addressing the feedback given regarding the efficiency of our initial approach.

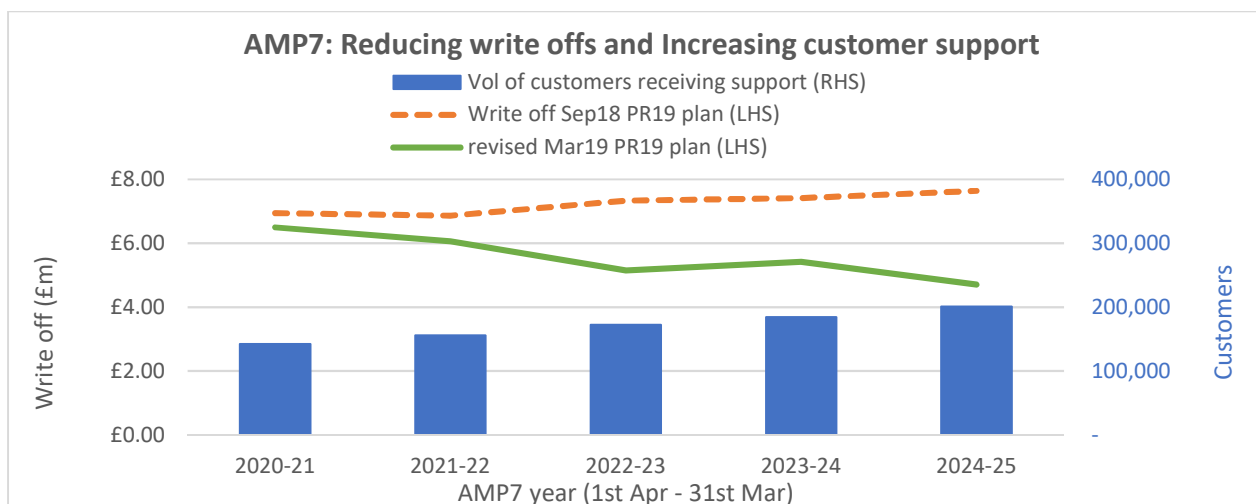


Figure 4 AMP7 Reducing write offs and Increasing customer support

Table 22 Evidence to support the response to AFW.AV.A4

| Appendix | Description |
|----------|-------------------|
| AV.C7.1 | Hubbub Campaign 1 |
| AV.C7.2 | Hubbub Campaign 2 |

4. Appendices

All the appendices listed below for this evidence document are included in the appendices titled AFW Addressing Affordability and Vulnerability Appendix.

Table 23 Full summary of affordability and vulnerability appendices

| Appendix | Action ref(s) |
|--|---|
| AV.A1.1 – Verve Research Report – published 11 March 2019 | AFW.AV.A1; AFW.AV.A2 |
| AV.A1.2 – South East Water bill profile research for comparison | AFW.AV.A1 |
| AV.A1.3 - Threshold of Acceptability Research prepared for CCWater | AFW.AV.A1; AFW.AV.A2 |
| AV.A1.4 – Supplementary report to Ofwat from the Affinity Water Customer Challenge Group (29 March 2019) | AFW.AV.A1, AFW.AV.A2, AFW.AV.A3, AFW.AV.A4, AFW.AV.A5 |
| AV.A3.1 - Reference of evidence submitted in September Plan | AFW.AV.A3 |
| AV.A3.2 - Ipsos Mori & Arup Phase 1 Social Tariff Survey | AFW.AV.A3 |
| AV.A3.3 - Ipsos Mori & Arup Phase 2 Affinity Business Plan Acceptability Survey | AFW.AV.A3 |
| AV.A3.4 - Ipsos Mori & Arup Phase 3 Final Acceptability Survey | AFW.AV.A3 |

| | |
|-------------------------------------|---------------------------------|
| AV.A3.5 - CCG Report September 2018 | AFW.AV.A3; AFW.AV.A4; AFW.AV.A5 |
| AV.A4.1 - Framework for BSI 18477 | AFW.AV.A4 |
| AV.C7.1 Hubbub Campaign 1 | AFW.AV.C7 |
| AV.C7.2 Hubbub Campaign 2 | AFW.AV.C7 |