



TMS-DD-042: Thames Water PR24 DD Response - Customer Bill Profile and Affordability

Response to Draft Determination

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1. Summary

- Customers' top priorities are delivering safe and resilient water supplies and addressing concerns on performance and the environment in wastewater. We have developed and refined a highly ambitious and deliverable plan. Realising the sustainable improvements our customers and stakeholders expect requires a significant increase in average bills. Our plan mitigates the impact of bill increases through a range of interventions including targeted social tariffs, incentives and discounts. Our updated business plan will mean:
- 456k directly billed customers to be lifted out of water poverty, which is 88% of those in water poverty without support.
- A well targeted and meaningful social tariff, with 7.5% of our total households served benefiting over AMP8. This peaks at 604k households with funding generated through a combination of cross subsidies and innovative tariff design. 148k are waste only customers, primarily billed through Water Only Companies.
- A peak of 647k households benefiting from a discount tariff, adding WaterSure to the above social tariff total.
- Incentives to use less water and provide bill reductions to 75% of our metered customers through tariff innovation via the introduction of a rising block tariff.
- An average 90% discount for directly billed, income deprived customers by 2030, up from 27% in 2023, providing an average £598 of support per household, delivered through discount tariffs, innovative tariffs, targeted demand side support and debt support.
- An inclusive service approach, with our PSR growing to 1.2m households and services delivered to ISO 22458:2022.
- Engagement with those who are underrepresented through a combination of data sharing and community campaigns to ensure our propositions reach those that are not aware of the support that would help them due to barriers such as language and culture.

This chapter presents the bill profile our customers would receive from our plan and how we have developed our approach to ensure that this is affordable for our customers.

We recognise that affordability remains a key issue for our customers with the latest research from Ofwat finding that 26% of customers in London, and 22% in the South East, are struggling to pay water bills. 25% of households in our London region are assessed as in poverty.

As a result of our investment plans our bills will increase by 52% from the end of AMP7 to the end of AMP8 and by 38% in from the end of AMP7 to year one of AMP8. These increases don't include any gated expenditure, or conditional allowances. We understand the importance of our plans to provide affordability support for customers that need it. Our research from September 2023, with bills that were on average 13% lower than now proposed, shows that while 20% of our customers would find our plan easy to afford and 48% would find it difficult to afford.

Our key tool, our social tariff, is well placed to target our support correctly. We have brought forward our plans to use the Affordability Threshold as our eligibility criteria so that it went live on 1st April 2024. New research has increased our cross-subsidy capacity which will allow us to support 88% of the water poverty population, defined as a customer who is below the

Affordability Threshold, along with funding from tariff innovation, our proposed rising block tariff. We plan to provide support to 456,000 households out of water poverty by 2030 (88% of the 520,000 households forecast by 2030 to be in water poverty) within our billed region and will continue to collaborate with the water only companies in our region to explore how we maximise our support our waste only customers.

From our data we can see that around 6% of customers below the Affordability Threshold will require demand side support (to encourage lower consumption) to be lifted out of water poverty in addition to, or instead of a social tariff. This is because reducing wastage or inefficient use of water may reduce a water bill sufficiently to lift a customer above the Affordability Threshold. Our water efficiency smarter home visits will be targeted by both consumption and affordability to provide practical support to reduce bills.

We also recognise that a water bill that is above the Affordability Threshold may not necessarily be affordable to a customer due to other pressures on their household. Therefore, our comprehensive approach of providing affordability support, from payment plans and forbearance plans, to payment matching and referrals to income maximisation are a key part of delivering support to those who are struggling to pay. This approach is enabled by an Income and Expenditure review, enabled by PayLink's technology. This ensures a holistic view of a customer's circumstances by using the Standard Financial Statement.

To ensure we reach and engage customers we will deliver our affordability services in an inclusive manner, we will grow our PSR to 1.2 million households and maintain ISO accreditation.

2. Introduction

In October 2023 at the point of our submission inflation was at 6.3%¹ and wages were lagging behind these cost increases. While a return to target levels of inflation below 2.5% is now more likely there continue to be challenges for our customers. Mortgage rates have already risen by 13%² in 2024 compared to 2023 and this trend will continue as historic low-interest rate deals come to an end, keeping pressure on household budgets.

The Joseph Rowntree Foundation's latest report³ on poverty in the UK shows London, where two thirds of our household income derive from, has remained at 25%. Ofwat's latest research⁴ with customers on the cost-of-living crisis found that 20% of customers across England say they're currently struggling to pay water bills – higher in London at 26% and the South East at 22%. The South East shows a marked rise from a level of 13% in Ofwat's wave 4 in October 2023. Ethnic minority customers were more likely to be struggling across England (26%) than white customers (20%), particularly in London (28%).

As we make investments to improve service and environmental performance our bills for customers will increase. Therefore, our plans to provide extra support to those customers who

¹ <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

² <https://www.experian.co.uk/blogs/latest-thinking/wp-content/uploads/sites/13/2024/03/experian-affordability-update-q4-2023.pdf>

³ <https://www.jrf.org.uk/uk-poverty-2024-the-essential-guide-to-understanding-poverty-in-the-uk>

⁴ Wave 5, July 2024

need it are important. Since submitting our plan in October 2023, we have continued to make progress and we are not waiting for the conclusion of the price review.

We have published our [Vulnerability Strategy](#) where we maintain our plans to grow our PSR to 1.2m households by 2030, and deliver our services in an inclusive manner.

This PSR growth is being achieved through data sharing, for example with the London Fire Brigade, and community campaigns to reach efficiently large numbers of customers and those who are underrepresented. It is important that we ensure our propositions reach those that are not aware of the support that would help them due to barriers such as language and culture. Our colleagues continue to spot vulnerability during customer interactions, and we have been undertaking social media awareness campaigns to create increased awareness of our support. We want to increase awareness up from the current 74%⁵ that are aware of at least one affordability proposition and 52% aware of at least one PSR proposition.

Our service is delivered in an inclusive manner, demonstrated by achieving ISO 22458:2022 in January 2024. This is verified through a six-day audit engaging with a broad cross section of our teams. Previously we have been successful in holding the BSI Standard 18477 for inclusive service since 2020 but upgraded the standard this year.

We have also made progress on our comprehensive approach to supporting customers who are struggling to pay, for example:

- We have accelerated our plans to transition to the 'Affordability Threshold' as the eligibility criteria for our social tariff. Our social tariff provides a meaningful 50% discount for customers. The 'Affordability Threshold' identifies customers who have a water bill that is more than 5% of their net equivalised income. This ensures we can target our support at the segment of customers who need it most. This criterion was developed in conjunction with stakeholders including CCW after piloting for a year. Our previous criteria of targeting low-income customers was simple to operate but we found that only 42% of low-income customers were also in water poverty. Also, an income only criteria doesn't consider the impact of bill increases on customers.
- We have shared data with the Department for Work and Pensions (DWP) to proactively identify customers who would benefit from WaterSure. By September 2024 the first 3,078 customers will have been moved to the WaterSure tariff through this approach. This represents a 12% growth in the number of customers benefiting from WaterSure in our region. This successful pilot will then be implemented as a regular process.
- We have doubled the amount of support we expect to provide through our 'Extra Support Scheme' from £3m in 23/24 to £7m in 24/25 with 18,000 customers benefiting. This scheme provides one off grants to customers with arrears and a deficit budget.
- We have also acted on insight that we gathered from [research](#)⁶ on vulnerability in our region. This showed the lack of awareness of how a water bill can be broken down into instalments, despite this being promoted on the bill itself and all our engagement channels. We are implementing a process whereby metered, 'pay on bill', customers who don't pay will be automatically transferred to a payment plan. This reduces the

⁵ Thames Water quarterly brand survey: Q1 2024/25

⁶ <https://www.thameswater.co.uk/media-library/home/about-us/performance/customer-research-library/vulnerability-deep-dive-march-2023.pdf>

payments requested to a more manageable amount. In our pilot this led to an 8%⁷ improvement in customers being able to pay their bill.

- We are exploring automation to increase the efficiency of our Income and Expenditure review process so we can increase the scale of our proactive customer engagement. The first phase will go live this summer and will continue to optimise in the months ahead.

We also decided to conduct additional research on the level of support customers have for our cross subsidy that funds our social tariff. Our plans are to innovate our tariff structure and use revenue from a Rising Block Tariff to fund social tariffs by an additional £60m. This £60m of funding is on top of our existing flat cross subsidy which can generate £97m of support for our directly billed customers. However, we recognised that with the level of investment required, and the time it would take for the Rising Block Tariff to be scaled up, means that we were not able to meet the 'water poverty' challenge in our region.

The Rising Block Tariff is described in detail in section 5.6 of TMS07: Bill Impact, Affordability and Vulnerability submitted in October 2023. In short, this proposal uses a variable tariff for metered customers which reduces if less water is consumed.

The new customer research⁸ demonstrated support for an additional £33 of cross subsidy, totalling £53 in 2022/23 prices. Therefore, our response to the Draft Determination incorporates this new level of cross subsidy in addition to the funding generated through the Rising Block Tariff. This is equivalent to around £258m of funding per year within our dual service customer base by 2030.

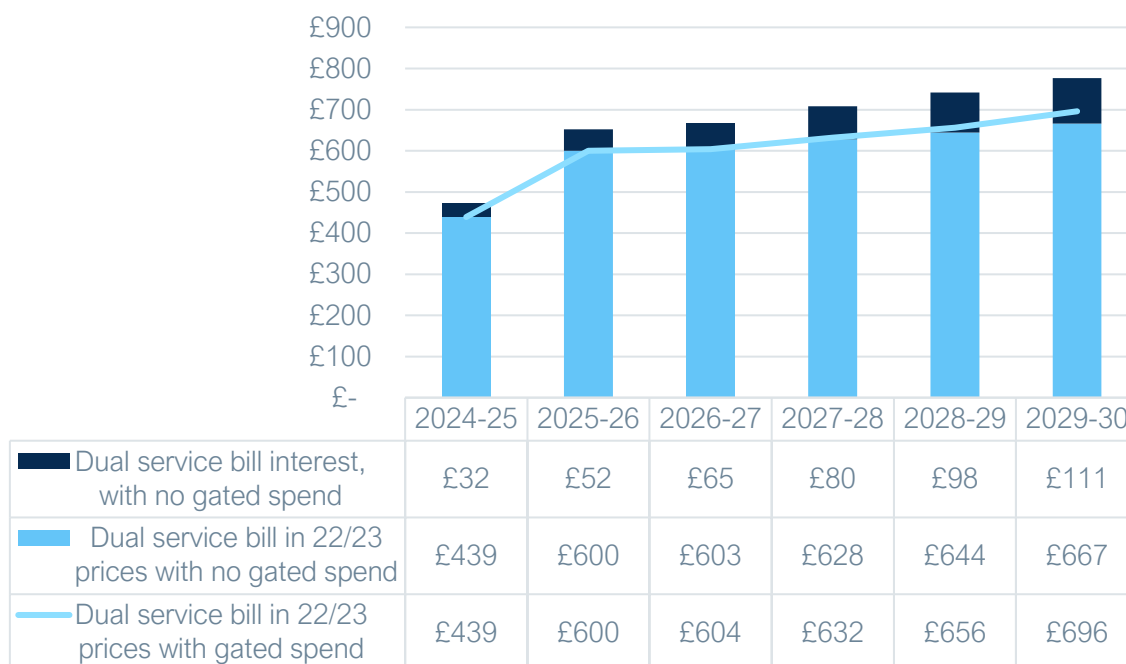
3. Proposed Bill Profile

⁷ Thames Water Analysis

⁸ Research published at <https://www.thameswater.co.uk/media-library/home/about-us/performance/our-customer-research/social-tariff-june-2024.pdf>

Our response to the Draft Determination creates the bill profile shown in Figure 1.

Figure 1: Proposed average bill for dual service customers



As a result of our investment plans our bills will increase by 52% from the end of AMP7 to the end of AMP8 and by 38% in from the end of AMP7 to year one of AMP8. These increases don't include any gated expenditure, or conditional allowances.

Our bill profile has been produced using the natural Pay As You Go (PAYG) rate which we found to balance the competing needs of customers for both smooth bill increases per year and to keep bills low at their peak.

In our plan submitted in October 2023 we recognised that we are attempting to meet two conflicting needs of customers with a bill profile:

1. Keeping bills low: Forcing a plateau profile with a one-off increase in year one would reduce the level of bills at the end of the AMP, in line with customer's preferences for lower overall bills. This approach would reduce the overall numbers of customers in water poverty and would be in line with customers consistent feedback that we should ensure that bills remain affordable for those struggling to pay.
2. Smoothing bill increases: Creating a more smoothed transition mitigates the step up in bills in the first year of AMP8, in line with customer's preferences for bill increases to be smaller and more manageable.

Our use of the natural rate creates a bill profile that balances these two competing drivers.

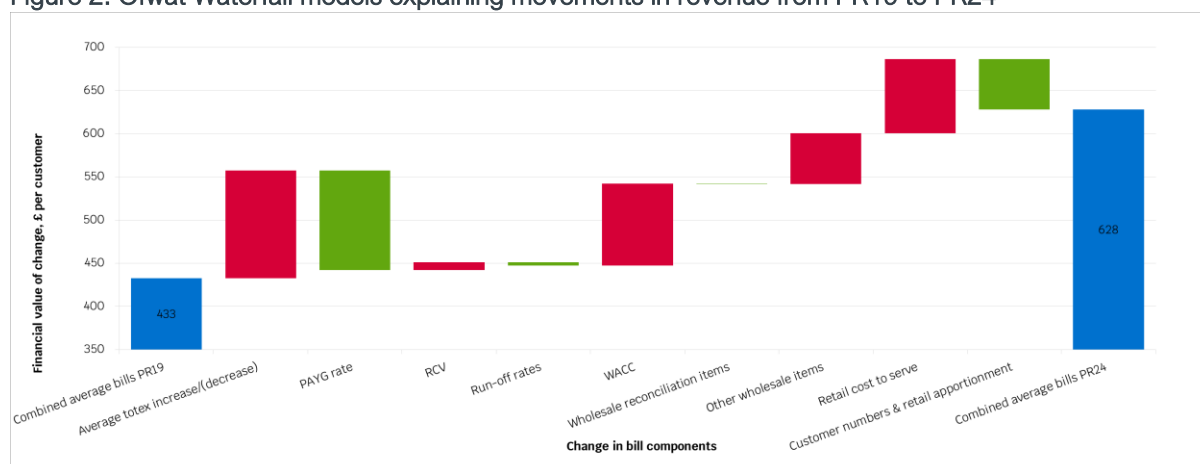
3.1 Waterfall

Using the Ofwat waterfall model the average annual bill at final determination for the five years of PR19 increases by 45% when compared to our proposals for the five years of PR24, from £433 to £628. Figure 2 is the output of the Ofwat waterfall model and show that this bill increase is principally driven by:

- Market forces increasing the cost of borrowing leading to an increase in WACC. We have used Ofwat methodology updated with latest market data to calculate WACC.
- Our increased wholesale capital programme sees an element of costs recognised in AMP8, which are captured under the ‘Other Wholesale items’ element of the waterfall chart.
- Higher retail cost to serve due to a combination of inflation, higher bad debt (due to impact of cost of living crisis) and changes in SIM/C-Mex penalties between PR19, which included a substantial SIM penalty, and PR24 where we assume no penalties. This cost to serve increase in Retail is offset by the increase in households forecast in our region which dilutes the average bill per customer. This forecast has been updated for our response to the draft determination from a total of 6,268k households to 6,085k.

In the waterfall chart there is a significant reduction from changes in PAYG but this is the effect of the Totex increase being mainly capex, which is reflected in the model by changing the PAYG rate

Figure 2. Ofwat Waterfall models explaining movements in revenue from PR19 to PR24

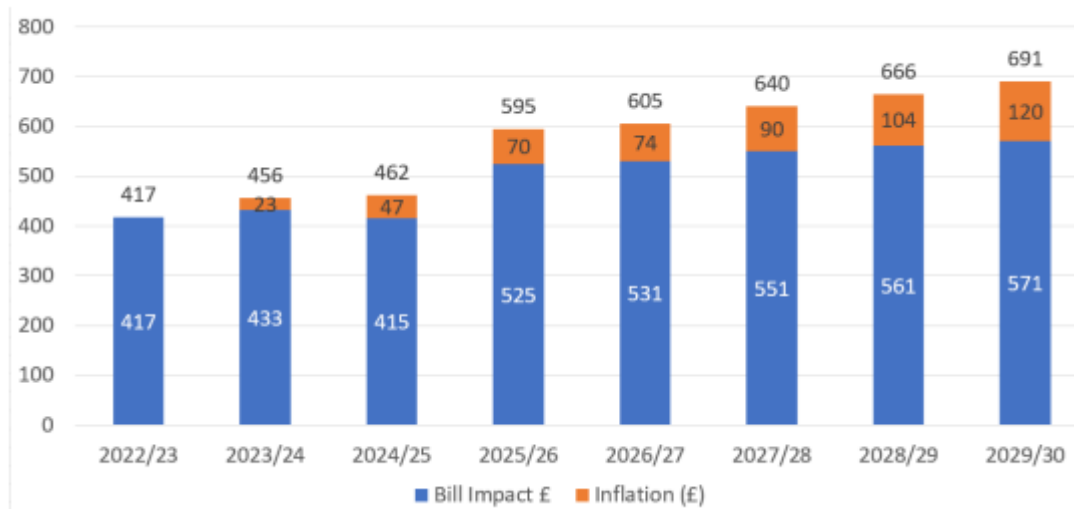


4. Customer acceptability

We tested the acceptability and affordability of our draft plan with customers in August-September 2023 via a quantitative survey. This used a random sample of both household and non-household customers, covering a range of demographics and areas within Thames Water’s region. Acceptability testing carried in August – September 2023 was based on the bill profile shown in Figure 3.

The estimated bill impact tested was an average annual bill of £571 by 2030, excluding inflation (up £154, 37%, from average 2022/23 bill). On average this is 13% less per year than the bill profile that we are now proposing in response to the Draft Determination. Therefore, the level of acceptability found in the research may have decreased if there has been time in the Draft Determination process to undertake further research with customers.

Figure 3: Bill Profiles Tested In Customer Research in August – Sept 2023



The plan tested was similar to the 'Alternative plan' from the qualitative round of testing in May, with some aspects of the Water Industry National Environment Programme (WINEP) programme deferred into AMP9, a refined list of discretionary enhancements and improved performance levels for Performance Commitments where customers wanted to see more ambition (leakage and river pollution).

The results of the survey showed that:

- Overall, 20% of customers said the plan would be easy to afford, with 48% finding it difficult to afford.
- 29% of customers said that the plan would be neither easy nor difficult to afford.
- The proportion of customers finding the plan difficult to afford was higher for both customers requiring extra support (56%) and customers struggling to pay their bills (85%).
- Households with lower incomes were significantly more likely to find the proposed plan difficult to afford (75% for incomes up to £15,999 vs. 15% for those over £104,000).
- 65% of customers found the plan acceptable and 20% found it unacceptable.
- The main reasons given for acceptability were that customers support what we are doing in the long term and that the plan seems to focus on the right areas.
- Unacceptability was due to customers not trusting us to make the improvements and the perception that company profits are too high and that companies should pay for the improvements.

In addition to the questions mandated by the Ofwat/CCW guidance, we included a question at the end of the survey to test affordability of the plan after customers had been provided with information on what we plan to deliver in key Performance Commitment and discretionary enhancement areas.

When compared to responses from earlier in the survey, levels of customers findings our plan difficult to afford reduced by 8 percentage points from 48% to 40%. We believe this reduction

points to customers believing our plan provides better value for money once they understand the benefits they will receive as part of the plan.

5. Customer affordability

5.1 The challenge

On average our bill will be 2.4%⁹ of household expenditure by 2030, around three times lower than other household expenses such as council tax and energy bills.

Working with Berkeley Research Group and building on the Water UK studies by CEPA and Frontier Economics we have built our own model to help us forecast the number of customers below the Affordability Threshold and how our affordability interventions can lift customers above the Threshold. We have used throughout the price review process and helps shape our affordability approach.

Without affordability support in 2024/25 we forecast that we have 220,000¹⁰ directly billed, dual service, households below the Affordability Threshold. This corresponds to 6% of the household population. By 2030 this figure increases to 520,000 households which is 13% of our household, billed region. We have estimated this using Office for Budget Responsibility (OBR) forecasts and a bill profile which increases by 52% from the end of AMP7 to the end of AMP8. Therefore, we are taking innovative steps to close this gap.

5.2 Our social tariff is a key tool to meeting this challenge

Our Affordability support approach, described in section 5.1 of [TMS07: Bill Impact, Affordability and Vulnerability](#) of our October PR24 submission, will be enhanced through our increased cross subsidy.

This will enable us to support 88% of eligible customers with a social tariff. This will represent a significant achievement, and will rely on the engagement approaches described in section 7 of TMS07: Bill Impact, Affordability and Vulnerability submitted in October 2023. This will represent a significant achievement and will rely on the engagement approaches described in section 7 of TMS07: Bill Impact, Affordability and Vulnerability submitted in October 2023.

When taking into account our waste only customers this reduces to two thirds. This is due to the eligibility criteria of our social tariff is aligned to the water company that is undertaking the billing. The water only company criteria, using low income, are not as targeted as our directly billed criteria. However, to maximise the numbers of customers benefiting we have concluded it is better to align to the billing company criteria. This is because customers will be more likely to engage where there is a single strong message being communicated by the billing organisation.

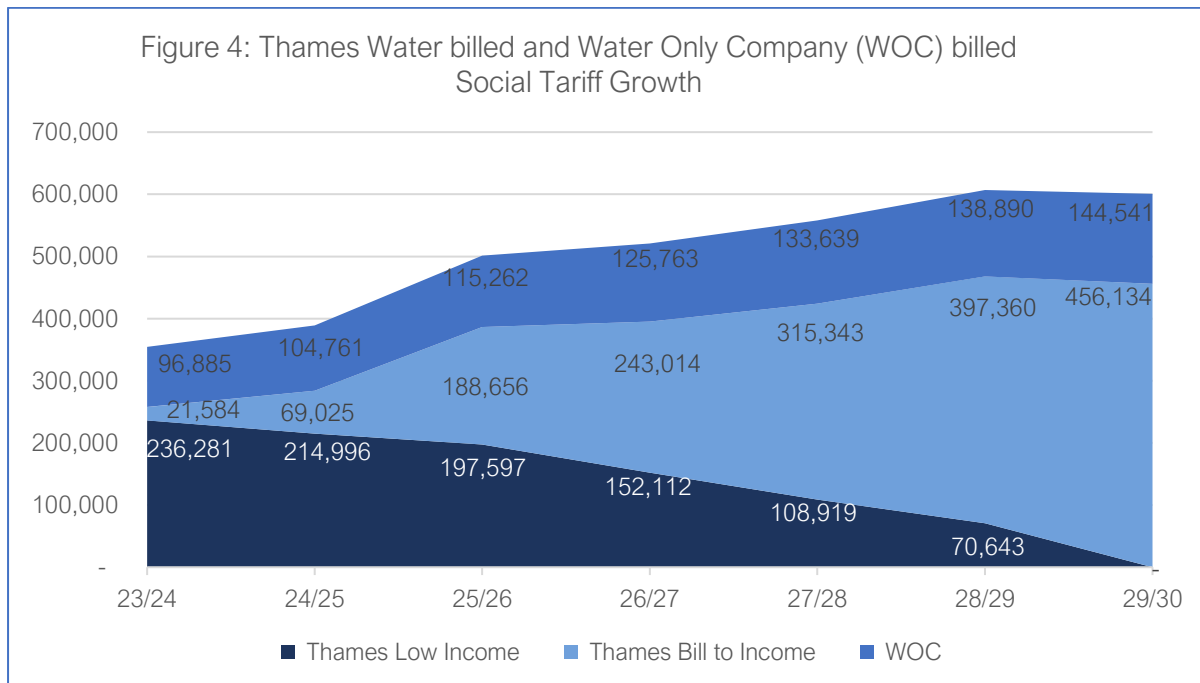
The growth of our social tariff is described in figure 4. In our October submission the growth profile represented 6.4% reach of our social tariff across our complete customer base, over 5

⁹ Thames Water Analysis

¹⁰ Thames Water Analysis

years. This has now increased to 7.5% as our increase in cross subsidy enables more rapid growth in the earlier years of the AMP.

In our October submission we stated that we will protect customers who joined through the low-income criteria for four years. This was based on transitioning to the low-income criteria in April 2025. However, we have been able to accelerate this transition, and it went live on 1st April 2024. This means that we may be able to provide this protection by one year, to five years now, further minimising the volume of customers experiencing bill shock in 2030.



Additionally, over AMP8 we will be supporting over 328,000¹¹ customers to move to a metered billing basis, water efficiency support and with debt support schemes. Together, our social tariffs and wider support reduce the average bill of our income deprived population by 84%, averaged over AMP8, as defined by Ofwat’s methodology within the SUP15 Affordability Data table. This figure is higher than customers would experience on average as the number of customers in water poverty is greater than the number in the definition of income deprived by the ONS.

To ensure we lift 88% of the directly billed population out of water poverty we recognise that discount tariff support is insufficient and demand side support is also needed. From our data we can see that 6% points of water poverty customers will need demand side support on top of, or instead of, a social tariff to reduce their metered bill to an affordable level. This is because reducing wastage or inefficient use of water may reduce a water bill sufficiently to lift a customer above the Affordability Threshold. We will do this through installing meters, proactive engagement to reduce consumption, and targeted Smarter Home Visits, which will use both

¹¹ SUP15 lines 27, 29 and 36 totalled over AMP8

affordability and consumption as targeting criteria. Smarter Home Visits provide water efficiency advice, install water efficient devices and will fix wastage from internal plumbing.

We will consider the options behind creating a 99% discount for a small group of customers where there is no practical way for them to ever be able to afford their bill but maintain engagement and a billing relationship through a nominal payment.

5.3 Funding routes for our cross subsidy

This level of targeted social tariff support will be funded through a combination of cross subsidy and innovative tariffs, with a capacity of £260m per year. Our new tariff will increase revenue by up to £60m from households using excessive amounts of water and don't have affordability challenges along with £200m in cross subsidies, in real terms. This is equivalent to £67 per dual service customer per year.

Initially we planned to pilot our tariff innovation, our Rising Block Tariff, in year one of AMP8. We now plan to do this in year two to allow us to first enhance our proactive engagement with customers on consumption.

While the technical effort to make the billing changes and monthly communications is relatively simple it will create complexity for our -front-line teams. From piloting customer communications for small ,leaks, we know that the challenge in rolling out this tariff will be engaging with customers. Therefore, we are going to prioritise the deployment of systemised and regulator engagement with customers on consumption before piloting the rising block tariff. This will help us understand customer behaviour more, and ensure the engagement works before layering on tariff changes. It will also ensure our other planned activity on reducing complaints will have tackled some of the root causes of complaints due to metering processes.

This means that the scale up of the rising block tariff won't happen until year four of AMP8 but will be built on more solid foundations.

5.4 Supporting our Waste Only Customers

Overall, we are unable to say that all our customers will be lifted out of water poverty. This is because the billing relationship with the Water Only Companies (WOCs) in our region and the lack of demand side support options that we can control.

As described in section 4.2, our WOC billing partners plan to continue with low-income eligibility criterion, with a single discount, that will not increase the level of support per household or target households in water poverty to the same extent as using the Affordability Threshold. We will work with the Water Only Companies and encourage them to innovate. However, as they undertake the billing and awareness raising activity within their regions, we feel it is to the customers benefit to align our social tariff to the WOCs for our waste only customers.

The majority of our waste only customers are billed by Affinity Water. Their plans expect 74%¹² of their customers in water poverty to be lifted above the threshold, 55,000 out of 75,000.

¹² Affinity water business plan: https://www.affinitywater.co.uk/docs/PR24/Business_plan/AFW01.pdf

However, we have not reflected a similar outcome in our the SUP15 data table as our analysis shows that a flat discount targeted at income levels will not achieve this.

5.5 Further support outside of Water Poverty

We understand that customers who are above the Affordability Threshold may still struggle to pay an 'affordable bill' and therefore we have a range of support mechanisms for customers to create sustainable payment plans, obtain support with debt and access wider support.

Our Extra Support scheme, detailed in section 5.2 of TMS07: Bill Impact, Affordability and Vulnerability from our PR24 submission, provides support to those with arrears and a deficit budget. This scheme was created in response to the cost-of-living crisis. We plan to have distributed £7m of support in 2024/25 totalling £10m over the final two years of AMP7. We can still see a cost-of-living crisis impact on customers and therefore we plan to continue this scheme into AMP8 for four years, at £14m per year.

Our payment matching scheme will continue, but we have not seen the growth that we expected over the past year. When customers engage with us and undertake an Income and Expenditure review, we are able to identify the right support and payment plan. As our social tariff support has stepped up this has often meant customers are able to afford to pay back their arrears in a shorter period without the help of a payment matching scheme. Therefore, we have reduced the forecast expenditure for our current scheme from £16m to £8m over the AMP. Further, we are not planning to introduce the 'aged debt scheme' which would have provided £15m of support as we explore other methods to help customers in arrears.

We will continue to progress our plans to engage customers to extend the reach of our vulnerability and affordability support as described in section 7 of TMS07: Bill Impact, Affordability and Vulnerability.

6. Conclusion

While our water bills need to increase by 45%¹³ at a time when a quarter of customers express that they are struggling to pay, we have a comprehensive affordability package available to support customers.

This includes a highly targeted social tariff with meaningful support, along side demand side measures to increase water efficiency, delivered in an inclusive manner. Our social tariff will reach 7.5% of our customers served when including waste only and water only customers over AMP8. Our engagement approach of outbound dialling, data sharing with partners and communicate engagement will mean we are able to lift 88% of the water poverty population above the affordability threshold in our billed region.

This will enable us to make the investment that our communities need and minimise the burden of debt on those households that can't afford it.

¹³ Five years of AMP7 bills increase by 45% when compared to our proposals for the five years of AMP8, from £433 to £628



It's everyone's water