

United Utilities' response to the Ofwat call for evidence: Review of retail household markets in the water and wastewater sector



Introduction

We welcome the opportunity to contribute towards the evidence base for Ofwat's review of retail household markets in the water and wastewater sector. We also welcome the open and transparent way that Ofwat have approached this process to date, and believe that this will benefit the overall outcome of the exercise.

As an incumbent water and wastewater service company with about 3 million household customers, serving a population of over 7 million people, we believe UUK is well placed to make a relevant contribution to the review. There are many factors, some of which are unique to the water industry, which we believe will need to be considered as part of this review.

It is recognised that the North West region contains many of the most extreme examples of household poverty and deprivation in England. This provides us with particular insights into financially vulnerable customer groups.

We have set out our response to Ofwat's call for evidence below. The focus of our response has been on Ofwat's first question, regarding the advantages and disadvantages of extending competition to household retail services. In particular, we want to ensure that the risks to financially vulnerable customer groups are well understood, and that any proposed market design carefully considers, and mitigates, the potential for such customers to be disadvantaged.

In addition we have provided some comments (in the following section) on the scope and timing of the review, focusing on the need to consider more explicitly the impact on financially vulnerable customers. We also suggest that emerging evidence from non-household retail market opening will be very valuable to this review in the coming months and years.

Comments on the scope and timing of review

UUK has already provided comments on the terms of reference for Ofwat's review of retail household markets. In that response we stated that the proposed assessment framework appears logical and considered, identifying many of the key elements needed to conduct an effective cost benefit analysis. However we believe the framework could be improved by being clearer about how the distribution of costs and benefits might apply to different customer groups, with particular consideration of financially vulnerable customer groups.

Consideration of financially vulnerable customers

The recent CMA review into energy markets and the Public Accounts Committee's report on the economic regulation of the water sector both serve as a reminder that the impact of regulation on vulnerable customers is a matter of significant public concern. Whilst we believe that the proposed terms of reference considers a wide range of factors which may influence the benefits and risks of market reform for the average customer, it is not clear how this approach will assess (and reveal) details of specific impacts for those groups of customers that many would consider vulnerable.

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The Public Accounts Committee report on economic regulation of the water sector concluded that vulnerable customer groups require further financial support. The CMA state in the provisional findings of their energy market investigation that low income and elderly customers are some of the least able/willing to engage in active switching within a competitive market.

Evidence from energy suggests that vulnerable customers are the least likely/able to realise benefits within a competitive market.

Our experience suggests that financially vulnerable customers are more likely to fall into payment arrears, and/or to make use of the support and assistance schemes available to them. We therefore suggest that any assessment of the benefits and costs of various market reform options should consider specifically the impact on customers that might be defined as financially vulnerable, in addition to net impact on the average customer. We would be happy to work with Ofwat to help develop a clearer picture of the characteristics of this group of customers, and how their interactions with water service retailers may differ from the average.

Consideration of evidence from the opening of the non-household retail market

We also believe it important for Ofwat to consider how and when experience from the opening of the non-household retail market will feed into this assessment. Information on the opening of the non-household retail market over the next few years is likely to provide a very valuable evidence base for understanding the likely benefits and risks of various possible household market scenarios. However the majority of this evidence will not be available until after the proposed deadline for final report submission to government in September 2016. We therefore believe that it will be important to deliver the impact assessment such that it can be kept under review after Ofwat has submitted the final report. We also recommend that Ofwat should refresh its assessment in the light of new evidence emerging from the opening of the non-household retail market post 2017.

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Responses to Ofwat's specific questions

1. What are the advantages and disadvantages of extending competition to retail services in the water and sewerage sector to household customers? How could this best be achieved?

It is common to assume that introducing competition would reduce costs and improve service levels in the long term. However, in the case of retailing to households for water and sewerage services, there are number of specific issues to consider that are not necessarily present or prevalent in other markets.

In addition to the common issues - such as the cost of implementing a competition retail market relative to the benefits - there are two areas that require particular consideration:

- The close interaction between household customers and wholesale service provision; and
- The issue of how to manage the risk to financially vulnerable customers, particularly given the lack of effective sanctions to address non-payment.

The interaction between household customers and wholesale service provision

The interaction between household retail, the efficient management of wholesale services, and customer perception of wholesale services is particularly acute for the water industry.

There is a relatively unique interaction between water customers and the efficient management of wholesale services. Water companies go to great lengths to influence customer behaviour and the way in which customers consume wholesale services. Many customer campaigns focus on how customers consume the wholesale service, aimed at avoiding cost inducing behaviour. Many other utilities utilise price signals to influence customer behaviour - e.g. using higher peak-time charges for rail, or energy usage. However these are largely focused on demand management. The water sector engages more broadly with customers across a wide range of issues to reduce the cost of providing wholesale services, which is to the long term benefit of all water customers, for example:

- Influencing customers to think about what they put down drains (e.g. avoiding fats), or flush down the toilet (e.g. baby wipes), to reduce the risk of future sewer blockages
- Encouraging the efficient use of water to mitigate the risk of future water restrictions
- Engaging customer support in detecting and reporting leaks e.g. by providing free leakage helplines

Water customers also have many perceptions about a broad range of water and wastewater services, many of which relate to wholesale. For example, customers perceive the qualitative nature of water and wastewater services (e.g. the taste of water) in addition to simply whether or not the service is available. It is reasonable to assume that, post introduction of household retail competition, customers would continue to consider that it is a single integrated service. Given that there is variation in the qualitative elements of water services, both between and within company regions, management of customer satisfaction could become problematic. Multiple retailers may struggle to cope efficiently with a patchwork of multiple wholesale areas with different qualitative levels of wholesale service. In the extreme this could cause retailers to focus on (or avoid) geographic areas based on customer perception of wholesale services (e.g. areas at risk of flooding).

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The risk to financially vulnerable customers

Water companies provide an implied form of Universal Service Obligation (USO). Household retail competition creates a real risk that customers in relatively affluent areas (with low risk on non-payment) will be progressively picked off by competitors. Customers in more deprived areas could then see sharp increases in charges, as bad debt and the cost of assistance schemes is spread over fewer customers - but these customers may not be able to access the market if non-payment risk (based on location) is perceived to be too high by retailers. Unchecked, this will unwind current social cross subsidies.

There is a lack of effective sanctions against non-payment - e.g. disconnection, a credible threat of disconnection, and self-disconnection via prepayment meters. This means that the issues affecting vulnerable customers will persist in a way that is different from other sectors, and will not be mitigatable by company action alone.

Any design of a household retail market would need to ensure that such customers are protected, either by preventing such an outcome, or mitigating the effect, for example by operating a form of Universal Service Fund.

Many support and assistance schemes are currently in place to support household customers. It will also be essential to ensure that these schemes are protected, for the benefit of customers that utilise them.

At present, there are many social cross subsidies in place for household customers, which allow companies to charge customers the same within a region despite differences in cost to serve. Some of these relate to wholesale costs - e.g. the urban/rural cross subsidy, whereby rural customers (where housing is sparse, and wholesale costs per customer is high) pay the same as customers in urban areas (where population density is high, and wholesale costs are relatively low). Other cross subsidies are also held within retail. The largest of these is bad debt, the cost of which is spread evenly across all customers – customers with a high risk of non-payment usually pay the same as customers with negligible risk of non-payment.

The issue of bad debt is complicated, as it is (in part) a side-effect of the wider problem of financial vulnerability. There is plenty of evidence (see below) to suggest that more financially vulnerable customers, located in more deprived areas, are more likely to fall into arrears. Our experience also suggests that customers in more deprived areas are (on average) more costly for retailers to serve than customers in more affluent neighbourhoods.

Debt, financial vulnerability, and measures of deprivation are closely related

Many studies have demonstrated the relationship between aspects of socio-economic deprivation, employment status, and arrears risk (and hence debt). For example, the Institute for Social and Economic Research (ISER), used data from two well-established socio-economic research programmes to consider the nature and causes of household debt¹.

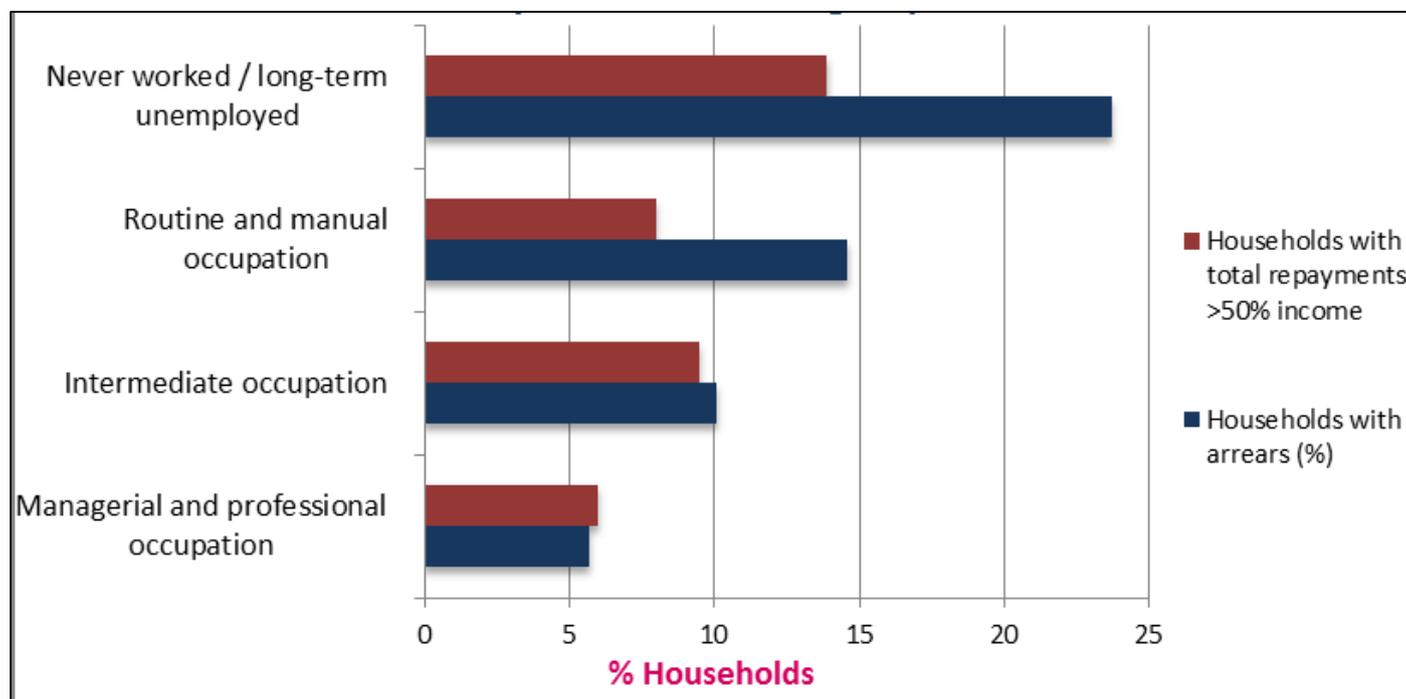
Its multivariate analysis found that the incidence of bad debt and arrears were positively associated with having dependent children; being separated or divorced, being unemployed or sick or disabled and being a

¹ 'Over-indebtedness in Great Britain: an analysis using the Wealth and Assets survey and Household Annual Debtors survey (2010)

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tenant. Many of these factors are the same as those commonly referenced when discussing financially vulnerable customers.

ISER found that all customer groups had debt, but that people in higher status occupations had lower levels of over-indebtedness than those in lower status occupations or who had become detached from the labour market. ISER's results on work status are shown in the chart below.



Arrears by socio-economic group (source: BIS)

The Department for Work and Pensions (DWP) report 'Households Below Average Income' (HBAI)² also found that household income is a significant factor in relation to the incidence of non-payment of household bills of all kinds. The table below shows that the bottom two quintiles (by household income) contain smaller proportions of households with no bills in arrears and more than three quarters of those having one or more bills in arrears.

	Bottom quintile	Second quintile	Third quintile	Fourth quintile	Top quintile	Total	Working age adults (m)
Zero bills in arrears	18%	16%	19%	23%	25%	100%	31.6
One or more bills in arrears	51%	25%	15%	6%	4%	100%	3.1

Distribution of households with bills in arrears by household income quintile (Source: HBAI 2010/11) income quintiles

² Department for Work and Pensions (DWP) report 'Households Below Average Income' (HBAI)

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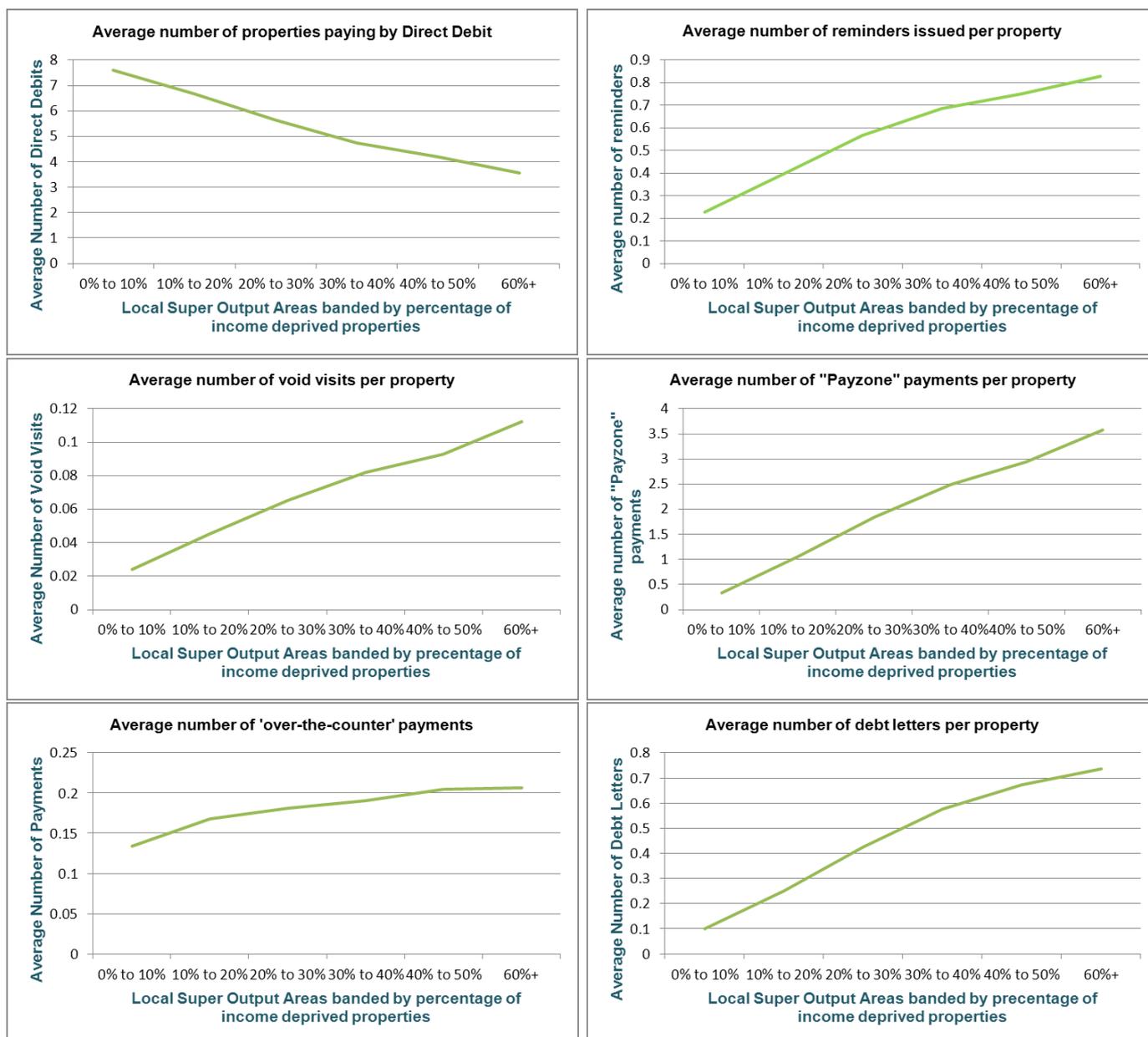
This relationship is not linear, with the very poorest substantially more likely to be in arrears, but there is little apparent difference between those in the top two income quintiles. This is suggestive of an exponential relationship and indicates that the propensity for being in bad debt increases substantially at the poorest end of the socio-economic spectrum.

Whilst the overall trend is not surprising, with the poorest most likely to be in arrears, it is the scale of variation between the extreme ends of the socio-economic groups that is especially striking. This means that the most important indicator for the external drivers of bad debt is the proportion of customers at the extreme end of the socio-economic spectrum.

Customers in deprived areas are also more costly to serve

We have analysed our retail costs to a fine level of detail, in order to better understand differences in costs between different areas of our region. We have mapped tens of millions of individual customer interactions to the 4,500 Lower Super Output Area (LSOA) locations within our region to examine the relationship between income deprivation and retail activities. This revealed that it is not only bad debt that is higher in more deprived areas, but we also found that that the intensity (and hence total cost) of many retail activities (e.g. number of bill reminders) increases in line with the levels of income deprivation. Also the prevalence of more costly payment methods (e.g. Payzone) increases, whereas the use of lower cost payment methods (e.g. Direct Debit) decreases at higher levels of deprivation. These effects are illustrated in the charts below.

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A sample of U UW retail activities in different areas of socio-economic deprivation

As such, it is not just bad debt that is affected by higher levels of deprivation, but retail activity (and hence cost) as a whole across a range of retail activities. This also serves to demonstrate that the higher levels of customer debt that U UW experiences in areas of high deprivation occurs despite having more intense retail activity in those areas, not as a result of relative neglect of those customers.

Taken together the above evidence gives strong suggests financially vulnerable customers, who are more likely to experience higher levels of deprivation, and are also more likely to fall into arrears, and to drive higher levels of retail costs. When Ofwat considers the benefits and risks of retail completion it should therefore consider whether retailers will actively target more affluent, and therefore easier to serve customer groups, to the detriment of financially vulnerable customers.

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Why is this a water industry specific problem?

In the water sector in England and Wales, there are constraints on the availability of effective sanctions to address bad debt:

- Unlike other utilities, water and wastewater services are supplied without a contract - even when we don't know the occupier. It is therefore not surprising that the water service is viewed as more universal (and more of a public service) than other utilities
- Disconnecting (or threatening to disconnect) households is prohibited – this is unique compared to other retailers.
- Often it is not the action of disconnection so much as the threat of disconnection that can drive customer behaviour. As a result of this lack of sanction, debt advisors will advise customers seeking support to prioritise payments to other utilities (e.g. gas and electricity) over paying outstanding debt to their water company.
- Customers in other sectors that are struggling to pay have more opportunity to avoid payment by (temporarily) removing access to the service. Prepayment meters in energy represent a form of “self disconnection” on a temporary basis.

This creates a unique challenge specific to the water sector. Whilst this is not the only cause of bad debt, it creates a substantial difference between water companies and other utilities.

In 2014/15 doubtful debt accounted for 37% of industry household retail operating costs, rising to 45% of costs when the cost of debt management activities are also included. This represents a very high proportion of household retail costs. Our internal evidence, supported by both the IRES and DWP studies referenced above, indicates that this bad debt is concentrated in the most deprived areas of the country. It also highlights why entrant retailers might be unwilling to take on customers from more deprived areas, given the high bad debt risk, and (potentially) few options to successfully mitigate it.

Impact on customer assistance schemes

In response to the household retail challenges faced by water companies, many support and assistance schemes have been established.

Currently household retail activities in the water sector differ substantially from similar utilities. In particular there is substantial support available for vulnerable customers embedded within current industry services and charges, including:-

- Discretionary support for vulnerable customer groups
- A range of discretionary allowances and discounts for customers who unknowingly incur large charges for wholesale services, e.g. leakage allowances
- Regional social tariffs
- The national ban on disconnection for households

UUW offers a range of mechanisms to help vulnerable customers facing financial difficulties (see Appendix 1 for further details). In particular we offer a number of discounted tariff and support schemes, including:

- UU Trust Fund
- Support Tariffs
- The “Help to pay” Social Tariff
- Arrears Allowance arrangements

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We also provide support and advice in a range of areas that can help customers reduce their bills and identify the most appropriate payment plan for them. We maintain important links with a wide range of money advice providers, such as the National Debt Helpline and Citizen Advice Bureau (CAB). We have also created strategic partnerships with organisations such as StepChange and Payplan, where we work together to ensure UUW customers obtain wider holistic help tailored to their individual financial situation.

For the year 2015/16 it is anticipated that we will provide direct support worth some £6.2m to some of the North West's most vulnerable households. UU will bear around 45% of the cost of this support, with the rest being paid for through general water and wastewater bills.

The current regional approach to introducing social tariffs, and the regional cross subsidies put in place for the Water Sure scheme presents some challenges under some scenarios for retail market reform. Current energy market provisions in this area offer perhaps the best current example of a national schemes could operate in practise.

Many companies also offer a range of discretionary allowances and discounts for HH customers who unknowingly incur large charges for wholesale services, e.g. leakage allowances. Incentivising wholesalers to continue offering comparable levels of discounts may prove particularly difficult if wholesale and household retail functions are further separated.

Many models of retail competition would either require substantial change to the operation of these support schemes, or in some cases may mean they could not continue (or they could be considered uneconomic). For example it is not obvious how the design of the household retail market structure could simultaneously incentive company efficiency whilst also supporting existing levels of cross subsidy and direct support for financially vulnerable customers.

Impact on retail operations and partnerships

It is important to recognise that companies have been actively pursuing innovative approaches to cost efficiency within the regional monopoly framework for 25 years. However, not all of the mechanisms put in place to achieve operational efficiencies under the current framework may be compatible with a competitive market.

In particular current agreements between water companies and housing associations/councils for the collection of water charges may not be compatible with some scenarios for market reform, possibly increasing the cost of collection from impacted customers. UUW has five such agreements, covering over 40,000 customers.

Also the case for wide ranging roll out of smart meters across the industry may also be impacted by the introduction of retail competition, as most of the cost savings of smart meters accrue to retailers, whilst up front capital costs are borne by wholesalers. Currently meter owners (wholesale companies) and meter readers (retailers) can align their incentives by long term agreement. However, in a competitive market where customers switch suppliers, wholesalers may have reduced incentives to roll out smart meters if it is unclear whether future retailers would be supportive.

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Impact of household retail competition on financially vulnerable customers

Following on from the evidence presented above, there seems to be two primary risks to financially vulnerable customer groups:

- Financially vulnerable customers, located in more deprived areas, may be perceived as significantly less desirable to entrant retailers than customers in more affluent areas. This could result in such customers becoming increasingly costly to serve as remaining bad debt is spread across ever fewer customers.
- Current support and assistance schemes for vulnerable customers could be at risk, following pressure to reduce cost to serve (on average) in order to attract customers

Whilst there is no formal Universal Service Obligation (USO) in place for the water industry, we would argue that there is an implied USO – a single price for a consistent level of service. In other sectors and other countries, regulators have sought to mitigate the risks to vulnerable customer groups using a USO together with an associated Universal Service Fund. This aims to re-distribute value between companies with more or less vulnerable customers, to ensure that “high cost” customers are not disadvantaged by “low cost” customers being cherry picked from the market. It recognises that some cross subsidies are socially desirable, and should be maintained – a universal service fund is one mechanism that has been used to manage such effects, and protect those most at risk. Such a mechanism may be necessary to implement on a national basis in order to protect the interest of financially vulnerable customers.

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2. What scenarios for retail competition could be considered in Ofwat's analysis? What are the advantages and disadvantages of each for water and wastewater services for customers, the environment, wider society and investors?

There are many ways in which a household retail market could be designed, between competition within the market (either as an extension to the non-household market, or as a separate market in its own right), or via competition for the market as a whole, or for sub-components of the market.

When reviewing potential scenarios it will be important for Ofwat to be mindful of water industry specific risks, particularly the risks to financially vulnerable customer groups as set out in our response to question 1 above. How easy (or onerous) it would be to mitigate those water customer specific issues within each scenario would then provide initial assessment of feasibility.

In other sectors and other countries, regulators have sought to mitigate the risks to vulnerable customer groups using a Universal Service Obligation (USO), and an associated Universal Service Fund. This aims to re-distribute value between companies with more or less vulnerable customers, to ensure that "high cost" customers are not disadvantaged by "low cost" customers being cherry picked from the market. It recognises that some cross subsidies are socially desirable, and should be maintained – a universal service fund is one mechanism that has been used to manage such effects, and protect those most at risk. Whilst water industry in England and Wales does not formally have a USO, the water industry provides a service that we, and others, might reasonably judge to be equivalent to a Universal Service.

3. With respect to potential competition scenarios used to support the analysis, what additional risks or opportunities should be captured in Ofwat's analysis? How should these be assessed? What would be necessary for each of the scenarios to be implemented successfully? Over what time period could implementation take place?

As noted in the "Comments on the scope and timing of review" at the front of this response, we believe it important for Ofwat to consider how and when experience from the opening of non-household retail markets will feed into assessment of household retail competition. Information on the opening of the non-household retail market over the next few years is likely to provide a very valuable evidence base for understanding the likely benefits and risks of various possible household markets, and also to learn any lessons for implementation.

4. What are the interactions between household water retail and other markets in the water sector and beyond?

As discussed above in response to question 1 there are specific issues facing a competitive retail market for household customers, not least due to the risks to financially vulnerable customers. This may present a significant difference between the non-household retail market and the requirements for a potential household retail market – the latter requiring additional protection for financially vulnerable customers. This may indicate a need to maintain separation of these markets, to ensure that the each market is appropriate to meet the requirements of each group of customers.

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Appendix 1 – UU's Payment Support Schemes

This appendix provides a more detailed description of the design and impacts of our various support schemes and customer assistance initiatives. These various programmes represent a substantial commitment by us to helping a wide range of vulnerable customers. Much of the cost of these schemes is borne by United Utilities alone, although where legislative and regulatory guidance requires some of the cost of some of the discounted tariffs is passed through to all customers' bills.

When considering the impact of reforming the retail household market it is important to consider the impact of such reforms on support tariffs and other customer support schemes offered by us and other water companies. Some of the current measures would require reform if they are to continue to operate effectively in a competitive market; whilst others may not be able to continue at all.

We have not tried at this stage to determine the precise impact of various scenarios for competition on the schemes described below, as any impact is likely to be dependent on the exact nature of market reforms. For example it seems likely that the current approach to region specific social tariffs would be very difficult, if not impossible to maintain if full "competition in the market" arrangements were introduced; however a national support tariff arrangement, specified and supported through legislative reform may be possible on a national basis.

We offer a range of different support schemes for customers, including:-

- The UU Trust Fund
- Support Tariffs
- The "Help to pay" Social Tariff
- Arrears Allowance arrangements

We also provide support and advice in a range of areas that can help customers reduce their bills and identify the most appropriate payment plan for them. We maintain important links with a wide range of money advice providers, such as the National Debt Helpline and Citizen Advice Bureau (CAB). We have also created strategic partnerships with organisations such StepChange and Payplan, where we work together to ensure UUW customers obtain wider holistic help tailored to their individual financial situation.

Since 2009/10 we have seen an upward trend in the number of customers being helped by all of our payment support schemes.

Assistance scheme	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Volume of customers who received a UU Trust Grant	4,671	4,231	4,437	4,598	5,579	5,293
Volume of customers on a Support Tariff	630	1,621	2,412	3,096	3,889	5,147
Help to Pay Social Tariff*	-	-	-	-	-	-
Volume of customers paying via Arrears Allowance Scheme	-	7,679	6,218	8,806	14,146	18,095

*Help to Pay social tariff introduced for 2015/16

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Whilst the numbers of customers accessing these support schemes is relatively low, the value of the support they receive is substantial. For the year 2015/16 it is anticipated that we will provide direct support worth some £6.2m to some of the Northwest's most vulnerable households. UUW will bear around 45% of the cost of this support, with the rest being paid for through general water and wastewater bills.

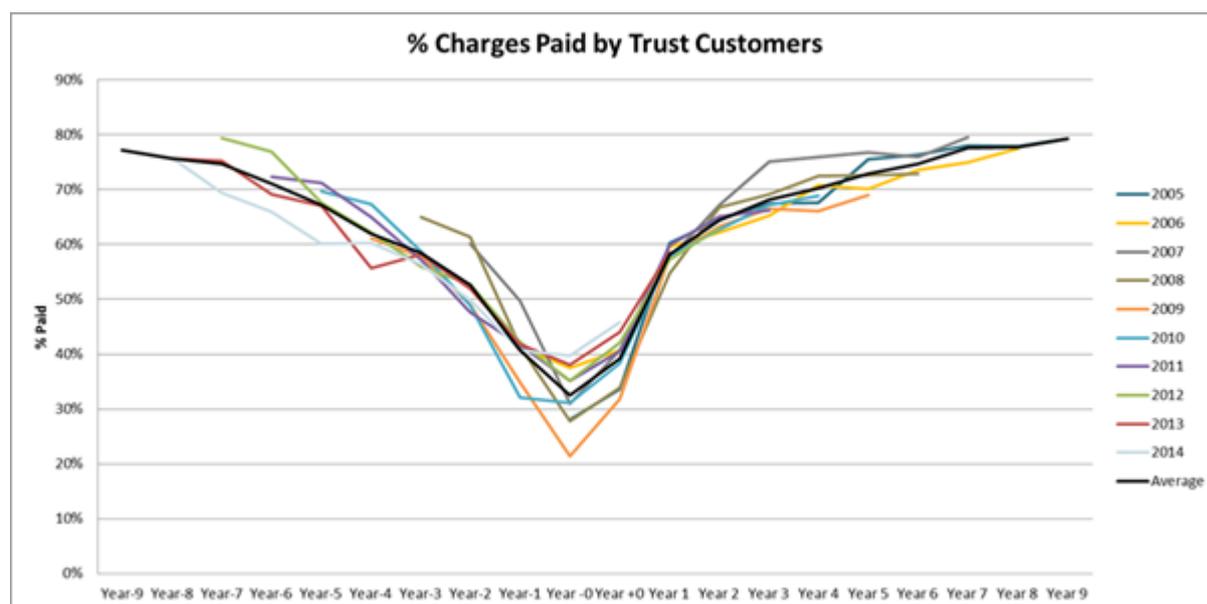
	Total discount (£m)	Portion funded by UUW	Portion funded by customers
UU Trust Fund grant	6.300	100%	0%
Support Tariffs	2.134	100%	0%
Help to Pay	1.001	55%	45%
WaterSure (Vulnerable Customers)	3.049	0%	100%
Total Social Tariffs	12.384	72%	28%

In the following sections we discuss the nature and operation of the various support schemes offered to customers in turn.

UU Trust Fund

We introduced the UU Trust Fund in 2005/06 into which we made initial annual donations of £3m p.a. Over the last 6 years we have increased the donations made, which in 2014/15 was £6.8m. This independent registered charity has helped approximately 41,000 customers as at 31 March 15, and is having a positive impact on rehabilitating future payment levels from those customers helped.

Typically, a customer who is helped by the UUTF pays approximately 35% of their charges in the year in which they get a grant. After receiving help, their payment rate increases to between 75% and 80% and our records show that this is maintained even when a customer applied to the UUTF 9 years ago. The graph below shows the trend in payment before and after assistance is provided from the fund.



Payment profile of customers receiving a grant from the UU Trust Fund (grant received in year zero).

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Support tariff

We have continued to promote our “win-win” tariff (the “Support tariff”) and have extended the pilot area covered by the tariff, to include postcodes in Manchester and Liverpool. This has helped to increase the number of customers on the tariff to over 5,000. Once again, the scheme is having a positive impact on customers’ rehabilitation rates, with approximately 75% of customers paying their ongoing charges on the support tariff.

The tariff is available to both unmeasured and measured customers and provides a capped bill based on a customer’s household income level. The 6 bands of the tariff range from £117 to £449. The table below shows the cash collection percentage across three years for customers who joined the support tariff in the years 13/14, 14/15 and 15/16. A figure exceeding 100% implies some contribution is being made towards arrears.

Cash/Charges			
	2013/14	2014/15	2015/16
2013/14	107%	115%	138%
2014/15	37%	101%	143%
2015/16	41%	40%	136%

As an example, customers who joined the tariff in 2014/15 only produced cash equivalent to around 37% of charges in the preceding year. By capping the charge and presenting a lower, more affordable bill, this improved to 101% of charges in the year of joining the tariff, and is forecast to improve further (15/16 ratios calculated on approximately half a year of actuals).

Customers joining the scheme in 13/14 continue to show good engagement after initial connection, with two years of verified payment exceeding charges, and forecast for a strong third year.

UU funds the tariff and no customer contribution is sought. Crucial to the viability of this scheme is the long term benefits to cash received as compared to reduction in sales from imposing a capped tariff, and reductions in cost to serve these hard to engage customer groups.

The cash collection from the tariff year Year 0 and beyond shows increasing cash payment. Given the cash collection ratios above, it is clear that a fall from relatively high charges improves affordability for vulnerable customers, allowing them to not only pay current year charges, but also to begin addressing any arrears they may have built up.

Year	New Support Tariff Customers	Sales Reduction Year 0	Cash Year -2	Cash Year -1	Cash Year 0	Cash Year 1	Cash Year 2
2013-14	1,716	391,000	267,000	294,000	300,000	312,000	351,000*
2014-15	2,030	498,000	295,000	304,000	337,000	453,000*	
2015-16	771	175,000	125,000	127,000	188,000*		

* forecast values

For example we can consider the 1,716 customers who joined the support tariff in 2013-14. In the years preceding their joining the scheme there was a steady under payment against annual bills. After joining the scheme sales were reduced by a total of £391,000 as customers were offered the reduced tariffs, but total annual payments actually increased to £300,000 for the year. The saving

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of in the year after joining (FY14) equates to approximately £22.60 per person. It should be noted that write offs among this group did increase, in addition to charge differences, to achieve this.

In addition to increased cash contributions there are additional benefits to costs of billing and debt collection activities. There is an observed fall in the average cost for billing and debt activities, with a minor increase for payment activity, as would be the case for improved cash collection frequency. Overall, there are indications that there is an approximate £9 annual reduction in cost to serve for support tariff customers.

Help to Pay Social Tariff

We launched our social tariff – the “Help to Pay” (HTP) scheme – on 1st April 2015. This followed two rounds of customer research to obtain the required level of support from customers for its introduction. The research concluded that our customers were prepared to pay 47p of cross-subsidy for every £1 of support offered, provided it was used specifically to support poor pensioners. This was on the proviso that UUW would also match the level of cross-subsidy from customers and fund the administration of the scheme. Following this mandate from customers, we have undertaken a “Soft-Launch” of the tariff since April 2015 in order to test operational processes and understand the most effective channels of promotional activity.

The HTP tariff provides a capped bill for customers of £250 per year and is available to both unmeasured and measured customers. For measured customers, we continue to take meter readings and ensure that if a customer’s bill would be below £250 per year based on their actual consumption, we would bill them this lower amount.

The main criteria for eligibility for support under the “Help to Pay” scheme is for the customer to be in receipt of Pension Credit, which official ONS statistics show there are over 300,000 customers on this benefit in our region. We expect to sign up 8,000 customers during this charging year, with a further expectation that this will increase over time.

Since we have launched the tariff, we have undertaken a broad range of promotional activity including

- Lettering campaigns to customers who we believe are eligible (i.e. in receipt of pension credit)
- Briefing our external Debt Collection Agency (DCA) panel to ensure that they promote the tariff in conjunction with our other payments assistance schemes as part of their normal collections activity.
- Partnership working with Registered Social Landlords in our region to promote the tariff to their tenants. Pilot projects are underway with Eastlands Homes and discussions at advanced stages with Guinness Housing, Plus Dane Housing, West Lancashire Council and City South Housing.
- Promotion with relevant advice agencies in the North West – so that they can help their clients gain access to the tariff. A primary focus being to work closely with Age Concern and other agencies focused on helping elderly people. We are currently working through a schedule of 12 events planned with Age Concern and to date, have briefed Tameside and Cheshire East Age UK. We also have events planned in conjunction with the Age Concerns Community Health Ambassador Team.
- Liaising with United Utilities Trust Fund (UUTF) to incorporate promotion of HTP Tariff in conjunction with assessment for UUTF grant

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- Continued coaching and refresher training given to agents to ensure that they promote the tariff to customers where applicable.

Both UU and customers fund this scheme. This was a condition set out by customers who said that they would be willing to cross subsidise the scheme but only if UU matched their contribution.

A strong driver for introduction of the tariff was the DEFRA guidance on social tariffs and the political environment for the water sector. It is believed important that UU offer a scheme which is in line with the best levels of support provided in the water industry. The introduction of the "Help To Pay" scheme bolstered our package of assistance schemes available to customers. This is of particular importance in the context of the relatively highly deprived customer base in the Northwest.

Arrears allowance

The arrears allowance scheme was introduced to provide customers who had built up substantial arrears to be given an opportunity to rehabilitate their payments with UU. For every £ a customer pays, UU matches this for the first 6 months of payments. Thereafter UU double matches each £ paid by a customer on the scheme. This scheme is funded entirely by UU. Encouragingly, rehabilitation rates for this scheme are very positive and we now have over 50% of customers on this scheme receiving the double matching write-off, meaning that they have maintained payments for at least 6 months.

Over the years we have refined our arrears allowance matching scheme to make this more attractive to customers. We are currently double matching payments made by customers after 6 months. This along with sending customers pre-emptive text messages prior to a payment being due are all helping to drive strong sustainability of this scheme. Since April 2013, we have promoted the scheme extensively to customers and we currently have over 19,000 customers making regular payments. This is an increase of over 13,000 since April 2013 and we believe this to be the largest re-start scheme in the industry.

In addition to the above direct support arrangements put in place for customers we also offer a range of advice and services that can help customers reduce their ongoing bills, and access the full range of support available to them.

Efficiency Advice

Water efficiency plays an important role in helping metered customers who face affordability problems, and is also relevant to wholesale business duties to balance water supply and demand. At UUW we achieved total saving for AMP5 of 16.87 MI/d, which is over and above the Ofwat target of 14.31MI/d.

Our water efficiency campaign includes numerous activities, we have set out below those that also contribute to addressing affordability issues:

- Providing "A simple guide to your water meter" (including water saving information) with household customers after a meter is installed
- Linking water efficiency and affordability through partnership work with a collection of councils and housing associations across the Liverpool region.

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- Include bill inserts to remind customers of what water saving products are available via the UUW website.
- As part of UUW's Great Value campaign over 13,000 people a year are given water efficiency advice and products to take away.
- We provide an online water usage calculator, which allows customers to assess where they use the most water and offers advice on how they can reduce their overall consumption. Over 50,000 people used the tool in 2014/15. The calculator also shows customers whether they would be better off financially by moving to a water meter.
- Our "guide to using water wisely" contains a section on saving water in the home, and enables household customers to calculate their daily water usage. In 2014/15, we distributed over 52,400 audit kits.

Flexible Payment Plans

Many customers who face affordability challenges benefit from payment options which offer greater flexibility than that offered by direct debit or standing order.

One key way of providing a customer with an ability pay in a highly flexible yet easy manner is to provide them with a Payment Card, which can be used to make payments to UUW at a range of outlets. UUW offers customers the ability to pay using this method free of charge at any Payzone outlet and Post Office. Using the payment card, customers can make payments at a time, location, and frequency that is convenient to them. Over 99% of the UK population live within 3 miles of a Post Office outlet. Payzone outlets have in excess of 3,000 outlets across our region. Whilst the Payment Card option is a more expensive for UUW to process than other payment options we continue to provide it free of charge to our customers.

Customer feedback on this payment card option is very positive. For customers that are not eligible for the discount schemes identified above we use the payment card to help them make payments as and when they are able.

Another payment option that many customers choose to use is for contributions to be taken directly from their benefit payments. Working in conjunction with the DWP we are able to put in place monthly payment arrangements which enable some customers to have deductions from their benefits payments before they receive them. In excess of 35,000 customers currently choose to pay via this route.

Supporting our customers

From an operational perspective, all our agents are trained to ask appropriate questions to customers to understand their situation. We complete an income and expenditure assessment for customers who state that they are facing financial hardship and affordability problems. This aligns to the common financial statement utilised in the money advice sector. Agents are trained to promote the wide range of payments assistance schemes and advise to find which one best suits customers' individual circumstances. Central to this is setting an affordable but sustainable payment plan arrangement. This arrangement is made in the context of the customer's wider circumstances; including taking into account all of their outgoings.

For customers who face both debt and affordability issues, we look to "bundle" schemes together so that we can address their historic debt problem, but also provide the customer with a lower bill

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that helps to address affordability issues, thereby mitigating the risk of them falling into arrears in the future again.

Our agents are trained to signpost customers who are in arrears to a range of external money advice providers such as National Debt Helpline and Citizen Advice Bureau (CAB). Recently, we have created strategic partnerships with both StepChange and Payplan, where we work together to ensure UUW customers obtain wider holistic help for their financial situation. We have established relationships with local advice agencies, charities and voluntary organisations in the UUW region. We have a dedicated role (Outreach Manager) who engages with the advice sector in the UUW region and promotes the assistance packages available to customers