

July 2019

Trust in water

PR19 draft determinations

Northumbrian Water – Addressing affordability and vulnerability actions and interventions

PR19 Draft Determinations: Northumbrian 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 'NES' denotes the company Northumbrian 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 'NES' denotes the company Northumbrian 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 Northumbrian Water draft determination, please see the [draft determinations webpage](#).

Table 1: Northumbrian 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	NES.AV.A1	Required	Northumbrian Water has not provided sufficient evidence to demonstrate that it has tested multiple bills profiles with customers beyond 2025, particularly for the 2025-30 period. Northumbrian Water should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to demonstrate customer support for each of the profiles tested. Northumbrian Water should confirm that testing has been assured by its customer challenge group and conducted in line with social research best practice.	1 April 2019	Northumbrian Water undertakes post-initial assessment of plans research on its bill profile for the 2025 to 2030 period with 167 customers as part of qualitative, focus group sessions. The company establishes that across both of its regions customers prefer a steadily rising bill to a bill that has an upward adjustment in year one before flattening out. The research is carried out by a Market Research Society accredited company and with a range of adults of different ages and socio-economic profiles. The research finds that 69% of customers prefer a steadily rising bill. The customer challenge group supports the company's approach, stating 'Given	No intervention required. Long-term bill profiles are not set as part of PR19. Our original concern about the lack of clear support for Northumbrian Water's bill profile for the 2025 to 2030 period has been addressed. The company tests multiple bill profiles and selects one that obtains 69% support in customer research.	N/A

					the tight timescales involved, we are pleased that NWL decided to get face-to-face with its customers using deliberative events, rather than relying on online or electronic means.' It further notes that one of its members was consulted on the approach and content the company was taking and notes 'we are satisfied that the company incorporated his feedback into its approach'.		
NES.AV.A2	Required	<p>There is insufficient evidence that Northumbrian Water has customer support for the £2.92 customer cross-subsidy. It is uncertain whether Northumbrian Water will contribute the necessary funds towards the social tariff if it does not get customer support for the cross-subsidy. Northumbrian Water stated that "If required we will flex other aspects of our plan to compensate in order to achieve our target".</p> <p>Northumbrian Water should undertake further social tariff testing with customers to provide sufficient evidence to confirm that the proposed cross-subsidy of £2.92 is acceptable to customers. If the proposed cross-subsidy is not acceptable to customers, Northumbrian Water is to confirm the steps that it will take to achieve its target for the "Percentage of households in water poverty" performance commitment (PR19NES_BES06).</p>	1 April 2019	<p>Northumbrian Water undertakes new research on willingness to pay social tariffs. This research establishes that 66% of customers are willing to pay £2 extra per year to fund additional social tariff support, specifically to support low income pensioners. Research is undertaken with over 1800 customers through a mixture of online and off-line methods. The company, supported by the Consumer Council for Water, concludes it has sufficient support for a total cross-subsidy (which includes the amount customers had agreed to previously) of £2.85 per customer, 7p short of the sum needed to meet the goal it has set in its performance commitment PR19NES_BES06. The company suggests it is 'confident' it can meet its target, stating 'we will carry out further research to test this during the period to 2024 – and if our customers are not willing to support any increase to the cross-subsidy there are other elements of the plan that the company could flex to achieve our goal, such as increasing the numbers of customers supported by our cost neutral company funded scheme.' The company's customer challenge group supports its approach, stating 'We are pleased with the outcome of the research and satisfied that customers support the level of contribution of £2.85 in total towards NWLs social tariff structure/offering'.</p>	<p>Intervention required.</p> <p>The company's new research and greater willingness to pay allows it to close most of the gap between the funding and ambition of its plan to remove more customers from water poverty. However, a small gap still exists.</p>	<p>We are restating Northumbrian Water's goal to either increase its social tariff cross-subsidy to £2.92 or self-fund the necessary extension to meet its relevant performance commitment (PR19NES_BES06).</p>	
NES.AV.A3	Required	<p>Northumbrian Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 7% in 2019/20 to 10% of households in 2024/25. This is a sufficiently ambitious target. However, it has only checked 10.5% of PSR data over the past two years.</p>	1 April 2019	<p>See PR19 Draft Determinations: Northumbrian Water - Outcomes actions and interventions</p>	<p>See PR19 Draft Determinations: Northumbrian Water - Outcomes actions and interventions</p>	<p>See PR19 Draft Determinations: Northumbrian Water - Outcomes actions and interventions</p>	

			<p>We propose to introduce a common performance commitment on the Priority Services Register (PSR): Northumbrian Water should include a performance commitment to increase its PSR reach to at least 7% of its customer base (measured by households) by 2024/25. Its performance commitment should also commit to checking at least 90% of PSR data every two years.</p> <p>For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.</p>				
	NES.AV.A4	Required	<p>Northumbrian Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services but has not provided a performance commitment or plan on how it will do so.</p> <p>Northumbrian Water 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.</p>	1 April 2019	See PR19 Draft Determinations: Northumbrian Water - Outcomes actions and interventions	See PR19 Draft Determinations: Northumbrian Water - Outcomes actions and interventions	See PR19 Draft Determinations: Northumbrian 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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

July 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

