

IAP Technical Annex 2

# Addressing affordability and vulnerability



# 1. SRN.AV.A1

Ofwat action	How we have responded
Southern Water has included neutral responses as positive in its results for acceptability and affordability testing which may lead to customer support metrics being overestimated. The company should remove neutral responses from its support metrics or provide sufficient and convincing evidence to justify including them in the results	Further information provided

## Our detailed response

We accept Ofwat's comments from the IAP and believe that the affordability score for the business plan lies between 53-76%. In our documentation whilst we say we believe overall informed affordability stands at 76%, we are transparent in providing the neutral scores, with a total of 53% household customers rating it as affordable (very affordable + affordable) and 23% neutral. We have carried out this additional benchmarking analysis below and have validated this with our CCG in March 2019. This is also reflected in the supporting note being submitted by the CCG to Ofwat on 31<sup>st</sup> March 2019.

- A sizeable minority (23%) were neutral about the affordability of the plan and triangulated evidence suggest these customers would rate as 'affordable' if pushed to a 4-point scale of 'Very affordable' 'Affordable' 'Unaffordable' and 'Very unaffordable'.
  - Research we carried out in June 2018 (*BP\_TA4.4\_Customer and Stakeholder Engagement Deliverables\_Document 108*) also showed that 72% of dual customers felt their bills affordable (73% for all customers), and the proposed bill profile for our business plan was for a bill reduction and then smooth bills. We looked at a question we asked in a corresponding survey in June 2018, which asked affordability but in a 4-point scale (this didn't offer an option of 'neither affordable nor unaffordable'). This showed very limited difference with customers who rated the bill as affordable and unaffordable (only 4% difference). We concluded that when pushed, customers rating the bill as 'neither affordable nor unaffordable' would rate the bill as affordable, and therefore it's justified to say that the overall affordability of the bill is 76% (53% affordable and 23% neutral). Our qualitative research indicates that the reasons for customers in the neutral category is wider uncertainty about the future, rather than saying bills are unaffordable. (*BP\_TA4.4\_Customer and Stakeholder Engagement Deliverables\_Document 105*). We shared our approach and results with the CCG and agreed this position in August 2018.
- Informed customers and stakeholders when discussing the impacts of the plan in detail rated the plan as affordable
  - Our qualitative phase of acceptability testing showed that customers generally expected bills to rise in the next 7 years and were surprised and pleased to see a flat bill proposition and that Southern Water were seen to be delivering improvements through business efficiencies. However, for some customers there is a degree of scepticism, around keeping bills low whilst still being able to invest. This led some customers to feel that water companies could be storing up problems for the future. (*BP\_TA4.4\_Customer and Stakeholder Engagement Deliverables\_Document 105*)
  - In our stakeholder acceptability testing - Stakeholders rated the plan as 8/10 for value for money and told us they felt the business plan was affordable. They informed us that they felt the customer bill impacts of the proposed changes were relatively minimal and therefore did not see a strong customer impact. Stakeholders were recruited from our regional panel and included local authorities, environmental groups and business groups (*BP\_TA4.4\_Customer and Stakeholder Engagement Deliverables\_Document 104*).
- In discussion with our CCG in March 2019 we revisited our conclusions from August 2018 and shared additional data on the scores from water companies that used the same methodology. We agreed with the CCG that the proposed bill impacts were felt to be affordable.

- We revisited the qualitative acceptability research we had run and looked at the other water companies we knew had followed the exact same methodology (using a 5-point scale) and worked with Accent Research. These companies were Anglian, South East, South Staffs and Cambridge, although Cambridge’s results were aggregated into the South Staffs report.
- We could see that our acceptability was high, which includes acceptability with proposed bill evaluations. However, once inflation of 2% is added to the stimulus for customers in research, our affordability scores dropped. The full Acceptability research is included in *BP\_Ta4.4\_Customer and Stakeholder Engagement Deliverables\_Document 105*, which has been provided to Ofwat
- There are inconsistencies on the exact rating customers are using in their business plan reports, however when reviewing the available data (of full bill impacts – which includes the RORE impact) our affordability seems to be in line with Anglian and South East. In the table below (*AV.A1.Table 1 - Acceptability / Affordability comparison (excluding neutral responses)*) we have provided the data that was provided clearly in the other business plans.

**AV.A1.Table 1 – Acceptability / Affordability comparison (excluding neutral responses)**

Company	Informed Acceptability (%)	Uninformed Affordability (%)	Informed Affordability (%)	RORE Affordability (%)	Bill Impact (%)	Link to information
Southern Water	81% (80% HH)	49%	55% (53% HH)	66% (64% HH)	3% decrease	N/A
Anglian Water	80% (HH)	64% (HH)	71% (HH)	60% (HH)	Less than 1% bill decrease	<a href="https://www.anglianwater.co.uk/_assets/media/13g%20Acceptability%20testing_outline%20plan.pdf">https://www.anglianwater.co.uk/_assets/media/13g%20Acceptability%20testing_outline%20plan.pdf</a>
South East Water	78%	57%	"67 per cent when participants were told what would be delivered for the cost of the bill"		6% bill decrease	<a href="https://corporate.southeastwater.co.uk/media/2839/appendix-1-engagement-final-combined-180903.pdf">https://corporate.southeastwater.co.uk/media/2839/appendix-1-engagement-final-combined-180903.pdf</a>
South Staffs & Cambridge	80% of customers found our plan and bill levels acceptable (82% HH)	70%	"after being shown the full details of our plans, customer promises and performance commitments, the affordability score rose to 76%"		11% bill decrease	<a href="https://www.south-staffs-water.co.uk/media/2233/2-south-staffs-water-final-business-plan-2020-to-2025-3-sept-2018.pdf">https://www.south-staffs-water.co.uk/media/2233/2-south-staffs-water-final-business-plan-2020-to-2025-3-sept-2018.pdf</a>

## 2.SRN.AV.A2

Ofwat action	How we have responded
<p>Southern Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 0.4% in 2019/20 to 1.1% 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.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Southern Water 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 checking at least 90% of its PSR data every two years.</p> <p>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.</p>	<p>Plan updated</p>

### Our detailed response

In accordance with Ofwat’s guidelines titled ‘Common performance commitment outline for the Priority Services Register (PSR)’ we have updated our plan, App1 and App4 to reflect a performance profile of supporting 7% of our households by 2024/25.

Our annual profile of customers supported on the PSR reflects the ongoing work from our Reach & Support programme (which focuses on the additional support we can provide all customers who may find themselves in vulnerable situations – more information can be found in our September Business Plan (*BP\_CH8\_Helping customers who need our support*)) and new cross-sector data sharing agreements we plan to implement. We also confirm that we plan to contact 90% of registered users every two years as part of this Performance Commitment.

This is a significant increase compared to the original commitment in our plan. This means we need to do more in terms of the scale and speed of “Reach and Support”, as well as other initiatives such as data sharing arrangements. However, we believe that the cost of expanding these initiatives can be accommodated within Ofwat’s current projection of efficient costs, which we understand will be the basis of the retail cost allowance.

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