



## Appendix 3

# Affordability and Vulnerability

## Section 1

# Introduction

- 1.1 This appendix sets out how we are ensuring that our plans for AMP7 are affordable and represent value for money, and that we provide appropriate support to our customers who are at risk of being unable to pay or who are in vulnerable circumstances.
- 1.2 The structure of this appendix is as follows:
  - Section 2 covers how we have ensured our bills are affordable for the typical customer. It sets out our proposed bill profiles for AMP7 and beyond, the evidence that our proposals reflect what customers have told us they want, and how we are looking to improve our billing and collection in AMP7;
  - Section 3 sets out the strategy we have developed for supporting customers who are struggling, or at risk of struggling, to pay their bills; and
  - Section 4 sets out the strategy we have developed to identify and provide accessible support to customers in vulnerable circumstances.
- 1.3 Our strategy was informed through extensive engagement with customers and the third sector, which is set out in further detail in Appendix 2 – Engaging and delivering for our customers<sup>1</sup> and CSD002.<sup>2</sup>
- 1.4 We have set out a number of Performance Commitments which underpin our plans to help customers with affordability and vulnerability issues. These are detailed further in:
  - Unregistered Household Properties;<sup>3</sup>
  - Empty Household Properties;<sup>4</sup>
  - Households on a Payment Plan;<sup>5</sup>
  - Households on the Thames Water social tariff;<sup>6</sup>
  - Number of customers on the priority services register;<sup>7</sup> and
  - Customers recommending Priority Services.<sup>8</sup>

<sup>1</sup> Thames Water, Appendix 2-PR19-Engaging our delivering for our Customers

<sup>2</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

<sup>3</sup> Thames Water, CSD005-ER01-PR19-Unregistered Household Properties

<sup>4</sup> Thames Water, CSD005-ER02-PR19-Empty Household Properties

<sup>5</sup> Thames Water, CSD005-AR02-PR19-Households on a payment plan

<sup>6</sup> Thames Water, CSD005-ER03-PR19-Households on the Thames Water social tariff

<sup>7</sup> Thames Water, CSD005-AR04-PR19- Household customers on the Priority Services Register

<sup>8</sup> Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

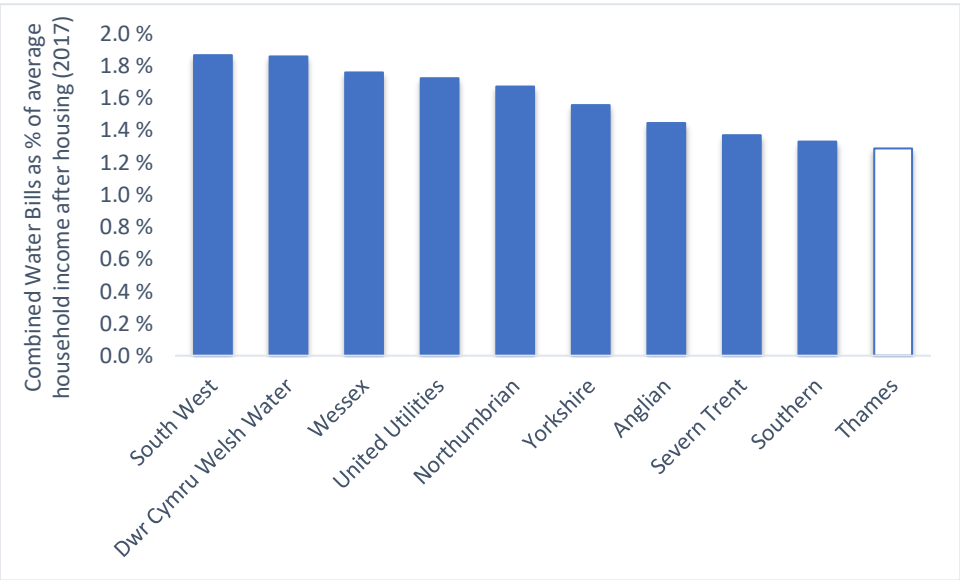
Section 2

# How we will ensure affordability for all

## A Context

- 2.1 Thames Water’s average bills are currently among the lowest combined bills of any water company. At the same time, the vast majority of Thames Water’s customers live in London, which has the highest average income of any region in the UK. Even after accounting for London’s higher housing costs, Thames Water customers still typically have the lowest bills as a proportion of their net income (as shown in Figure 1).

**Figure 1: Typical combined water bills as a proportion of net income**



Source: Thames Water analysis of DiscoverWater<sup>9</sup> and ONS data (average income)

- 2.2 However, this is no cause for complacency. Households can expect to face continued pressure on incomes over the AMP7 period, with continued economic uncertainty as well as the potential for tightening credit conditions.
- 2.3 Moreover, we are conscious that – all else being equal – average bills in Thames Water’s region will likely need to rise over time. This is because Thames Water (like most other water companies) have been cash negative since privatisation in 1989, due to the significant level of investment in the network since then. This has meant that the amount collected from customers has been less than the cost of operating and investing in our network each year. This deficit has been deferred to future years, i.e. through bills paid by

<sup>9</sup> Thames Water Analysis, TSD053-PR19-DiscoverWater, Annual Bill

customers in the future. Unless the cost of operating and investing in our network decreases in future years, the total costs which need to be recovered from future customers will thus have to increase.

- 2.4 This is why – in constructing our plans – we have sought to pass on significant reductions in financing costs, and developed our plans to reflect efficient cost, as described below. Through these measures, we have built a plan which avoids increases in the average household combined bill before inflation, which will ensure that Thames Water's typical bill (as a proportion of income) will remain amongst the most affordable in the industry.

## **B Proposed customer bill profiles**

### **Bill profiles for AMP7 and AMP8**

- 2.5 Our plan for AMP7 will secure an overall bill reduction in real terms for our customers. This is achieved despite the additional spend on resilience and other service improvements. We have been able to secure this by improving efficiency combined with a reduction in the cost of capital between AMP6 and AMP7. Our business plan proposes a real terms reduction of £3.50 by the end of AMP7 relative to the end of AMP6.<sup>10</sup> This is driven by our AMP7 spending proposals, the decrease in the WACC since PR14, as set out further in Appendix 6 – Risk and Return.<sup>11</sup>
- 2.6 Our initial estimates suggest that bills will increase over AMP8, reaching £40.60 per year higher by the end of AMP8 relative to the end of AMP7.<sup>12</sup> This estimated increase is a consequence of an anticipated growing need for investment over this period as we accelerate our replacement of the Victorian water mains. However, we are putting in place measures over AMP7 to minimise the upward pressure on future bills, for instance, through collection of information and data, to work out the most cost efficient way to address long term needs and avoid simply making replacements on a like for like basis.

---

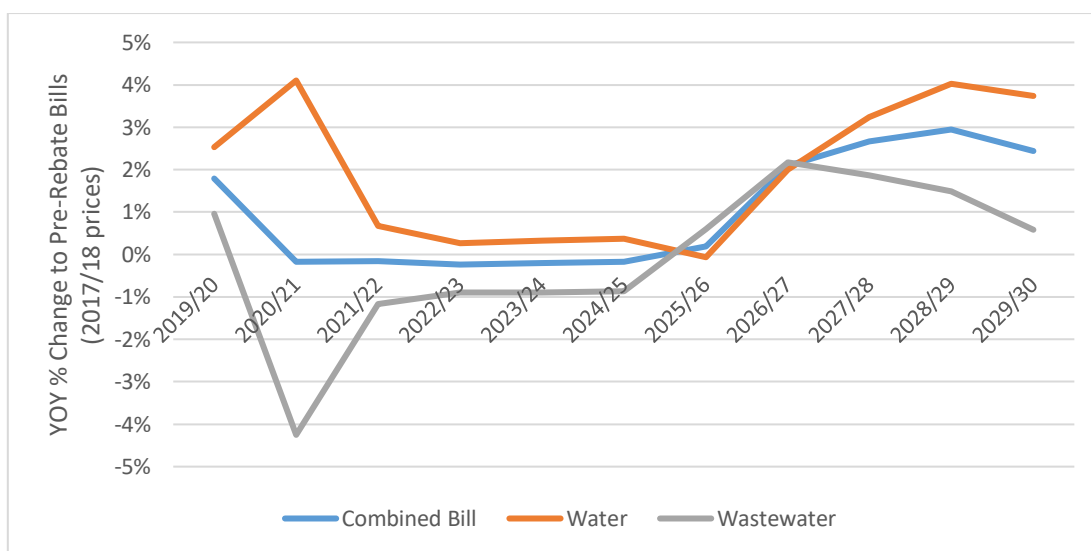
<sup>10</sup> Thames Water, TSD255-PR19-Bill Summary (Calculated on a pre-rebate basis for dual customers in 2017/18 prices)

<sup>11</sup> Thames Water, Appendix 6-PR19-Risk and return

<sup>12</sup> Thames Water, TSD255-PR19-Bill Summary (Calculated on a pre-rebate basis for dual customers in 2017/18 prices)

- 2.7 Our plans for securing cost efficiency are detailed in Appendix 7 – Efficiency.<sup>13</sup> Our bill projections for AMP7 and AMP8 are illustrated in Figure 2. These show a flat combined bill profile over AMP7. In AMP8, where we assume no change in WACC, there is a real-terms increase of around 2% per annum, primarily driven by an increase in the costs of water services.<sup>14</sup> This profile does not reflect a detailed analysis of actual AMP8 expenditure, but represents a reasonable view based on our current set of assumptions.

**Figure 2: Water and wastewater bill profiles to 2030**



Source: Thames Water, TSD255-PR19-Bill Summary

## Customer engagement in development of proposals

- 2.8 We have developed our approach to overall affordability through unprecedented engagement with our customers on our plans.
- 2.9 We have carried out research on customer preferences for investments to ensure reliability for services. The feedback from customers identified was that they generally favoured options equating to their current bill amount with some improvement in service or a small increase in bill with an increase in service.
- 2.10 We have also considered customers' views on how costs should be recovered over time, and based on qualitative engagement with customers, we identified that our customers value smooth bill profiles over time and that they are concerned about intergenerational unfairness.<sup>15</sup> The proposed bill profile, therefore, was not the only option we considered. In particular we consulted our customers on whether we should smooth prices over a longer period. This would have the effect of increasing prices slightly in AMP7, and reducing prices slightly in AMP8.

<sup>13</sup> Thames Water, Appendix 7-PR19-Efficiency

<sup>14</sup> Thames Water, TSD255-PR19-Bill Summary

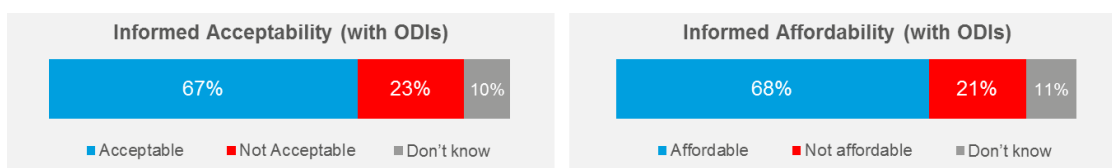
<sup>15</sup> Thames Water, CSD002-PR19-What customers want - consolidated report

- 2.11 Further detail about the customer research we carried out of our bill proposals is provided in our Final Acceptability Testing Report.<sup>16</sup>
- 2.12 We determined the best bill profile for our customers by balancing a range of competing factors. These include our customers' preferences on bill smoothing and intergenerational fairness. The advice of our CCG and the time we have to improve our AMP8 plan before 2025 taking on board potential advances in technology and efficiency that might be available, forecasts of household income and inflation and uncertainties as to the medium and long term economic outlook. Having considered these factors, we propose a very stable bill profile over AMP7 which leads to average bills that are flat in real terms and becoming an ever smaller proportion of household expenditure.

### **Customer support for proposals**

- 2.13 We have strong customer support for our plan, as shown in Figure 3, which highlights some key features of customer support for our plan for AMP7: a large majority of our customers find the AMP7 plan affordable and acceptable. 67% of customers find our plan to be acceptable and over 68% of customers find our plan to be affordable.<sup>17</sup> The customers we engaged thought that we should reach at least 63% acceptability and 62% affordability to implement this business plan, which has been achieved.<sup>18</sup>

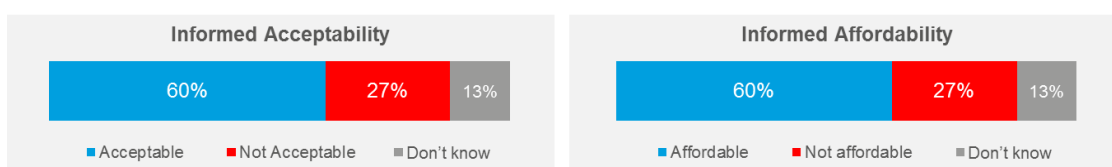
**Figure 3: Customer views on acceptability and affordability of AMP7 plan**



Source: Populus survey for Thames Water<sup>19</sup>

- 2.14 Figure 4 identifies that most of our customers also find our AMP8 plan affordable and acceptable. 60% of all customers find our plan to be acceptable affordable.

**Figure 4: Customer views on acceptability and affordability of AMP8 plan**



Source: Populus survey for Thames Water<sup>20</sup>

<sup>16</sup> Thames Water, TSD019-CR50a-PR19-Final Acceptability Testing Report 1

<sup>17</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

<sup>18</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

<sup>19</sup> Thames Water, CSD002-PR19-What customers want – consolidated report (TW Stage 2 Topline Report)

<sup>20</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

2.15 While the acceptability level for the AMP8 proposals is just under the acceptability and affordability thresholds customers thought should be applied, we are confident that our proposals for AMP8 will secure sufficient support ahead of the PR24 price control. This is based on the following three factors:

- 1) Water remains affordable: Thames Water's bills remain among the lowest in Britain and are not expected to rise materially as a share of net income over the long term. Our combined water and wastewater bills are currently 1.4% as a proportion of average net income (i.e. income minus housing costs) today, and are expected to fall to 1.3% by the end of AMP7, assuming real net incomes rise by 1.2% per year while water bills remain frozen in real terms over AMP7.<sup>21</sup> By the end of AMP8, and assuming continued growth in real net incomes at 1.2% per year, water and wastewater bills will still only account for 1.4% of net incomes, the same level as today.<sup>22</sup> We recognise however that not everyone will benefit from average income growth – for instance the third sector has highlighted to us that the transition to Universal Credit could affect some customers' ability to pay. However we are also putting in place a series of measures to help those customers struggling to pay their bills. This is detailed further in Section 3 of this appendix – how we will support customers struggling to pay.<sup>23</sup>
- 2) Customers face significant uncertainty when answering questions about affordability for the period 2025 to 2030, due to uncertainty around the economic outlook that far ahead. This is reflected in Figures 3 and 4 in the fact that more customers gave a view of "Don't know" on AMP8 acceptability than on AMP7 acceptability. We expect that nearer to AMP8 a significant share of customers who have currently declared "Don't know" will switch to saying the proposals are affordable and acceptable. Moreover, as net incomes rise over time from current levels, we expect a higher proportion of customers will find the AMP8 bill proposals affordable and acceptable.
- 3) Our estimates of AMP8 bill profiles are subject to greater uncertainty than those for AMP7 as our business proposal for the period 2025-2030 has not yet been defined. For instance we are reducing our operational unit costs by 13.6% in real terms between AMP6 and AMP7,<sup>24</sup> and we expect that we will be able to identify further efficiencies ahead of the start of AMP8 so that bill increases can be mitigated. For instance, as part of our intelligent wastewater and intelligent water network initiatives we will continue to roll out low-cost IoT sensors across our water and wastewater infrastructure and integrate them into our data model and analytics platform.

---

<sup>21</sup> ONS, Regional income levels

<sup>22</sup> ONS, Regional income levels, Oxford Economics, Income growth projections

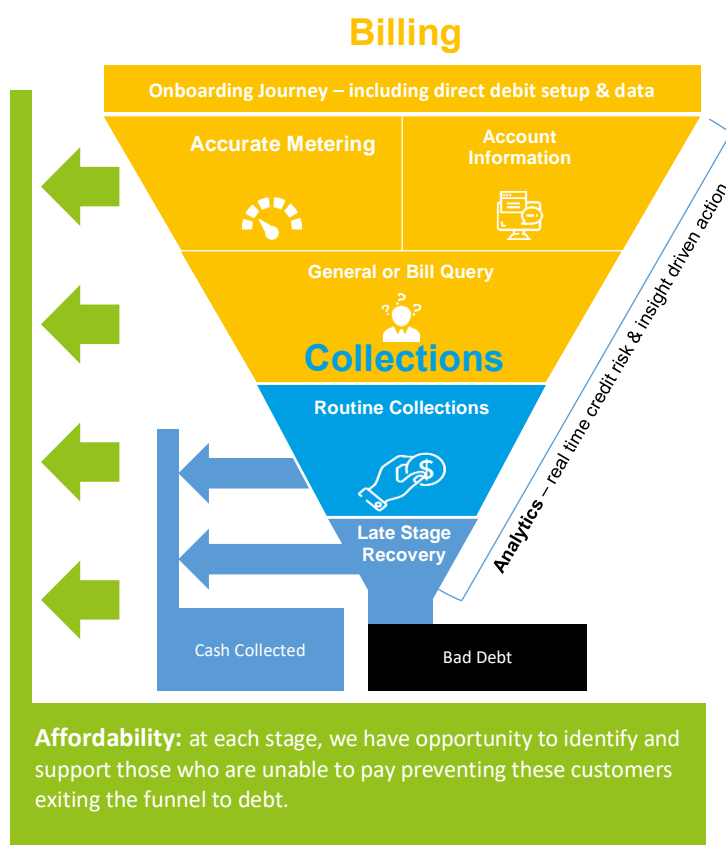
<sup>23</sup> Thames Water, Appendix 3-PR19-Affordability and vulnerability, section 3

<sup>24</sup> Thames Water, CSD009-PR19-Finance and financeability

## C Billing and Collection Strategy

- 2.16 Our ambition is to make water affordable for all by proactively supporting our customers in managing their water bill in the way which is right for them to reduce the number of customers falling into debt. We are also aiming to increase timely bill payment by ensuring that data is accurate in our bills and by understanding our customers and their propensity to pay so that we can deliver a tailored, easy and transparent service.
- 2.17 Our billing and collection strategy will provide all customers with greater flexibility over how they pay their bills, helping them to manage the cost of their bills. It will also improve the collection of money from customers who currently do not pay their bills.
- 2.18 Our strategy shown in Figure 5 below.

**Figure 5: Overview of Billing & Collection Strategy**



Source: Thames Water, Billing and Collections Team

- 2.19 We are supporting all customers with measures to make it easier to pay their bills on time. This will include ensuring that customers receive bills which are accurate and timely, which will, in turn, minimise the need for a customer to query a bill and enable us to provide a quicker query resolution when they do. We will proactively engage customers to put them on a payment plan that works for them.
- 2.20 To address customers who don't pay, we will ensure our collections process is efficient and effective. This will be achieved by refining our segmentation approach and making better use of data (including real time credit risk analysis) to optimise our collection strategies.

- 2.21 We will also be taking action to increase the collection of bills from unregistered and empty household properties to ensure the costs of water services are distributed equitably across the entire customer base. Details of these Performance Commitments can be found in CSD005-ER01<sup>25</sup> and CSD005-ER02.<sup>26</sup>
- 1) We will follow and seek to improve on best practice processes to identify properties where services are consumed, and set these up on our systems so they can be charged. This is reflected in our Performance Commitment on increasing collections from unregistered household properties.<sup>27</sup>
  - 2) We will look to improve billing and collection from empty household properties. We will use available data around our customers to identify which properties are truly empty, and which properties are occupied and therefore should be billed, spreading the cost fairly across all customers.<sup>28</sup>
  - 3) We will enable customers to pay their bills by having proactive and meaningful conversations with our customers to understand their preferred payment method and frequency. This will help our customers break down and budget the cost of their bills, allowing them to manage their bills in the way that suits them.<sup>29</sup>
- 2.22 A further change we are making to facilitate more proactive communication with our customers is to change how we bill Local Authorities and Housing Associations (LAHAs). Thames Water currently have contracts with 54 LAHAs who collect revenue from their tenants (around 300,000 customers) on our behalf.<sup>30</sup> As part of our PR19 plan, we've made the decision to proactively transition all LAHAs (and associated customers) to direct billing. This will provide transparency and will make an important contribution to our ability to support for customers in vulnerable circumstances.<sup>31</sup> This is also a cost effective measure for all of our customers as the cost of direct billing, even when taking into account the impact on doubtful debt being lower than the current commissions paid to the LAHAs for the service they provide.
- 2.23 Our billing and collections initiatives will deliver a doubtful debt benefit of £9m over the 5 years for AMP7<sup>32</sup> excluding the benefits associated with our affordability support for customers who are struggling to pay and the impact of LAHA customer transition.
- 2.24 To ensure our bills are affordable for our most vulnerable customers, we are proposing a clear affordability strategy to support customers struggling to pay (outlined in Section 3 of this appendix), and additional measures to meet the needs of customers in vulnerable circumstances (outlined in Section 4 of this appendix).

---

<sup>25</sup> Thames Water, CSD005-ER01-PR19-Unregistered household properties

<sup>26</sup> Thames Water, CSD005-ER02-PR19-Empty household properties

<sup>27</sup> Thames Water, CSD005-ER01-PR19-Unregistered household properties

<sup>28</sup> Thames Water, CSD005-ER02-PR19-Empty household properties

<sup>29</sup> Thames Water, CSD005-AWS02-PR19-Proactive customer engagement

<sup>30</sup> Thames Water Allocation

<sup>31</sup> Thames Water, Internal Analysis

<sup>32</sup> Thames Water, Internal Analysis

### Section 3

## How we will support customers struggling to pay

### A Context

- 3.1 This section sets out our approach and plans to support customers who are struggling to pay their bills (our “affordability strategy”). Our ambition is to provide access to support for every customer in our region who are struggling to pay their bill.
- 3.2 In Section 2 we described how we will secure an overall bill reduction in real terms for our customers. However, we recognise that some customers will still need help paying their water and wastewater bills. The purpose of this section is to set out the measures we are putting in place to support those customers who are struggling to pay or who are just about managing to pay.
- 3.3 While average incomes in the area we serve are among the highest in the country, we also recognise that there are low income customers in our region who struggle to pay their water and wastewater bills:
- Based on our modelling, 800,000 households out of the 5.5 million in our region are estimated to be ‘water-poor,’ as per the definition used by CCW.<sup>33</sup>
  - Income deprivation is geographically diffused throughout Thames Water’s region, with localised areas of high deprivation; Tower Hamlets, Hackney, and Newham are the most deprived local authorities in London, based on the number of Lower-layer Super Output Areas.<sup>34</sup>
  - Age is a significant factor impacting income deprivation. Seven of the top ten local authorities in the Government’s index of “Income deprivation affecting older people” are in London, and over 75% of neighbourhoods in Tower Hamlets and Hackney are in the top 10% most deprived nationally for the index.<sup>35</sup> Additionally, three of the top ten Local Authorities for Income Deprivation Affecting Children are in London.<sup>36</sup>
- 3.4 This means that a significant proportion of our customers need our help to pay their water and wastewater bills. 21% of customers say that they sometimes, frequently or always find it difficult to pay their water and wastewater bill each month.<sup>37</sup> Having an accessible,

<sup>33</sup> Thames Water, Internal Analysis

<sup>34</sup> Thames Water, TSD052-PR19-English Indices Of Deprivation 2015 LSOA Level

<sup>35</sup> Thames Waters, TSD054-PR19-Income Deprivation Affecting Older People Index (IDAOPI) (2015) district rank in England

<sup>36</sup> Thames Water, TSD052-PR19-English Indices Of Deprivation 2015 LSOA Level

<sup>37</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

affordability strategy which makes a real difference for customers is therefore particularly essential for Thames Water – both to ensure that we provide targeted support to customers struggling to pay but also to underpin our commitment to fairness in helping to keep bills affordable for all customers by minimising the costs of debt collection and doubtful debt.

- 3.5 We have therefore developed a holistic support offering for customers, providing a suite of interventions tailored to customers' specific requirements.
- 3.6 Our plans were developed following extensive customer engagement, including in-home interviews with customers ("customer immersions") and engagement with 23 experts across 19 third sector organisations, including Auriga, Money Advice Trust, StepChange Debt Charity, and Citizens Advice.<sup>38</sup>
- 3.7 We have received support and positive feedback on our approach from customer support groups and third sector organisations, an example is:
  - "It's a very thorough approach and provides a good variety of benefits to a wide range of people that really need the help. They are ambitious targets." (CAB Swindon)
- 3.8 We also undertook a benchmarking exercise to understand and learn from others. This was completed by Populus; please see TSD019.<sup>39</sup>
- 3.9 We engaged with our Customer Challenge Group and the Consumer Council for Water as we developed our strategy and plan and, in some cases, held 1-2-1 interviews with members who had a detailed knowledge of this subject. Conversations were constructive and shaped the Social Tariff design which was very positively received.

## B Our affordability strategy

### Overview

- 3.10 Our approach has two objectives – to improve the level and consistency of services we provide to our customers and to assist our staff in identifying how they can best support our customers. Our plan includes:
  - Helping as many customers as possible: design responsible and straightforward payment and tariff options to help all customers struggling to pay. Provide holistic debt advice to help customers manage their household debt.
  - Understanding customers and raising awareness: use internal and external customer data sources to identify customer needs and communications preferences and carry out targeted awareness campaigns and promotions through partners and charities.

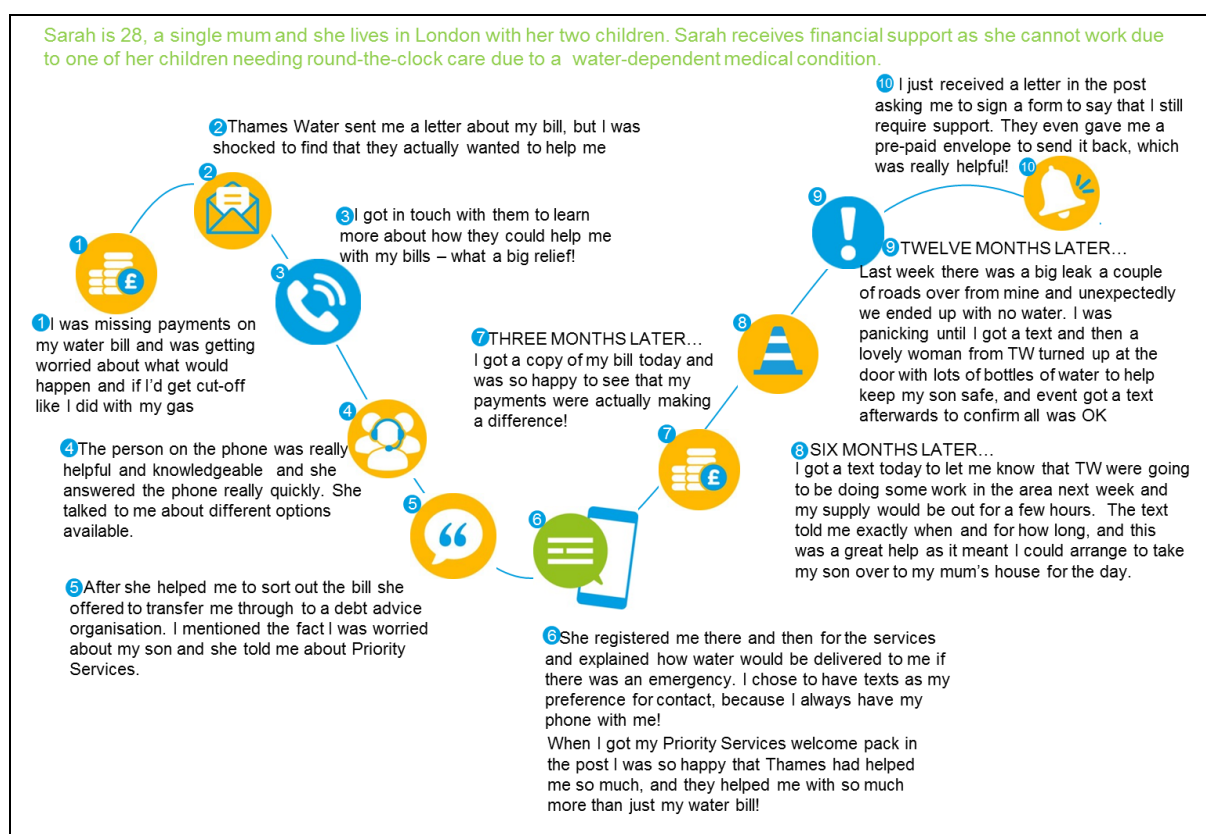
<sup>38</sup> Thames Water, CSD002-PR19-What customers want – consolidated report and Thames Water, Internal Analysis

<sup>39</sup> Thames Water, TSD019-CR58b-PR19-Vulnerability Customer Insight

- Accessibility to services: develop channels to make it easy to access support to meet the needs of different customers. Communications and applications will be easy to understand and complete.
- People and Delivery: our customers will be supported by specialist teams who will be trained to understand and recognise where customers need help. We will proactively offer our support propositions at key customer touchpoints such as when they contact us to move home or pay their bill.

3.11 Figure 6 below sets out a case study of how a customer will engage with Thames Water and receive the help they need following implementation of our affordability and vulnerability plans. We have created a video to bring our plans to life through the eyes of the customer. This video is available to review on request<sup>40</sup> and demonstrates how delivering this experience for customers is viewed through the eyes of our employees. We have used these videos to engage our teams.

**Figure 6: Case study of customer journey**



Source: Thames Water, Internal Document

3.12 We set out each part of our affordability strategy in further detail in following sections.

<sup>40</sup> Thames Water, TSD213-PR19-Supporting Our Most Vulnerable Customers, Thames Water, TSD214-PR19-Our Employee's Journey

---

## Helping as many customers as possible

### *Holistic support*

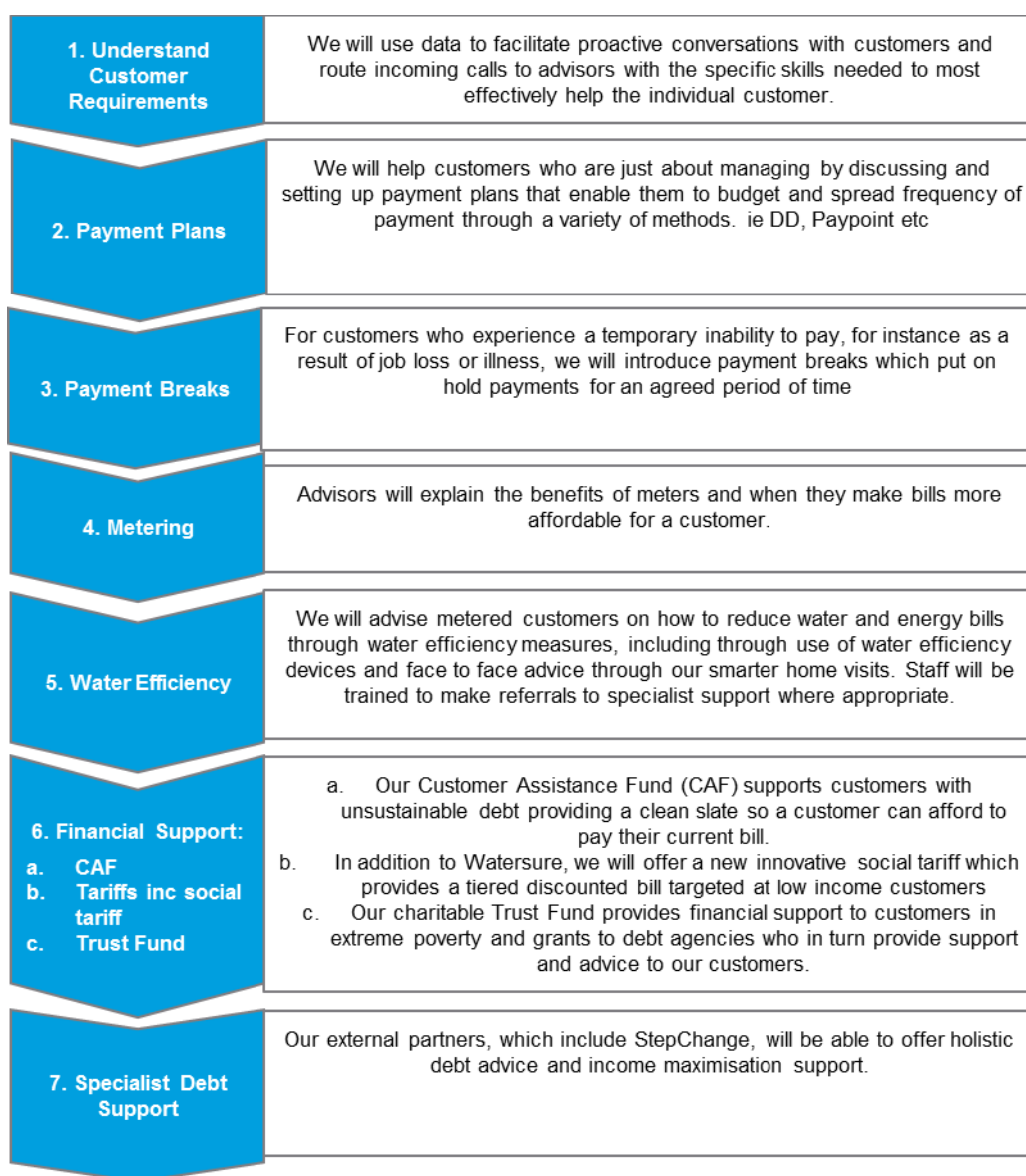
- 3.13 As noted in Section 2, we have identified 800,000 of our customers as potentially struggling to pay their bills.<sup>41</sup> Our ambition is to provide accessible support to all of our customers that need help with their bills. Our planned offerings include:
- Supporting customers with measures to make it easier to pay their bills on time. This will include a focus on ensuring customer billing information is accurate, providing flexibility over billing frequency, improving query resolution, and proactively engaging customers to offer a payment plan solution that works for them.
  - For many customers struggling to pay, our support may mean providing greater advice as to how they can reduce their water and wastewater bills and the ability to take payment breaks.
  - For those customers in greatest financial need, this may mean financial support and the provision of specialist advice on debt management. We have allowed for up to 300,000 of our customers to receive financial support through our social tariff, 200,000 in AMP7.<sup>42</sup>
- 3.14 The hierarchy of support is illustrated in Figure 7. This support is accessible by customers who are struggling to pay. Our teams, and where appropriate our third sector partners, will discuss the support required with customers and will provide the help that is appropriate to an individual customer's circumstances. We expect 3.4m financial support services to be accessed by our customers through the hierarchy of support across AMP7.<sup>43</sup> This is not unique customers as it is possible that customers could benefit from more than one type of support. For some types of support, such as payment plans, this may include customers who are not struggling to pay. The number receiving help from each type of support service is detailed in the following text.

---

<sup>41</sup> Thames Water, Internal Analysis

<sup>42</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>43</sup> Thames Water, Internal Analysis

**Figure 7: Hierarchy of support**

Source: Thames Water, Internal Document

### **Payment Plans**

- 3.15 Customers and the third sector have told us that customers find it easier to budget when they can make a regular fixed payment. We believe that having the right conversation with customers about setting up a payment plan that they can afford and stick to is a critical part of making it as easy as possible for customers to pay. We offer customers a variety of payment plans and methods to suit their circumstances. To demonstrate our commitment to supporting customers to do this, we have therefore included this as a Performance

Commitment; more details can be found in CSD005-AR02<sup>44</sup> and within the Retail Price Control Document.<sup>45</sup> By the end of AMP7 we expect 2.686m (72.9%) of customers we directly bill to be paying on an active payment plan, an increase from 2.116m customers in 2017-18.<sup>46</sup>

- 3.16 For customers who are struggling to pay and are in receipt of benefits from the Department for Work and Pensions (DWP), we are able to offer a Water Direct payment scheme, where we will work directly with the DWP to deduct payments from their benefits for an affordable payment. We can also refer customers to the DWP if we believe they may qualify and benefit from this help. At the end 2017-18, 5,727 customers were benefiting from this payment method.<sup>47</sup> We expect this number to stay broadly the same across the AMP given changes to debt prioritisation by the Government and the introduction of universal credit.

#### ***Payment Breaks***

- 3.17 We will introduce a formal policy for providing customers with a payment break. Although we have not had such a policy in the past, we see payment breaks as an essential tool in helping customers who find themselves in the temporary position of not being able to pay. Typically this could be as a result of the transition to universal credit (an issue highlighted by third parties), a sudden job loss, or an illness leading to an inability to work for a short period of time. Clearly, this would not be appropriate for all customers but, for some customers, deferring payment until their circumstance changes could make a real difference.

#### ***Metering and Water Efficiency***

- 3.18 For some customers, metering provides the opportunity to save money on their bill as they pay for what they use and this then gives control over costs. We are committed to discussing the option of metering with customers and will advise on a meter if we believe a customer will benefit. We will proactively do this at key customer touchpoints such as move home and pay bill interactions. We anticipate 10,000 customers per year could benefit from an optional meter, some of which will be customers who are struggling to pay.<sup>48</sup>
- 3.19 Our Water Network Plus<sup>49</sup> plan details our smart metering programme which we will continue to roll out across the Thames Water area. As we roll out the smart metering programme, we will provide water efficiency advice through our innovative smarter home visits. These visits provide a face-to-face opportunity to discuss water use with customers and to fit water saving devices where appropriate. To date we have seen customers save around 6% on their water consumption with a corresponding impact on their bill.<sup>50</sup> The reduction in water consumed can also lead to a reduction in energy consumption and

<sup>44</sup> Thames Water, CSD005-AR02-PR19-Households on a payment plan

<sup>45</sup> Thames Water, PCD1-PR19-Retail

<sup>46</sup> Thames Water, CSD005-AR02-PR19-Households on a payment plan

<sup>47</sup> Thames Water, Internal Analysis

<sup>48</sup> Thames Water, CSD002-PR19-What customers want – consolidated report and Thames Water, Internal Analysis

<sup>49</sup> Thames Water, PCD5-PR19-Water Network Plus

<sup>50</sup> Thames Water, Internal Analysis

therefore their energy bill. Technicians are trained to identify customers who have an affordability and/or vulnerability need and are able to make referrals to Auriga for income maximisation checks and other financial support, including our enhanced Social Tariff. Customers have already seen benefit from this; 15% of those who had a check in 2017-18 had unclaimed benefits totalling over £265k. The number of smarter home visits is being increased by 10% across AMP7 to 80,000 per year.

- 3.20 To complement the ongoing visits provided by the smart metering programme, we have also included in our planning process up to 1,000 per year smarter home visits for existing classic metered customers.<sup>51</sup>

### **Tariffs**

- 3.21 It is important to select the right tariff for customers. Thames Water, along with other water companies, offer the Watersure tariff for customers who are on a metered bill and have a large family or use water for a medical condition. We expect the number of customers who benefit from this tariff to grow to just over 14,000 by the end of AMP7 from 10,000 in 2017-18.<sup>52</sup> This number is modest as we predict more customers will benefit from a social tariff.
- 3.22 We want to help as many customers as possible in our region who are on low incomes and cannot afford to pay with a Social Tariff. We have therefore developed an innovative Social Tariff that is based on customer and third sector feedback, and engagement with other water companies in the South East of England.
- 3.23 Our current Social Tariff helps unmeasured and metered customers by offering them a 50% discount on their bills, with 49,000 customers benefiting from this today.<sup>53</sup> However, customers and third sector organisations have also told us they find it difficult to understand and access the Social Tariff, due to application forms being complicated and differences in eligibility criteria between water companies.<sup>54</sup> The complexity of the current tariff also makes it costly to administer.
- 3.24 Our customers have said they are willing to pay a cross-subsidy of up to £11 (around 3% of proposed water and wastewater bills) to support up to 300,000 customers who cannot afford to pay. This was supported by 81% of dual service customers and 79% of wastewater only customers.<sup>55</sup> Support for the social tariff was consistent across income bands, and whether or not they were struggling to pay their bill.
- 3.25 Our enhanced social tariff will simplify the criteria applied for assessing customer eligibility, as well as making the level of support more targeted to customers' needs. We will introduce a tiered discount, defining eligibility based on income as well as location. This will recognise that the cost of living in London is higher than elsewhere in our region. Our new billing and customer relationship management system, once delivered, will enable us to implement and report on the new banded tariff.

<sup>51</sup> Thames Water, Internal Analysis

<sup>52</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>53</sup> Thames Water, Charges Scheme

<sup>54</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>55</sup> Thames Water, CSD002-PR19-What customers want - consolidated report

- 3.26 We developed our social tariff proposals with the following principles in mind:
- Help as many low income customers as possible who are struggling to pay;
  - Create a simple and clear proposition that is easy for both customers to access and Thames Water to administer, including water only customers;
  - Provide a meaningful discount which will help customers balance their household budget;
  - Create a product that fits within our holistic support; and
  - Ensure that customers on our existing social tariff (known as Watersure+) do not see a reduction from their current 50% discount.<sup>56</sup>
- 3.27 Based on these principles we developed three leading options for defining eligibility for the social tariff:
- A. Use of low income criteria (Option A);
  - B. Use of regional low income criteria, applying a higher income threshold for customers in London (Option B); and
  - C. Use of low income and water poverty criteria (Option C).
- 3.28 When designing the social tariff we modelled the volumes of customers who would qualify. This was done by taking postcode level income data from Experian and mapping it to our directly billed accounts. We then worked with StepChange to analyse 20,000 clients in our region to provide average housing costs inside and outside of London. This analysis indicated that 800,000 of our customers are water poor.<sup>57</sup> It also identified the expected customer volumes using each of our eligibility criteria for the social tariff, with 290,000 customers eligible under Option A, 340,000 customers eligible under Option B, and 255,000 customers under Option C.<sup>58</sup>
- 3.29 To consider the efficiency of the three options for supporting customers struggling to pay, we carried out cost benefit analysis. In doing this we considered:
- The number of customers who could be helped within the cross-subsidy our customers were prepared to pay;
  - The level of discount for each tier and the number of eligible customers;
  - The ease and cost of administration;
  - The alignment with Water companies in the South East; and
  - The reduction in doubtful debt.

---

<sup>56</sup> Thames Water, Charges Scheme

<sup>57</sup> Thames Water, Internal Analysis

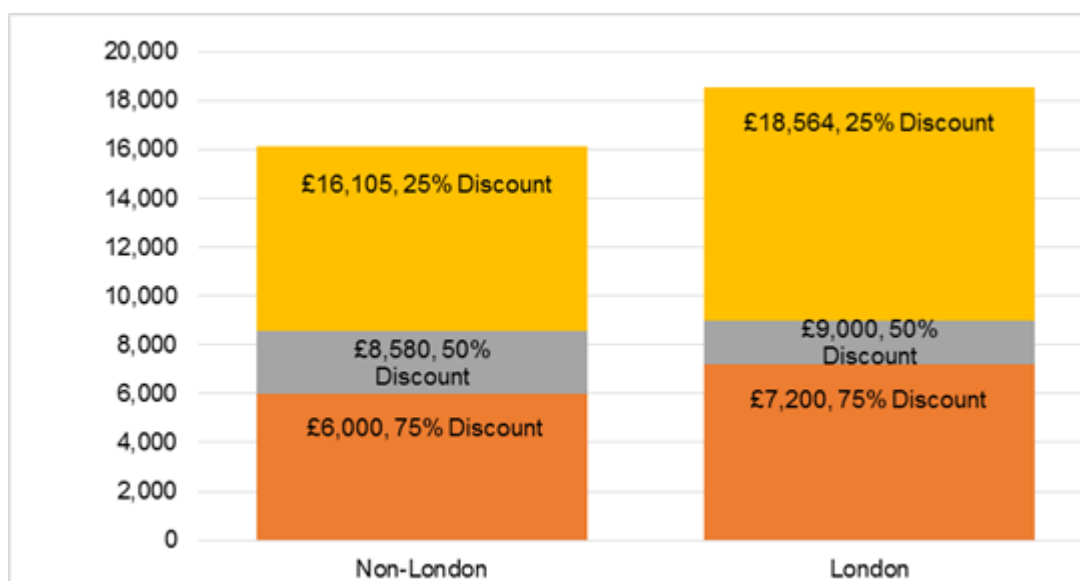
<sup>58</sup> Thames Water, Internal Analysis

3.30 Based on our analysis we have designed a social tariff that uses regional low income criteria (Option B). Customers will be provided discounts of 25%, 50% or 75%<sup>59</sup> to their bills, depending on their level of household income and where they live. These discount bands have been designed through optimisation of the different parameters within the social tariff, maximising a meaningful discount within the constraints of cross-subsidy available and supporting as many customers as possible. Household income is measured excluding any benefits, such as Personal Independence Payments, which is designed to create a level playing field. Figure 8 shows the income thresholds we are initially proposing to apply:

- 1) For customers living outside London, we are proposing to offer a social tariff if household income is less than £16,105 per year (Figure 8), which is the gross income index linked to the HMRC threshold for 2017/18, above which the maximum tax credit starts to reduce, and is consistent with the threshold used by other water companies, helping to make the Social Tariff easier to understand.
- 2) For customers living within a London borough, we propose a higher household income threshold of £18,564 per year (Figure 8), reflecting the higher cost of living in London (based on the 2017-18 Real Living Wage as defined by the Living Wage Foundation).

3.31 These income levels are subject to change as they are index-linked but this brings the benefit of being aligned with changes in the economy at any given time. These income thresholds may be optimised following an initial pilot period in 2020-21.

**Figure 8: Income thresholds for social tariff discounts**



Source: Thames Water, Internal Document

<sup>59</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

- 3.32 We are committing to help 200,000 customers with a social tariff by the end of AMP7, growing to 300,000 by end of AMP8, up from 49,000 households today.<sup>60</sup> We believe that this will be the largest growth in social tariff support provided by any company. Further detail on our Performance Commitment can be found in CSD005-ER03.<sup>61</sup> This target level represents approximately 60% of potential social tariff customers who qualify for funding support (or 4% of our customer base), with our remaining customers supported through other measures within our hierarchy of support.<sup>62</sup> We expect to see around two-thirds of the total cross-subsidy available being utilised by the end of AMP7.<sup>63</sup> This target level for AMP7 has been set to maximise the number of customers we can support whilst also allowing financial headroom to cope with a greater than envisaged proportion of customers taking up the social tariff or qualifying for the higher level of discount. When we presented our target to customers, they agreed that it was stretching.
- 3.33 We are working with our water company colleagues and the third sector through our working group to develop a consistent set of eligibility criteria which we can all adopt and communicate. We have agreement in principle from all the other water companies in the region to align eligibility criteria for a social tariff, including the income thresholds for London boroughs and outside London. While the eligibility criteria will be standard across the companies, the level of support provided will be unique, based on what is right for each of our customer bases and reflecting the level of support for a cross-subsidy.

#### ***Other financial support***

- 3.34 In addition to our social tariff we will also increase the financial support we provide to customers struggling to pay through our Customer Assistance Fund (CAF). Our additional investment of £11m over AMP7 will support an extra 15,000 customers, 50,000 in total, representing a 30% increase over AMP6.<sup>64</sup> The CAF awards grants to support customers who can afford to pay current charges but not outstanding arrears by paying off the debt and giving them a clean slate. We plan to work with Auriga to develop and pilot a new approach which may be linked to a grant based on payments received, to see how this impacts future payment behaviour.
- 3.35 Customers in severe hardship will also continue to benefit from our charitable Trust Fund, which will continue to make grants to customers who find themselves in severe hardship. In addition the Trust provides funding to debt relief agencies which provide support across our region. From 2020/21, Shareholders will contribute up to £1m per year of their own funds to the Trust Fund in AMP7 to support its activities.<sup>65</sup> This will enable more grants to be awarded to the third sector to support vulnerable customers and to provide help to an additional 900 customers per year.<sup>66</sup> The CAF and Trust Fund are administered by Auriga, who provide these specialist services. It is our intention to work with the Trustees to

---

<sup>60</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>61</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>62</sup> Thames Water, Internal Analysis

<sup>63</sup> Thames Water, Internal Analysis

<sup>64</sup> Thames Water, Internal Analysis

<sup>65</sup> Thames Water, Internal Analysis

<sup>66</sup> Thames Water, Internal Analysis

develop a process by which our teams can refer customers to the CAF and the charity for help which will support employee engagement.

- 3.36 According to external analysis we commissioned from Ecorys, every £1 invested through the Thames Water Trust Fund and CAF, as well as the trusts of two other water companies, achieved over £3 in social benefit.<sup>67</sup>

#### Figure 9: Trust Fund case study 1

Miss H applied to the Thames Customer Assistance Fund requesting help with her water arrears.

Miss H had to give up work after being diagnosed with breast cancer which reduced her income dramatically, only receiving Universal Credit and awaiting a decision with regards to PIP. She has found it extremely difficult coping with the medical and financial issues she is facing. In addition she has also had to find money for travel expenses due to hospital appointments and clothing costs due to her mastectomy.

Friends have been very supportive and helped but they do have to be repaid which is adding to her debt situation.

Thames Water Customer Assistance Fund awarded £238 towards her water debt.

During conversations, Miss H also shared that her fridge was very small and an old table top version which is totally unsuitable to store food and medication. Due to her financial hardship she was not in a position to replace it herself.

Thames Water Trust Fund purchased her a new under counter fridge.

“Please accept my deepest gratitude for your kind consideration of both my applications due to the circumstances I found myself in. It’s been a humbling experience but above all, the support I have received has restored my faith in life and also enhanced my respect for Thames Water, as a humane organisation that genuinely cares about its customer’s welfare. There is no better way to have demonstrated that than by the kindness I have personally received from you”.

Source: Auriga

<sup>67</sup> Ecorys, TSD055-PR19-SROI Summary, Nov 2017

**Figure 10: Trust Fund case study 2****Centre 70**

The Trust funded project provides a part-time utility debt caseworker to deliver services within the Croyden area.

The focus is mainly on increasing client awareness of water debt resolution and water efficiency.

They provide face to face advice helping with water debts, budgeting, income maximisation and negotiating with creditors.

The project also trains front-line advice workers within local organisations to cascade information to help clients who have any debt and make referrals to project workers where required.

Up to 30<sup>th</sup> April 2018, 1,157 new debt clients had received advice, 569 Thames Water payment plans had been set up, 402 CAF applications had been received and 100 training/awareness sessions have been delivered to local organisations.

Source: Auriga

**Specialist Debt Advice**

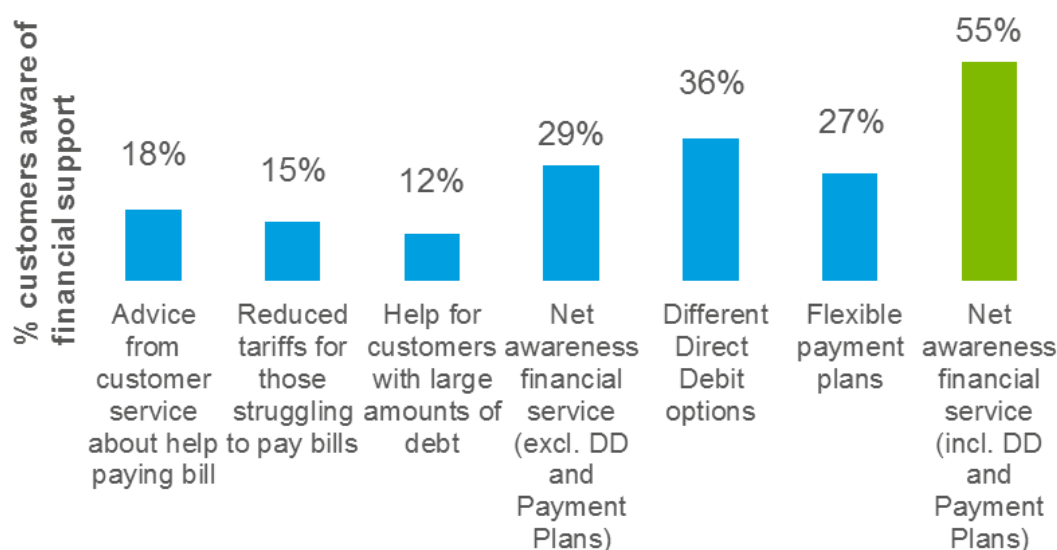
- 3.37 We are currently working with StepChange and will look to extend our partnerships with other organisations such as CAB in the future. Our pilot with StepChange involves the provision, via a hotline, to transfer customers to expert debt advice. Our AMP7 plan includes extending these referrals to a face-to-face service as insight from the third sector suggests that these can be more effective in connecting with some hard-to-engage customers. We anticipate that this service provision will be via the charitable Trust fund and will be shareholder-funded. We expect to provide this service to 15,000 customers across AMP7.<sup>68</sup>

**Understanding customers and raising awareness****Measures to increase customer awareness**

- 3.38 Our customer research suggests that 55% of our dual service customers are aware of the financial help they can access, as shown in Figure 11. We are working to increase awareness of our support arrangements amongst this group - our aim is for 85% of financially vulnerable customers to be aware of the financial help we make available.<sup>69</sup>

<sup>68</sup> Thames Water, Internal Analysis

<sup>69</sup> Thames Water, Data Table APP4, Line 9

**Figure 11: Customer awareness of financial support arrangements**

Source: Thames Water, Data Table APP4 and Populus Brand Tracker

3.39 We are taking action to improve our understanding of our customers' needs and provide more tailored and effective support for them by raising awareness of the different services we provide to customers who are struggling to pay. We will do this principally in six ways:

- Making proactive use of data: we will use external data and profiling to better identify and understand the size of the potential customer base that needs services and to target customers with a specific offering tailored to them. For instance we will use data analytics to identify customers who may need help, before they contact us (as included in the Retail Price Control).<sup>70</sup> This data will inform the way we interact with customers regarding their account in order to provide the support that is appropriate for their specific financial circumstances.
- Local engagement forums: we will carry out data analysis to identify areas with known affordability issues, such as wards in Tower Hamlets. We intend to use local engagement forums to promote our affordability services and provide focused support in those locations to the hardest to reach customers including enhanced local partnerships and undertaking local campaigns.
- Engaging third sector organisations: we have engaged with 23 experts from 19 organisations on our affordability and vulnerability strategies,<sup>71</sup> who have helped us to understand how we can tailor our services to provide the support that customers need. We will continue to engage and develop our relationships with these important organisations as our plan matures. We will refer customers to third sector

<sup>70</sup> Thames Water, PCD1-PR19-Retail

<sup>71</sup> Thames Water, CSD002-PR19-What customers want – consolidated report and Thames Water, Internal Analysis

organisations with expertise in debt management, including organisations such as CAB, StepChange and Shine, who will be able to provide specialist advice.

- Staff training: we will utilise spotter training to provide our people with the skills and confidence to make referrals and ultimately increase the number of customers who are receiving affordability support including via social tariffs. We will train our front line staff to be able to identify customer requirements and make referrals to our specialist support team as required. This support team will receive a deeper level of training which we anticipate being supported by our partnerships with third sector organisations.
- Changing how we bill Local Authorities and Housing Associations (LAHAs): Thames Water will transition customers who are currently billed by LAHAs on our behalf to direct billing. We will be building our affordability support package into our on-boarding journey for customers.
- Data sharing: the introduction of the Digital Economy Act later this year will also help by enabling us to access information on customers' financial vulnerability through data sharing with governmental organisations, for instance the DWP.

#### ***Role of third sector organisations***

- 3.40 Our partnerships with third sector organisations will support this engagement and help us to connect with customers who are seldom heard and hard to reach, promoting awareness of our services. In addition to increasing awareness, our third sector relationships will be critical throughout our service provision, including understanding customers through their insight and best practice, creating referral pathways to extend our services, co-creating application processes to ensure accessibility, and ensuring our service proposition and training is fit for purpose.
- 3.41 To embed this approach we will formalise and maintain third sector relationships through investment in our new Partnering Manager and Coordinator roles within the Vulnerability Strategy team. Our Partnering Manager will facilitate a Vulnerability Panel populated by critical partners who are able to challenge and support development and implementation of our programme. The third sector organisations who populate the panel will represent our region and the range of issues our customers face.
- 3.42 For example our panel members will include:
- Auriga – providing services to administer both the CAF and Trust Fund;
  - Stepchange – providing debt advice via referrals;
  - Citizens Advice Bureau (CAB) – providing face-to-face debt advice funded through our Trust Fund;
  - Centre 70 – a London-based debt advice service;
  - Shine – providing London-wide support for low income households; and
  - Local councillors in areas of deprivation who are familiar with the issues their constituents face.
- 3.43 We will be inviting members of our newly formed Panel to participate in the first forum in Spring 2019.

- 3.44 We are also reviewing the role of third sector organisations in staff training with a view to identifying opportunities where partner organisations can help us deliver training and to raise awareness among our staff of the requirements of our customers in particular circumstances which make them vulnerable.

## **Accessibility of Affordability Services**

- 3.45 Engagement with our customers and with third sector organisations has told us that it could be easier to apply for a social tariff. Taking this feedback into account, we have started this year to redesign our application forms, eligibility criteria, and the renewal process to make it considerably easier for customers, and we aim to finish our initial redesign in 2018/19. For example, a signed declaration for renewal rather than re-application every year. This will ensure that the support services we offer are more accessible to our customers. We are also creating the facility for customers to apply for affordability services online, and we are improving the signposting on our website to make our services easier to find.
- 3.46 We are also working with water companies in the South East of England (Affinity Water, Essex and Suffolk Water, South East Water, Sutton and East Surrey, and Southern Water) to create a cross-regional network of organisations supporting customers facing financial and non-financial vulnerability. Our objective is to implement a common approach to supporting customers. This will increase the consistency of support across the region, removing unnecessary complexity and thereby allowing customers to access the support they require without having to contact multiple organisations. Our areas of focus so far have been around aligning eligibility criteria for social tariffs, developing a single sign-up form to the social tariff, creating a simplified renewal process, and ensuring that customers won't need to apply twice when different companies provide water and wastewater services. Through the course of AMP7 we will further integrate and align our support provision in this area and will consider which other industries such as Energy we can work with collaboratively.

## **People and Delivery**

- 3.47 Tailored services will be embedded into our end-to-end customer journeys, for instance when a customer calls to pay their bill or move home, our people will be trained to understand and recognise where customers need help.
- 3.48 We are also creating a specialist support team to provide expert help and support to customers. Our frontline staff will be trained to identify customers who are worried and need financial support and will know how customers can access support or who to go to in order to get expert help, including through referrals to the third sector. This will enable us to take a more proactive approach to supporting customers and make our services more accessible. We have already invested in a new Vulnerability Strategy team who will lead the development of the services for customers and partnerships working alongside an experienced programme manager.
- 3.49 Where appropriate, robotic process automation will also be used to make the administration of our social tariffs more efficient. This includes the use of automated systems to accelerate and reliably administer registration processes for our affordability services. The use of automated systems will enable us to ensure our services are delivered cost effectively to customers as we scale up the number of customers to whom we provide support.

3.50 We recognise that there are some delivery risks to implementing our strategy and achieving our Performance Commitment for affordability:

- The principal risk we have identified is the financial risk around the social tariff: if too many customers qualify for the social tariff or for a higher level of discount than expected, the cost of discounts may exceed the cross-subsidy paid for by other customers. We have looked to mitigate this risk by including headroom within our target, i.e. our target is 200,000 customers on the social tariff but we have allowed for up to 300,000 customers to join.<sup>72</sup>
- The risk of a delay in the implementation of our new Customer Relationship and Billing System which could prevent us from launching the new social tariff in April 2020.
- There is also a risk concerning our success in engaging hard-to-reach customers. We are engaging with third sector organisations on delivering our strategy to help mitigate this risk.

## C Innovation and Effectiveness

3.51 We have developed a holistic support package to help our customers who would struggle to pay. The measures we are offering are tailored to the needs of our customers. This recognises the importance of proactive engagement to support customers to be able to budget and manage their bills, reduce their water expenses, and receive financial support where necessary.

3.52 Our strategy which is supported by customers, is ambitious and innovative in a number of ways:

- The mix of financial support services provided and the scale of growth in our social tariff.
- Our enhanced social tariff makes use of a tiered approach employing regional wage thresholds, recognising the higher cost of living for our customers in London. This will ensure that we are able to provide more targeted and efficient support through our social tariff.
- We are aligning our eligibility criteria for the social tariff with water companies across the South East and are leading work towards a single sign-up process for customers; this will benefit customers and third sector organisations who are working with us on this initiative.
- We are using data and insight to enable proactive engagement with customers, and with the third sector as our critical friends and providers of additional support with engagement and training.

---

<sup>72</sup> Thames Water, Internal Analysis

- We are expanding the role of the Trust Fund enabling our employees to make referrals, increasing employee engagement and the number of customers that we help.
  - We have developed videos showing how customer and staff experiences will change, bringing our strategy to life and supporting our efforts to engage our people on their role in delivering the strategy.
- 3.53 The additional cost of delivering our plan is £14m over AMP7, which brings a substantial improvement in the number of customers who will receive support provided through our holistic package of support.<sup>73</sup> This includes, additional smarter home visits, a new innovative social tariff for 200,000 customers<sup>74</sup> which has been simplified to help customers and improve operational efficiency, and specialist debt advice and CAF donations for an extra 15,000 customers.<sup>75</sup> The financial benefit of this investment for customers as a whole, is doubtful debt and debt management administration savings of £33m over AMP7, which represents a net benefit of £19m to customers.<sup>76</sup> These savings in part exclude the benefit of an improved collection rate driven by 500,000 more customers being on a payment plan; this is discussed in Section 2 of this appendix.<sup>77</sup>
- 3.54 This benefit is achieved from helping financially vulnerable customers who might otherwise have fallen into debt, to pay their bills. It will also help to improve the self-esteem, self-worth and wellbeing of these customers which shouldn't be underestimated.

---

<sup>73</sup> Thames Water, Internal Analysis

<sup>74</sup> Thames Water, CSD005-ER03-PR19-Households on our social tariff

<sup>75</sup> Thames Water, Internal Analysis

<sup>76</sup> Thames Water, Internal Analysis

<sup>77</sup> Thames Water, Appendix 3-PR19-Affordability and vulnerability, Section 2

---

## Section 4

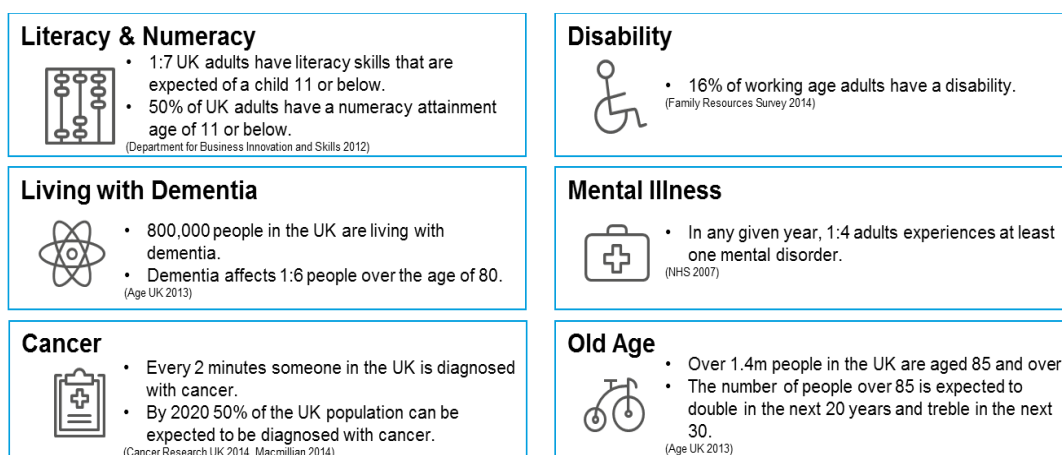
# How we will support customers in vulnerable circumstances

## A Strategic context

- 4.1 In Section 2 of our Business Plan,<sup>78</sup> we described how one of our key strategic priorities is to be “Here for you”, creating lifelong customer advocates. We recognise that our customers have a variety of needs and that there are many customers in vulnerable circumstances, or at risk of being in vulnerable circumstances, requiring sensitive, well-designed and flexible support services.
- 4.2 The purpose of this section is to set out the measures we are putting in place to support these customers. In Section A, we set out the context for our strategy and the Performance Commitments we are making in this area. In Section B, we set out the measures we are implementing to deliver on our ambition and our Performance Commitments. In Section C, we provide further detail as to how we are innovating and the costs of providing the service.
- 4.3 Our goal is to lead the industry by raising awareness of our support for customers in vulnerable circumstances, with an ambition to provide support to all those in our region who need it.
- 4.4 Thames Water define vulnerable circumstances as occurring when a customer may not have reasonable opportunity to access and receive an inclusive, safe service from Thames Water, resulting in a permanent or temporary detrimental impact on their well-being, finances or health. This definition is in line with Ofwat’s understanding of vulnerability.
- 4.5 Customers may be in vulnerable circumstances as a result of their personal characteristics, their overall life situation or due to broader market and economic factors which may otherwise have a detrimental impact on health, wellbeing or finances. Figure 12 highlights a number of factors which can lead to customers being in vulnerable circumstances.

---

<sup>78</sup> Thames Water, BPD1-PR19-Business Plan Document, Section 2

**Figure 12: Factors creating vulnerable circumstances for customers**

Source: (Sources listed in graphic)

- 4.6 There are also particular challenges in our area around diversity: London contains the lowest level of English as a first language (77.9%) of the population and the greatest range of languages, with implications for how we can engage effectively with our customers.<sup>79</sup>
- 4.7 In addition to engagement with our customers, we have engaged extensively with the third sector and other utility companies to get the best informed view of the services required by this traditionally hard-to-reach customer segment. We also carried out a benchmarking exercise, details of which can be found in The Vulnerable Customer Benchmark De-brief report Nov 2017.<sup>80</sup>
- 4.8 We have developed strategies addressing both affordability and vulnerability, recognising the significant overlap between customers struggling to pay and those in vulnerable circumstances. We engaged 23 experts across 19 third sector organisations, including Scope, Mencap, Macmillan cancer support, AgeUK, and the British Red Cross, regarding our proposed strategies for affordability and vulnerability.<sup>81</sup> The interviewees supported our proposed strategy and the interviews identified further opportunities for creating cross-referral pathways and helped inform our customer services and training programme. Details of the interviews can be found in What Customers Want.<sup>82</sup>
- 4.9 The key message from customers was consistent: they want to tell us once about their needs, and then every interaction afterwards needs to be sensitive to their situation.
- 4.10 We have also taken on board our learnings from a number of high-profile operational incidents including 'freeze-thaw'. It is clear that we need to grow our register and work more

<sup>79</sup> ONS, Language in England and Wales, 2011

<sup>80</sup> Thames Water, TSD019-CR58b-PR19-Vulnerability Customer Insight

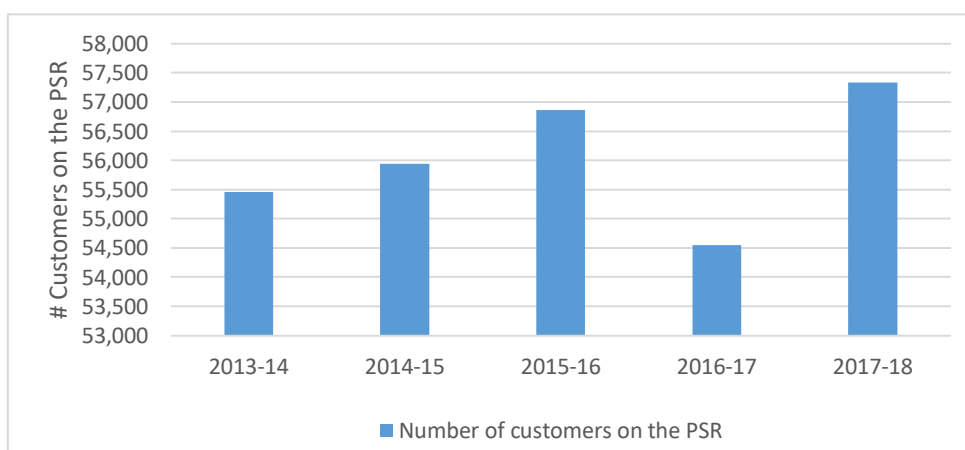
<sup>81</sup> Thames Water, CSD002-PR19-What customers want – consolidated report and Thames Water, Internal Analysis

<sup>82</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

effectively with the third sector so that we have greater visibility of customers who need additional support and we can then effectively provide targeted support to those individuals.

- 4.11 The service we provide needs to be tailored to meet the unique needs of different vulnerable circumstances. Some examples, but not exhaustive are: customers with mobility issues will need help with collecting water if there is a supply interruption incident; in addition to potential mobility issues the elderly may have a security fear and require confidence if we visit which can be provided through a password scheme; a customer who has a medical condition which requires dialysis will need a constant supply of water; customers with mental illness may require additional and sensitive help to explain their bill and payment options. Language could also be a barrier to service and the ability to converse with customers through their own language needs to be available whether that be an international language or 'Deaf' a language used by customers who have been profoundly deaf since birth.
- 4.12 Our key tool to support customers in vulnerable circumstances is our Priority Services Register (PSR), which is a database of customers who are in vulnerable circumstances. This allows us to identify customers with specific needs and who are vulnerable to risk situations, and enables us to target our offers of bespoke or flexible services appropriate to their needs.
- 4.13 As shown in Figure 13, we had 57,340 household customers on our PSR in 2017/18, representing around 0.4% of our customer base.<sup>83</sup> This is similar to the level of our customers on the PSR at the start of AMP6 in 2014/15.<sup>84</sup> This proportion of our customers on the PSR is comparable to the average proportion of customers on the PSR for other UK water and wastewater companies.<sup>85</sup>

**Figure 13: Number of household retail customers on the PSR**



Source: Thames Water, Data Table APP4

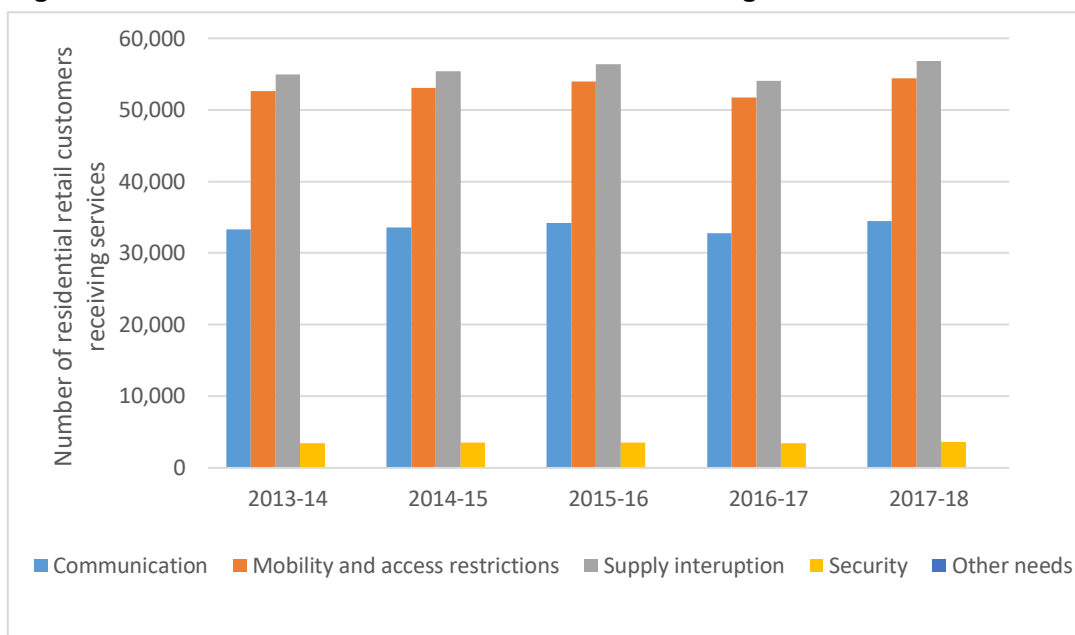
<sup>83</sup> Thames Water, Data Table APP4

<sup>84</sup> Thames Water, Data Table APP4

<sup>85</sup> Based on figure of 280,000 people on PSR for water companies (Special Assistance Schemes Review, CCW, November 2016) and UK population of 65.6m (ONS)

- 4.14 Figure 14 shows which services customers on our PSR are registered to receive support for (noting that customers on the PSR can be, and typically are, registered for more than one priority service). Of the customers on the PSR, 60% are receiving support with communication, 95% with mobility and access restrictions, 99% with supply interruptions, and 6% with security.<sup>86</sup> We have included our forecast of the number of customers registered for services in Data table APP4, and this has been based on insight from the two Energy Distribution Network Operators (DNO) in our region.

**Figure 14: Number of household retail customers receiving services**



Source: Thames Water, Data Table APP4

- 4.15 We believe that UK water and wastewater companies are significantly underestimating the proportion of their customers that are in vulnerable circumstances. This might be for a range of reasons, including customers being unaware of the priority services available or being uncomfortable admitting to being in a vulnerable position.
- 4.16 We have carried out benchmarking of the proportion of customers on a PSR against UK Power Networks, a Distribution Network Operator (DNO) in our region, as DNOs are mandated to deliver priority services through a provision in their licence. Based on this benchmarking, we estimate that 15-21% of our customers may be in circumstances which make them vulnerable, equating to 800,000 households in our region.<sup>87</sup> We expect that this population could grow to 1.4 million households by 2035 as a result of the population in our

<sup>86</sup> Thames Water, Data Table APP4, Lines 15-18

<sup>87</sup> Thames Water, Internal Analysis

region growing and becoming older (with the population over 85 years old expected to double within the next 20 years).<sup>88</sup>

- 4.17 We also carried out analysis of the size of population in our region which aligned with our different needs codes in order to validate our estimate of the vulnerable population with other open-sourced data. However, given that individuals can have multiple needs, this approach is likely to significantly overstate the vulnerable population in our region. Our analysis through this approach suggested a vulnerable population of up to 22m customers in our region, whilst the total customer population in our region is around 15m.<sup>89</sup> We have therefore used the evidence from our benchmarking analysis, as well as lessons learnt from energy companies in how they approached growing their register, to inform our strategy.
- 4.18 We have proposed an ambitious (but, we believe, achievable) step-change in the number of customers on our PSR over the course of AMP7, increasing 28% year on year to reach 400,000 by the end of 2024/25 and growing further in AMP8 and beyond.<sup>90</sup> Our target will reach 50% of customers we have assumed to currently be in vulnerable circumstances in the Thames Water region.<sup>91</sup> We have assumed that over two thirds of new registrations will come through the joint energy data share.<sup>92</sup> Our choice of target level is detailed further in CSD005-AR04.<sup>93</sup>
- 4.19 The number of customers registered on the PSR is not the only important metric when assessing how well we are supporting customers in vulnerable circumstances. We have also considered the level of awareness among our customers of the support we provide, as well as the net promoter scores (NPS) for customers who make use of our support offerings to ensure it meets their needs.<sup>94</sup>
- 4.20 As shown in Figure 15, 46% of all customers are aware of the non-financial vulnerability assistance measures offered. Our aim is to raise awareness among this group to 85% by the end of AMP7.<sup>95</sup> Amongst our customers, 94% of all our dual service customers are satisfied that the services provided are easy to access, including 91% of customers who considered themselves in need of support or in vulnerable circumstances.<sup>96</sup>

---

<sup>88</sup> Thames Water, Internal Analysis

<sup>89</sup> Thames Water, Internal Analysis

<sup>90</sup> Thames Water, CSD005-AR04-PR19-Household customers on the Priority Services Register

<sup>91</sup> Thames Water, Internal Analysis

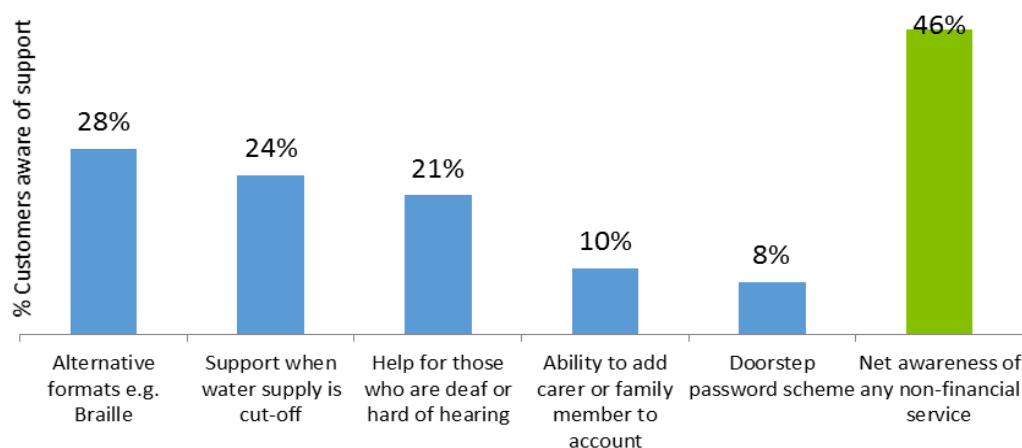
<sup>92</sup> Thames Water, Internal Analysis

<sup>93</sup> Thames Water, CSD005-AR04-PR19-Household customers on the Priority Services Register

<sup>94</sup> Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

<sup>95</sup> Thames Water, Data Table APP4, Line 12

<sup>96</sup> Thames Water, CSD002-PR19-What customers want – consolidated report

**Figure 15: Awareness of Support Offerings**

Source: Thames Water, Data Table APP4

- 4.21 While awareness of our Priority Service is one important way of measuring how well we are supporting customers in vulnerable circumstances, it is equally important that we deliver on the commitment to provide a quality priority service to these customers. The best judges of whether our priority service has met expectations are our customers themselves.
- 4.22 The net promoter score (NPS) is a well-established way of measuring whether the service and engagement that the customer has had with Thames Water have met customer expectations. This metric will test the views of our customers who have used a priority service and those customers that may be registered but have not needed to use the service. NPS is widely recognised as a robust measure which identifies customer advocacy, and is used across a number of industries, including the NHS.
- 4.23 We ran an initial pilot in 2018-19 to measure our NPS amongst our priority service customers. However, following challenge from the CCG, we have agreed to modify our methodology to ensure that it includes customers who have experienced an interruption to their water supply. We will therefore be carrying out a further pilot later this year. This will be done in consultation with the CCG to ensure that it is representative of customers and is robust. We will then run the survey in 2019-20 to create a baseline. We are committed to increasing the NPS of household customers on the PSR over the course of AMP7 relative to this baseline. Further detail on this performance commitment is set out in CSD005-AR05.<sup>97</sup> Our strategy for vulnerability sets out the specific measures we are taking in AMP7 to deliver on our ambition and Performance Commitments.

<sup>97</sup> Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

## B Our vulnerability strategy

### Overview

- 4.24 In this section we set out our proposed approach to vulnerability in AMP7, to significantly improve the accessibility of our services to customers in vulnerable circumstances. We have taken feedback from our customers and the third sector into account, in addition to learnings from recent operational incidents. Our focus will be on delivering key services consistently well and at scale, and on extending these services over time. This is a clear priority for our customers and therefore we have made specific Performance Commitments to measure our progress.
- 4.25 Our vulnerability strategy covers eight areas:
- 1) **Culture change:** we will shift our company culture to one of vulnerability awareness and advocacy through staff engagement and training. We will increase awareness and understanding of the vulnerability our customers face and how we identify needs and adapt the service we provide accordingly.
  - 2) **Partnership and collaboration:** we will tap into data from other organisations to expand our vulnerability register and we will promote our support services through partnerships.
  - 3) **Proactive customer engagement:** we will use data to identify customers in vulnerable circumstances and make proactive contact to raise awareness of services offered, subsequently checking in with customers at least once every two years to validate their needs.
  - 4) **Personalisation:** tailored services will be embedded into our end-to-end customer journeys. We will capture and flag vulnerability data in our systems, making information visible to our teams so they can engage and deliver services sensitively and effectively and sign up customers for the services they need.
  - 5) **Incident response:** we will improve the consistency of how we support customers in vulnerable circumstances during supply interruptions and other incidents affecting service.
  - 6) **Offering a holistic support approach:** we will offer a suite of support services to customers based on their specific circumstances, such as utilising more inclusive forms of communication.
  - 7) **Accessibility:** our communication channels will be tailored to meet the needs of different customers, making them simple and easy to understand and access – for instance by improving our digital services.
  - 8) **Delivering on our promise:** we will establish rigorous quality management for our vulnerability services and seek external verification of this through BSI certification 18477.
- 4.26 The measures we are undertaking in each of the eight areas are set out in the following text.

## Company-wide engagement and advocacy

- 4.27 We will shift our company culture to one of vulnerability advocacy by creating training interventions for our desk and field teams to understand circumstances which can make our customers vulnerable; to identify vulnerability in customer interactions and have confidence to acknowledge this; and to understand and make use of our referral pathways. Our teams will guide the customer through the priority services registration process, helping to increase the success rate of customers signing on to the register.
- 4.28 We will employ support and guidance from the third sector to train our staff to identify customers in need of help when it is required but also in how to engage effectively with people in specific vulnerable circumstances, e.g. mental health. Some of our people will require deeper specialist training, for example, our customer representatives and field staff who visit customers in their homes.

## Leveraging industry and third sector expertise & best practices

- 4.29 The scale of our region means that we need to build effective partnerships with industry and third sector organisations in order to effectively and efficiently support our customers in vulnerable circumstances. This includes involving the third sector in our incident response, training and guidance for our staff, and in identifying customers to be registered on the PSR.
- 4.30 We will develop partnerships to grow the number of customers on the register and deliver effective Priority Services. We will formalise relationships with the third sector and other stakeholders and invite them to sit on a regular Vulnerability Panels. A Vulnerability Panel is a group of critical friends who we will work with as experts to provide insight and guidance on best practice. We will use the Vulnerability Panels to share our plans, test and challenge our approach to engaging customers, develop how we deliver our services, and design new services. From spring 2019 we will look to run these sessions with key partners on a quarterly basis, and to hold a wider annual engagement forum including additional stakeholders such as Local Authorities and other third sector organisations.
- 4.31 We will complete a prioritisation exercise on partners who represent the largest number of customers, and where they are affected by the biggest need.
- 4.32 Our partnership with third sector organisations will be supported by a shareholder contribution of around £600k per year in AMP7.<sup>98</sup> This new funding will be used as a resource for innovation and support of our partner charities. We are currently developing a number of potential ideas for initiatives which could be funded through this resource and implemented in AMP7, including:
- 4.33 Thames Water/Age UK Liaison Officers – this idea involves us funding Age UK paid volunteers to support Thames Water during supply interruptions by processing data to find and deliver alternative water on our behalf. During non-incidents the Liaison officer can

---

<sup>98</sup> Thames Water, Internal Analysis

support Age UK with volunteer work, and support in keeping Age UK abreast with progress of the Vulnerability strategy at Thames Water.

- 4.34 We are currently members of 'UK Care', a steering committee set up by Kidney Care UK and Auriga, which aims to provide targeted affordability and vulnerability support through case workers for dialysis patients across the UK. This is still in the discovery phase of the project and there is potential for us to use this funding to support implementation during AMP7.
- 4.35 We may also look to partner with the Royal Berkshire Hospital and SSEN in our head office town, Reading, to raise awareness and aid growth of the PSR whilst giving back to those in our joint community patch. Areas of the hospital which have customers impacted with conditions which leave them water and/or electricity dependent would be targeted as core opportunities to provide support.
- 4.36 We will be raising awareness among customers of our services through collaboration with the third sector and other organisations. The third sector are supportive of helping us with the referral process to the PSR as it promotes independent living for their clients and in turn helps reduce pressure on the services provided by government and the third sector. Examples of existing collaborations include running pilot programmes working with Berkshire Fire and Rescue, London Sustainability Exchange, Age UK Berkshire, Age UK Wandsworth and Kidney Care UK. We are also in early discussions with the British Red Cross (BRC) to support their Independent Living programme where BRC staff visit people in their homes to help them live independently, especially after discharge from hospital.
- 4.37 Key to gaining support for referral pathways has been the creation of our joint registration process, where one leaflet will register the customer for both water and energy priority services. Data share agreements and processes support the leaflets which have been developed in partnership with UKPN and SSEN, an example of which is pictured in Figure 16. This proposition of joint registration has been attractive to the third sector, and is viewed as an efficient use of their time and value adding to customers. Moreover, as part of our pilot with Berkshire Fire and Rescue and SSEN, where registrations are now taking place as part of 'Home Safe and Well' visits, less valuable propositions were de-scoped from the visit to give capacity for our joint registration.

**Figure 16: Joint campaign with UKPN**



Source: Thames Water Campaign

- 4.38 We are playing a leading role in a programme by Water UK to align the codes used to classify customer needs in the energy and water sectors - we are members of the steering group and our Customer Propositions Manager leads the Customer Propositions workstream. This ambitious programme will enable industry-wide engagement with customers and partners, as we are seeing with our joint registration leaflet. This will unlock a step change in the growth of the register, creating minimum standards of service, and facilitating further exchange of best practice. The initiative will include data sharing where customers give explicit consent, and will capture a range of additional needs not available in our current PSR, including temporary needs codes for transient vulnerable circumstances such as post hospital recovery and bereavement. We believe this will provide a cost effective means of building up our PSR.
- 4.39 Having a nationwide data sharing programme will make it much easier for customers to register and for third sector referral networks. It will also serve to raise the awareness of Priority Services as a brand, with the aim of becoming a household name and we are proud to be playing our part in bringing this to life.
- 4.40 We are also reviewing the role of third sector organisations in staff training with a view to identifying opportunities where partner organisations can help us to deliver, improve or assure the training we provide to our staff to raise awareness of the requirements of our customers.

## Proactive engagement

### *Communicating with customers*

- 4.41 We will check in with customers on a frequent basis to see if their circumstances have changed and therefore whether the support required needs to be different. We piloted this approach in June 2018 with 7,303 customers contacted to confirm their needs through SMS and postal channels. We received responses from 1,320 of those customers contacted, representing an overall response rate of nearly 20%.<sup>99</sup>
- 4.42 We are designing and delivering specific campaigns to groups who are under-represented on the PSR, such as those suffering from kidney failure in association with Kidney Care UK. We will identify which groups are under-represented based on a comparison with energy-sector benchmarks. Our campaigns to reach these groups will make use of data to target key demographics across different media channels and behavioural insights to encourage customers to sign up to priority services. We will run targeted advertisement campaigns to promote awareness of the priority services available and where to register and sign up.
- 4.43 The ability to proactively and directly engage with customers to understand their needs has been the key driver for transitioning to direct billing for tenants of Local Authorities and Housing Associations (LAHAs). Thames Water currently have contracts with 54 LAHAs who collect revenue from their tenants (around 300,000 customers) on our behalf.<sup>100</sup> When

---

<sup>99</sup> Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

<sup>100</sup> Thames Water Allocation

moving to direct billing for these customers, we plan to capture the vulnerability needs of customers as they transition. More information on this change can be found in the Retail Price Control.<sup>101</sup>

### ***Responding to incidents***

- 4.44 In an extreme weather event we are committed to supporting customers in vulnerable circumstances by proactively engaging with them and keeping them up to date with progress to resolve the issue, as well as providing the support required relative to their priority needs.
- 4.45 Events of the past six months – such as the Freeze Thaw and the recent heatwave – have tested the resilience of our water treatment works and networks to the limit. These events have brought home the importance of upping our game in the way we prepare for and manage incidents. Our strategy to responding to incidents is informed by the lessons learnt following our thorough analysis of our handling of the Freeze Thaw incident and Ofwat's response.<sup>102</sup> This highlighted challenges around our ability to scale up our incident response in the face of a major supply disruption. Measures we are taking to improve our response to incidents in future include the following:
- 1) Improving our customer relationship management and billing system to enable staff to identify customers on the PSR affected by interruptions and to improve how we engage with PSR customers in both planned and unplanned supply interruption incidents.
  - 2) Introducing two-way SMS and landline messaging, so we can interact with customers quickly, and creating a priority phone line so calls from customers on the PSR come to the front of the queue in scenarios where there is a high volume of calls.
  - 3) Improving our ability to deliver alternative supplies of water at scale and at pace: we have developed a tool to enable our customer representatives to identify customers on the PSR in need of support in affected areas, to deliver water to the property of those who are medically dependent or immobile, and to verify who has had water supplies and when the next check-in is due.
  - 4) In addition to our Customer Representatives, when we require additional support, we have a pool of internal Ambassadors to support bottled water stations and delivery by directing pools of volunteers. We launched a Lead Ambassador programme this year and now have a pool of 50 Lead Ambassadors on a standby rota with a minimum of four available at any one time.<sup>103</sup> We are currently drafting a memorandum of understanding with the British Red Cross (BRC) to enable further support during larger scale incidents, with the BRC confirming they are able to support if required and that their pools of 700 volunteers in London and 900 in the Thames Valley could be

---

<sup>101</sup> Thames Water, PCD1-PR19-Retail

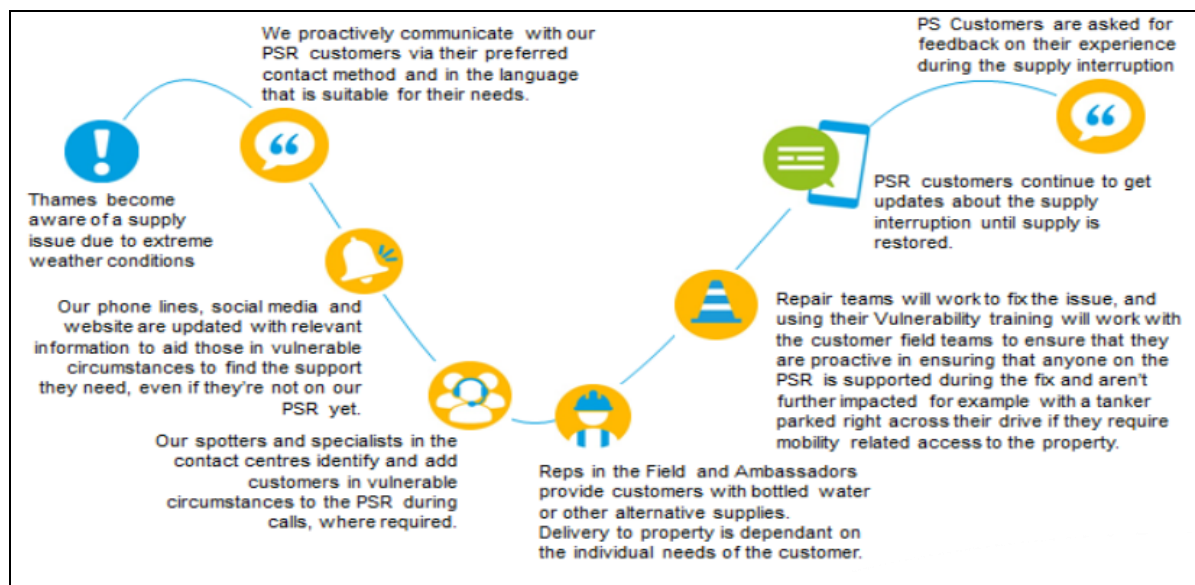
<sup>102</sup> Thames Water, Internal Analysis

<sup>103</sup> Thames Water, Internal Analysis

available to us.<sup>104</sup> In future, this will help us to respond on a larger scale in the event of a major incident.

- 4.46 Figure 17 below sets out how we expect to be better able to respond to future incidents and support customers in vulnerable circumstances:

**Figure 17: How we will support customers in an extreme weather event**



Source: Thames Water, Internal Document

- 4.47 Our plan is to significantly grow the number of customers registered with us for a priority service however we recognise that this will take some time and even when we believe we have reached all customers this will not be the case. There will always be situations where customers find themselves in a position of vulnerability for a temporary period of time, for instance when leaving hospital. Our plan includes having a robust approach in place to identify customers who need our help as we grow and for those facing temporary vulnerability. This includes:

- Our people being trained to identify customers in need (whether on the phone or in the field) and having a clear process to find the support required;
- Using social media including key word/phrase searches to identify any customers; and
- Linking up with Local Authorities, Fire Services and the third sector and exploring opportunities to provide awareness of priority services through the NHS.

#### **Non-household customers – water sensitive**

- 4.48 We are currently planning to improve our understanding of the needs of our customers in non-household (NHH) properties. Thames Water are not responsible for signing up NHH

<sup>104</sup> British Red Cross Allocation

customers, yet are still accountable for the provision of priority services to these customers. For us to be able to provide services in situations such as during an interruption to water supply, it is critical that we have visibility of these customers and their site-specific needs.

- 4.49 The data on customers in vulnerable circumstances was limited at the point of transfer to Castle Water, who are the largest non-household water retailer in our region. Market rules dictate that only the retailer is currently able to apply a sensitive user flag to an account. This creates a risk of Thames Water not being set up to provide a proactive response in cases where a water sensitive customer loses supply. We are therefore initiating a study, whereby we will analyse open source data on water sensitive NHH properties and engage to establish and record site-specific arrangements within our systems. We will then communicate this to the retailer to initiate a formal process for adding a sensitive user flag to an account.
- 4.50 More information on how we will be improving our planning and response to major water supply incidents will be provided in our Freeze/Thaw response which we will be submitting to Ofwat on 28<sup>th</sup> September 2018.

## Personalisation

- 4.51 Technology will help us to communicate effectively with customers through their channel of choice and to keep sensitive data safe. Tools to improve visibility of customers who are registered or to accelerate the sign-up process will also be implemented, such as the creation of a mobile app for our staff to provide smoother access to customer information and the circumstances they face. Visibility of customer vulnerability flags will be consistent across our systems so our people can use this information to tailor their approach and engagement with customers across the end-to-end customer journey and refer customers to the relevant support services provided.
- 4.52 We are working with customers and stakeholders to design a simpler sign-up process, including an easy-to-use form, thus reducing the barriers to customers signing up.
- 4.53 We are introducing robotic automation across our processes and channels to accelerate how quickly customers can be added to the PSR following their application. This will enable us to quickly, accurately and efficiently process a significant increase in the volume of applications as we expand our PSR from 57,340 customers this year to 400,000 by the end of AMP7.<sup>105</sup>

## Offering a holistic care approach

- 4.54 We are introducing a number of additional services over AMP7 to support customers in vulnerable circumstances. These services will complement our existing approach and are shown in Figure 18. Examples of improved support and services we will provide include:

---

<sup>105</sup> Thames Water, Data Table APP1

- 1) Inclusive communication: providing literature in a language of choice, enabling video calls with a sign language / lip speaker translator; adding subtitle options to videos on our website; creating a priority phone line for customers on the PSR, and getting accreditation from the Royal National Institute of Blind People (RNIB) and Action for Hearing Loss;
- 2) Considerate customer engagement: signposting referrals to third sector organisations such as StepChange, creating temporary condition needs codes for life events and implementing regular check-ins; and
- 3) Operational services: introducing a priority response service to resolve more complex billing or supply issues, improving water quality incident engagement for customers with a poor sense of smell or who are unable to read English, and options for alternative heating sources or accommodation for affected customers.

**Figure 18: How our priority services will be expanded**

		Existing Services	Within AMP6	Within AMP7
Inclusive Communication	Language translation service	✓		
	Nominated account representative scheme	✓		
	Sign language interpreter service (F2F)	✓		
	Talking literature	✓		
	Braille, large print and coloured background literature	✓		
	Written summary of conversation (Dementia)		✓	
	Literature provided in Language of choice			✓
	Video call with sign language / lip speaker translator			✓
	Action on Hearing Loss and RNIB Accreditation			✓
	Website videos have subtitle option			✓
Considerate Customer Engagement	Doorstep password scheme	✓		
	Signpost / refer hardship fund and other TW or third sector affordability support		✓	
	Support by staff with understanding of mental health / dementia / dialysis / cancer		✓	
	Prior engagement for impactful works			✓
	Female staff or chaperone required			✓
	Knock and wait			✓
	Temporary condition needs codes for life events			✓
	Regular two year check-in			✓
Operational Services	Water outage – proactive contact	✓		
	Water outage – alternative water	✓		
	Flooding – support visit and after care	✓		
	Priority Phone Line		✓	
	Proactive update via channel of choice		✓	
	Proactive updates to a third party (carer/relative/etc.)		✓	
	Priority response to resolve issues			✓

	Water Quality incident engagement for customers with poor sense of smell or unable to read English			✓
	Alternative accommodation / toilet / heating facilities (by exception)			✓

Source: Thames Water, Internal Document

## Accessibility

- 4.55 It is important that our customers are offered communications through their channel of choice. Communication channels will be tailored to meet the needs of different customers, making them simple, and easy to understand and access. Figure 18 describes the inclusive communication services we will provide. These will be supported by an updated digital service which will include clear and straightforward content, available in different languages with the ability to change font size and colour to improve readability for people with impaired sight or dyslexia.

## Delivering on our promise

- 4.56 We aim to achieve third sector endorsement for our vulnerability services by attaining accreditation by the British Standards Institute (BSI 18477) for inclusive services provision within AMP7. External verification from the BSI provides a framework so that we are consistently reviewing and improving our services. This will help us to ensure a consistent delivery of minimum standards across the business for responding to consumer vulnerability.
- 4.57 We recognise that there is a delivery risk in implementing our strategy and achieving our bespoke Performance Commitments. In particular we have identified the following three principal delivery risks, as set out in Figure 19:

**Figure 19: Delivery risks to our vulnerability strategy**

Risk identified	Risk mitigation
Risk of delays to the industry data share affecting the speed at which we can grow the PSR.	Active involvement in the project steering group and the Water UK Customer Policy Advisory Group.
Understanding of vulnerability not becoming fully embedded into the organisation despite staff training.	Carrying out an engaging and inspiring communications campaign, with stories of how our approach is making a difference to the lives of our customers.
Delays in systems implementation including robotic automation causing delays to the PSR being ready to cope with the additional volume of applications following the energy data share.	Ensuring within the delivery plan that there is robust programme management and additional resources to be employed if necessary.

Source: Thames Water, Internal Analysis

## C Innovation and Cost Effectiveness

- 4.58 Our strategy for vulnerability is rooted in our vision to be here for all of our customers. We would like to lead the industry by proactively supporting all customers in our region in vulnerable circumstances with a comprehensive range of support services. While we will look to develop new and innovative services, our main focus for AMP7 is to significantly grow the number of customers registered with us for a priority service and consistently deliver the services they need to a high standard. The Performance Commitments we have designed, specifically the number of customers on the PSR<sup>106</sup> and the NPS of customers on the PSR,<sup>107</sup> will measure our success in achieving this.
- 4.59 Figure 18 in this document lists the new services we will deliver in AMP7 over time. We believe that the following are examples of innovation for Thames Water:
- Two-way texting – proactive communications which customers can reply to;
  - Video calls for sign language;
  - Training our customer representatives to use sign language;
  - A new check-in process – to ensure customer needs have not changed and they are getting the support they need;
  - Use of the third sector to support major incidents with delivering bottled water;
  - The work we have already started ahead of the Energy data share to promote priority services through jointly branded leaflets with UKPN and SSEN;
  - Our partnering approach such as working with Berkshire Fire and Rescue Service on ‘Home Safe and Well’ – we are not aware of any other water company partnering in this way;
  - Use of robotic process automation to enable efficiency of administering the operation at scale; and
  - Development of videos to engage our teams in the vision and ambition we have for customers in vulnerable circumstances – which are available to view on request.<sup>108</sup>
- 4.60 To be able to support the growth in customers in vulnerable circumstances requires an additional operating cost investment of £6m in AMP7. This funding will enable us to grow the register to 400,000 customers.<sup>109</sup>
- 4.61 We have held discussions with the Energy sector and third sector to determine the best way to administer the support services we provide. The energy data share itself we believe

<sup>106</sup> Thames Water, CSD005-AR04-PR19-Household customers on the Priority Services Register

<sup>107</sup> Thames Water, CSD005-AR05-PR19-Customers recommending Priority Services

<sup>108</sup> Thames Water, TSD213-PR19-Supporting Our Most Vulnerable Customers

Thames Water, TSD214-PR19-Our Employee’s Journey

<sup>109</sup> Thames Water, Internal Analysis

---

is a very cost effective way of reaching customers and whilst we will supplement this with our own engagement, this data share will drive the majority of growth.

- 4.62 To keep administration costs as low as possible, we are implementing robotic automation which will support a simplified registration form and process. This automation will enable us to administer both the registration and customer check-in processes at the scale that is required. We have estimated that this robotic automation will reduce our FTE requirement for this particular process by around 50%.<sup>110</sup>

---

<sup>110</sup> Thames Water, Internal Analysis

## Annex A.

## PAYG and run-off rates

- A.1 This section explains how we have set our PAYG and RCV run-off rates and how they have been used in order to meet our customers' preferences, both now and in the longer term. They form a key part of our plan to help ensure that bills are affordable, providing a smooth profile over AMP7.
- A.2 This section considers our overall approach, PAYG and run-off rates in detail, how we have consulted customers and our assumptions regarding AMP8 and the longer term.
- A.3 In setting PAYG and RCV run-off rates we have adopted an approach which is fully consistent with Ofwat's methodology,<sup>111</sup> the key points being:
- To set an initial "natural rate";
  - To adjust the run-off rate to reflect customer preferences with regard to the effects of the transition from RPI to CPIH;
  - To take account of the impact of the change in approach to account for operating leases (under IFRS 16) on revenues and customer bills; and
  - To meet customers' preferences on bill profiles.
- A.4 We make no adjustments to PAYG or run-off rates on the grounds of financeability, for the reasons explained in Appendix 6 – Risk and return.<sup>112</sup>
- PAYG rates**
- A.5 In setting the PAYG rate for each wholesale price control we have calculated a natural rate based on the proportion of opex compared to totex specific to each price control.<sup>113</sup>
- A.6 We have made no further adjustments to PAYG rates. All adjustments to smooth revenues and deal with transitional impacts are reflected in run-off rates which are considered in the next section.

<sup>111</sup> Ofwat, TSD184-Delivering Water 2020 - Our final methodology for the 2019 price review, December 2017, Chapter 11

<sup>112</sup> Thames Water, Appendix 6-PR19-Risk and Return

<sup>113</sup> Thames Water, PCD2-PR19-Wastewater Network Plus  
 Thames Water, PCD3-PR19-Bioresources  
 Thames Water, PCD4-PR19-Water Resources  
 Thames Water, PCD5-PR19-Water Network Plus  
 Thames Water, PCD6-PR19-Thames Tideway Tunnel

A.7 PAYG rates for each Price Control are summarised in the following table:

**Table 1: Summary of PAYG % per price control**

PAYG (%)	AMP7 average
Water Resources	59.1%
Water Network Plus	40.6%
Wastewater Network Plus	41.9%
Bioresources	39.6%
TTT	-9.3%
<b>Wholesale</b>	<b>43.1%</b>

Source: Thames Water analysis using weighted average of AMP7 PAYG rates in Data Tables: Wr4 line 19; Wn4 line 14; WWn6 line 14; Bio5 line 19; Dmmy8 line 19

- A.8 The Thames Tideway Tunnel Price Control average is negative due to the impact of the £342m of land sales<sup>114</sup> in 2023/24 and 2024/25 which is treated as negative totex.
- A.9 For both Water and Wastewater, the AMP7 PAYG rate has reduced materially since PR14, particularly reflecting the increased levels of capex in the AMP7 business plan. This reduction in PAYG means that the expected PAYG for Thames in AMP7 is lower than the PR14 PAYG rates for the rest of the industry for both water and wastewater.
- A.10 Detailed calculations for the PAYG rate, by year, for each control are set out in CSD009.<sup>115</sup>

#### **Run-off rates**

- A.11 In setting run-off rates for each Price Control we have calculated a natural rate, so regulated depreciation reflects the current cost depreciation associated with each element of each price control.
- A.12 We then make three adjustments to the run-off rates, the first being to reflect customer preferences on the impact of the transition from RPI to CPIH, the second to adjust for the impact of adoption of IFRS 16 for leases and the third to reflect customers' feedback on preferences for bill profiles in AMP7.
- A.13 Detailed calculations for the natural rate are set out in CSD009.<sup>116</sup>

<sup>114</sup> Thames Water, PCD6-PR19-Thames Tideway Tunnel. Comprising net proceeds from land sales (£326m) plus rental income from land (£16m) stated in 2017/18 prices

<sup>115</sup> Thames Water, CSD009-PR19-Finance and financeability

<sup>116</sup> Thames Water, CSD009-PR19-Finance and financeability

### ***Impact of transition to CPIH***

- A.14 Run-off rates have been adjusted to reflect customer feedback on the transition from RPI to CPIH. The impact of the transition would be to increase the allowed real cost of capital, bringing revenues forward (the 'new method') compared to a lower, RPI-stripped WACC.
- A.15 Customer consultation<sup>117</sup> indicated that customers strongly supported the original RPI-based revenue profile, which saw bills start lower and then increase more quickly over time. There was unanimous agreement that a more gradual move to CPIH would be preferable. All customers preferred the 'current approach' option as it:
- Keeps elements of consistency;
  - Avoids short, sharp shocks; and
  - Is more beneficial in the short term than the 'new method' option.
- A.16 We therefore adjust run-off rates to revert to the revenue profile associated with original RPI-stripped WACC profile.
- A.17 Detailed calculations for this adjustment are set out in CSD009.<sup>118</sup>

### ***Adjustment for adoption of IFRS 16 for operating leases***

- A.18 Following adoption of IFRS 16 for operating leases from 1 January 2019, Ofwat has clarified treatment of operating leases in PR19 business plans. This requires adjustments to the RCV and cost allowances for operating leases in existence as at 31 March 2020 that will remain in place for all or part of 2020-25. In effect, RCV will be increased for the present value of the future lease payments for the RCV adjustment at 31 March 2020, with associated forecast annual cash costs for these leases removed from the cost allowance.
- A.19 The combined impact of these adjustments is to present a different revenue profile from that which would have arisen had IFRS 16 not been implemented. In order to ensure that customers are not impacted by changes in accounting (no cash flow changes arise) we make adjustments to the run-off rates to restore revenues to the original profile, pre-IFRS 16. This approach is consistent with expectations set out by Ofwat in its Information Notice.
- A.20 Detailed calculations for our RCV, operating cost and run-off rate adjustments associated with IFRS 16 adoption are set out in Finance and financeability<sup>119</sup>.

### ***Bill profile adjustment***

- A.21 Run-off rates were also adjusted to reflect customer feedback on preferences for bill profiles within AMP7.

<sup>117</sup> Thames Water, TSD110-PR19-Long term investment and intergenerational fairness, 12 October 2016

<sup>118</sup> Thames Water, CSD009-PR19-Finance and financeability

<sup>119</sup> Thames Water, CSD009-PR19-Finance and financeability

- A.22 We have consulted customers regularly<sup>120</sup> with regard to their preferences for bill profiles. Our customers indicate that they prefer stable bills, or ones which increase smoothly over time. Key themes emerging from our discussions with customers are that:
- Customers value consistency in bill levels with stability or smooth changes;
  - Customers trust Thames Water to treat them fairly when it comes to billing because they feel that bills are currently transparent and easy to understand;
  - Having viewed different types of bill profile, customers overwhelmingly value consistency above all else; this is often used as a proxy for trust. Frequent bill changes are hard for customers to keep track of and would work to undermine trust; and
  - Change which results in a bill decrease is viewed differently, some customers are willing to forgo consistency in favour of short term gain, but most would still prefer to have consistency.
- A.23 We therefore adjust run-off rates to smooth bills over AMP7, this was undertaken separately for water and wastewater revenues through the two Network Plus Price Controls, the combined effect being to achieve the smoothest profile for combined water and wastewater bills.
- A.24 Detailed calculations to smooth customer bills are set out in CSD009.<sup>121</sup>
- A.25 No adjustment was made to smooth bills over a longer time period given that uncertainties increase beyond AMP7, both with regard to our own totex projections (including the requirements of the quality programme and impacts of innovation) and other key bill drivers such as the allowed cost of capital in AMP8 and beyond.
- A.26 No adjustments were made to run-off rates for reasons associated with financeability, for the reasons set out in Appendix 6 – Risk and Return.<sup>122</sup>

---

<sup>120</sup> Thames Water, CSD002-PR19-What Customers Want – consolidated report  
 Thames Water, TSD019-PV07a-PR19-Revenue Allocation Research part 1  
 Thames Water, TSD019-PV07b-PR19-Revenue Allocation Research part 2 quality  
 Thames Water, TSD019-PV07c-PR19-Revenue Allocation Research part 2 quantity  
 Thames Water, TSD100-PR19-Long Term Investment and Intergenerational Fairness 12 October 2016  
 Thames Water, TSD019-CR61b-PR19-Reduced bill profile online community task  
 Thames Water, TSD019-CR61c-PR19-Reconciliation Customer Research

<sup>121</sup> Thames Water, CSD009-PR19-Finance and financeability

<sup>122</sup> Thames Water, Appendix 6-PR19-Risk and Return

- A.27 Run off rates for each price control are summarised in the following table, broken down into component elements of the RCV (being the RPI-linked RCV, CPIH linked RCV and post-2020 investment for water resources and bioresources):

**Table 2: Summary of run off rate % per price control**

Run-off rate (%)	AMP7 average RPI linked RCV	AMP7 average CPIH linked RCV	AMP7 average post 2020 additions
Water Resources	4.2%	2.4%	6.1%
Water Network Plus	3.8%	3.2%	n/a
Wastewater Network Plus	5.3%	4.3%	n/a
Bioresources	4.7%	3.4%	8.1%
TTT	0.0%	-1.0%	0.0%

Source: Thames Water, Data tables: WR4, annual average of lines 4, 9 and 14; BIO4; DMMY8; WN4, Lines 4 and 9; WWN6

- A.28 We combine run-off rates for all CPIH RCV components for both network plus controls in line with Ofwat's requirements for data table completion.
- A.29 For the TTT price control<sup>123</sup> we see a natural run-off rate of zero as the project is not yet commissioned. The CPIH-linked RCV component shows a 'negative' depreciation rate which is the impact of the CPIH transition adjustment feeding through into this control (as part of the overall adjustment to revert to the lower RPI-based profile).
- A.30 For both Water Network Plus<sup>124</sup> and Wastewater Network Plus<sup>125</sup> price controls, the AMP7 natural rates are broadly in line with the equivalent AMP6 run-off rate for Thames Water. The Water run-off rates therefore remain below the PR14 industry average run-off rate, while the Wastewater run-off rates remain towards the higher end of the PR14 industry rates.
- A.31 Our overall conclusion is that we have set our PAYG and RCV run-off rates to meet our customers' preferences, both now and in the longer term. They form a key part of our plan to help ensure that bills are affordable, providing a smooth profile over AMP7.

<sup>123</sup> Thames Water, PCD6-PR19-Thames Tideway Tunnel

<sup>124</sup> Thames Water, PCD5-PR19-Water Network Plus

<sup>125</sup> Thames Water, PCD2-PR19-Wastewater Network Plus