

July 2019

Trust in water

# PR19 draft determinations

**Affinity Water – Addressing affordability and vulnerability actions and interventions**

## PR19 Draft Determinations: Affinity Water - Addressing affordability and vulnerability actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised actions, a summary of the company’s response to the action, our assessment of the company’s response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix ‘AFW’ denotes the company Affinity Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Actions whose numbers are preceded with an ‘A’ denote required actions and actions whose numbers are preceded with a ‘B’ denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix ‘AFW’ denotes the company Affinity Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Intervention numbers are preceded with a ‘C’.

For all other documents related to the Affinity Water draft determination, please see the [draft determinations webpage](#).

**Table 1: Affinity Water’s response to required actions and interventions for draft determinations**

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Addressing affordability and vulnerability	AFW.AV.A1	Required	Affinity Water proposed a higher bill than what it tested with customers and it also proposed a different bill profile for the 2020 to 2025 period. The company should provide sufficient and convincing evidence that it has engaged with its customers on affordability and acceptability of its proposed bill profile for the 2020 to 2025 period. The company should demonstrate that its customers find its proposed bill profile acceptable and affordable. This should include testing of the combined water and wastewater bill. The company should confirm that testing will be assured by its customer challenge group and	1 April 2019	Affinity Water undertakes customer research to establish the acceptability of its bill for the 2020 to 2025 period. As per research submitted on 29 May 2019, the company tests its final bill profile only, which obtains acceptability of 79% in real terms. The company also tests the combined bill with customers, obtaining an acceptability score of 75%. The survey is carried out with around 1000 customers with quotas driven by supply area, it was carried out by an Market Research Society accredited firm. Supplementing the online survey, the company carries out some qualitative research on its clean water bill with customers in vulnerable situations through focus groups and in-home interviews. While the sample is very	Intervention required.  We have considered the evidence provided in making a decision on the bill profile for the company.  The company does not address our concern. Despite undertaking bill level and profile testing it does not test bills based on its natural rate. We note the admission that the sample may be skewed by the company	See PR19 Draft Determinations: Affinity Water – Aligning Risk and Return Actions and Interventions (AFW.RR.A6)

			conducted in line with social research best practice.		small, and thus the findings need to be treated with some caution, the company finds its proposed clean water bills are acceptable to this group. The company tests one bill profile with customers, so it is not possible to gauge whether customers would prefer a different approach. The customer challenge group has not commented directly on these results, which are submitted after the 1 April 2019 deadline. However it notes that the company has chosen a bill profile that is close to a scenario the company tested with customers in Spring 2018, which achieved 74% acceptability. However, we note the company does not test a bill profile based on its natural rate.	undertaking online research only.	
AFW.AV.A2	Required	Affinity Water has provided insufficient evidence that it has engaged with customers on bills beyond 2025. For example, although it has provided a long-term view of its forecast bills for the next three asset management plan (AMP) periods to 2040, there is insufficient evidence of engagement with its customers on these long-term bill profiles after the 2020 to 2025 period. Furthermore, there is insufficient evidence of how acceptable customers find the long-term bill profile. The company should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to outline customer support for each of the profiles tested. The company should confirm that testing will be assured by its customer challenge group and conducted in line with social research best practice.	1 April 2019	Affinity Water undertakes customer research to establish the acceptability of its bill profile for the 2025 to 2030 period. The company tests two profiles, one rising throughout the period and one flattened throughout the period (in real terms). The profiles achieve acceptability of 74 and 81% respectively. The survey is carried out with 1000 customers and the company samples to ensure core customer demographics are represented, it is carried out by an MRS accredited firm. However, the survey is online only. The customer challenge group acknowledges that the company has carried out this research. We note the company does not test a bill profile based on its natural rate.	No intervention required because long term bills are not being set as part of PR19.  However, the company does not address our concern. Despite undertaking bill level and profile testing it does not test bills based on its natural rate. We note the research is online only and so might under represent the views of certain groups, including more vulnerable customers. The company does not test multiple profiles with the same customers, so it is not possible to discern whether customers have a preference when directly comparing the bills.	N/A	
AFW.AV.A3	Required	Affinity Water has provided insufficient evidence on social tariff cross-subsidy research – little evidence has been provided on what customers were asked, the different levels of cross-subsidy they were presented with, and the levels of support these gathered. The company should undertake customer engagement on different levels of social tariff cross-subsidies and provide sufficient evidence to outline customer support for the same.	1 April 2019	Affinity Water submits further evidence to support the increase in its social tariff cross-subsidy from £3 to £4.50. Its customer challenge group comments on this issue, stating 'we do not consider the company needs to undertake further customer engagement. It has already provided sufficient evidence, in our view, to outline customer support for its proposals, which is repeated in its response to AV.A3.' The company submits evidence that shows it undertook three rounds of acceptability testing for increasing its social tariff expenditure. Phases 1 and 2 show consistent support for the	No intervention required.  The company addresses our concern by submitting new evidence, showing that customers were engaged extensively on the concept of and level of social tariff cross-subsidies and that they were asked appropriate questions for the company	N/A	

					principle of paying more for social tariffs through an increased cross subsidy (63% of customers supported this concept in both rounds of testing). The research on both occasions is undertaken with large, weighted samples and the second phase included in-home interviews as well as online. The company establishes through the third phase of research that 60% of customers are willing to pay an additional £1.50 toward a social tariff (making the total cross-subsidy £4.50 per year).	to get an understanding of willingness to pay. In the third phase of the survey, the company gained support for the additional expenditure by A) including it in its bill forecast and B) gaining standalone support for the expenditure.	
	AFW.AV.A4	Required	Affinity Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services by 2020 but has not provided a Performance Commitment or plan on how it will do so. The company should propose a performance commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020 to 2025 period.	1 April 2019	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.
	AFW.AV.A5	Required	Affinity Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 2.5% in 2019/20 to 6.3% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has checked no PSR data over the past two years. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): The company should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to check at least 90% of its PSR data every two years. For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.	1 April 2019	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.	See PR19 Draft Determinations: Affinity Water Outcomes actions and interventions.
	Advised actions	Advised	No advised actions.	N/A			

**Table 2: Further interventions for draft determinations**

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	N/A

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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