

July 2019

Trust in water

# PR19 draft determinations

**South Staffs Water – Addressing affordability and vulnerability actions and interventions**

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

**Table 1: South Staffs 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	SSC.AV.A1	Required	<p>South Staffs Water has included neutral responses from customers in its results for acceptability and affordability testing.</p> <p>South Staffs Water should provide sufficient and convincing evidence to justify including neutral responses from customers in the affirmative in its reporting of bill support results for the 2020 to 2025 period or remove them from its reporting.</p>	1 April 2019	The company responds as follows 'with regards to our customer acceptability, you believe that we have included neutral responses within our overall acceptability figure (SSC.AV.A1). We followed CCWater's guidance that neutrals should not count toward acceptability.'	<p>No intervention required.</p> <p>We do not propose to intervene as this issue does not have a direct bearing on the company's draft determination.</p> <p>However, we note the company includes neutral responses as affirmative in its presentation of current customer views on value for money. It also includes 'don't know' responses in the affirmative in the reporting of its March 2019 acceptability testing.</p> <p>Neutral responses should not be included in the affirmative for any of the affordability,</p>	N/A

						acceptability or value for money metrics included in business plans unless sufficient justification is given for doing so.	
	SSC.AV.A2	Required	<p>South Staffs Water has tested multiple bill profiles with customers beyond 2025 but has not chosen the bill profile with the most customer support.</p> <p>For the 2025-30 period, South Staffs Water should choose the profile that is most acceptable to customers or provide sufficient evidence to clearly justify why it has not chosen this bill profile.</p>	1 April 2019	<p>South Staffs Water re-tests its 2020 – 30 bill profile with a representative sample of customers. It tests comparative preference between bills that rise slowly through the period and that are kept flat for 2020-25 and then rise in 2025-30. On a ten year horizon, 66% of customers prefer a profile that rises incrementally, with only 34% preferring a flat bill in the 2020-25 period followed by greater increases in the 2025-2030 period. However, its five year research still indicates that customers prefer a flat nominal bill to a rising one, so it is planning on maintaining a flat bill in 2020-25, with increases thereafter. From its research, the company has concluded that customers are not willing to accept a bill transition of more than £3 between 2025 and 2026 and so it proposes a mechanism to ensure it keeps any increase below that amount. The company's customer challenge group says the re-submission 'corrects' the problem that the company picked the bill profile that did not gain the most customer support. The company states its approach to weighting evidence is as follows, 'when triangulating customers preferences of bill profiles between the period 2020 – 2025 and the period 2025 - 2030 we believe it is right to place a higher level of confidence on the level of customer support for 2020-2025, when considering their overall acceptability and affordability of the bill. This is primarily because the 2020 up to 2025 bill impact carries a very high level of certainty of the bill amounts customers will pay, whereas the 2025 up to 2030 period (at this point in time) carries slightly less certainty as there are so many unknowns over what bill profiles will actually be over the AMP8 period.'</p>	<p>Intervention required.</p> <p>The company does not select the bill profile that is most acceptable to customers for 2025-30, we consider the company's evidence for not doing so to be insufficient, as its testing of bill profiles over a five year and ten year horizon does not produce results. It is unclear whether the company's mechanism to limit the bill transition between 2020-25 and 2025-2030 is sufficient.</p>	<p>For intervention see PR19 Draft Determinations: South Staffs Aligning Risk and Return actions and interventions (SSC.RR.A.7)</p>
	SSC.AV.A3	Required	<p>Following challenge by CCWater, South Staffs Water has committed to carrying out further stand-alone social tariff research separately from PR19 research, although it is unclear if this has been completed to date. CCWater were concerned that South Staffs Water only received 61% support for</p>	1 April 2019	<p>South Staffs Water confirms that customers will contribute a cross-subsidy of £3 per year towards social tariffs in the 2020 - 25 period. This figure is based on customer surveys, and several different values are tested with customers.</p>	<p>Intervention required.</p> <p>The company outlines in more detail how it arrives at its current level of cross-subsidy, the</p>	<p>We note the company is hoping to introduce new affordability schemes and increase the reach of its affordability support in its draft determination</p>

			<p>the £3 cross subsidy that South Staffs Water has stated that customers will contribute to the social tariff by 2019/2020. This level of cross-subsidy is also not clearly articulated throughout the plan, so we require confirmation from South Staffs Water that this is the level of cross-subsidy for the 2020 to 2025 period.</p> <p>South Staffs Water is to engage with customers on different levels of social tariff cross-subsidies and outline the relevant support levels for each of the levels tested. It should also provide sufficient evidence to confirm that customers will contribute a social tariff cross-subsidy of £3 per year during the 2020 to 2025 period.</p>		<p>However, the company commits to working further with CCWater in the future to improve its offering, stating 'we have also committed to carrying out further customer engagement during 2019 to revisit the levels of contributions customers will make to our Assure social tariff and to assess how we can further improve the scheme from 2020 onwards. We will carry out this engagement in close conjunction with CCWater.' The company's customer challenge group notes the purpose of this research, 'the imminent increase in cross subsidy from April 2019 will enable more customers to get help, but unless further increases are secured the Company will be unable to support all the estimated 42,500 customers who are eligible for support, and it is unlikely the Company will be able to achieve a stretched performance commitment.' The company sets out several additions it would like to make to its affordability offering, including payment matching and a new hardship fund. However, it does not commit to introducing these new support mechanisms through a performance commitment.</p>	<p>method of research and how the figure is selected are sufficient. The company sets out several additions it would like to make to its affordability offering, including payment matching and a new hardship fund. However, it does not commit to introducing these new support mechanisms through a performance commitment. We reference the company's commitment to undertake further work in-period to improve its affordability offering.</p> <p>South Staffs Water suggests that it aims to have a more comprehensive suite of affordability support in place for the next price control yet does not set out in detail when and how it will bring in new schemes.</p>	<p>summary document and relevant performance commitment.</p>
	SSC.AV.A4	Required	<p>South Staffs Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 1.7% in 2019/20 to 2.5% of customers in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has only checked 38.6% of PSR data over the past two years.</p> <p>We propose to introduce a common performance commitment on the Priority Services Register (PSR): South Staffs Water 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 checking at least 90% of its 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>	1 April 2019	See PR19 Draft Determinations: South Staffs Outcomes actions and interventions	See PR19 Draft Determinations: South Staffs Outcomes actions and interventions	See PR19 Draft Determinations: South Staffs 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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July 2019

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