

8 December 2022

Emma Clancy
Chief Executive
CCW



David Black
Chief Executive
Ofwat



By email:

Dear Emma and David

Supporting customers through the cost-of-living pressures

Thank you for your letter dated 17 October.

I welcome this opportunity to share with you our approach and the new and creative solutions we are taking at a time when many of our customers will need our help and support, some for the first time, as the cost-of-living crisis deepens in the months ahead.

Stretching from Bristol to Bournemouth, Devon, and Cornwall, including the Isles of Scilly, we serve a unique population. As one of Britain's most treasured tourist regions, and no longer the heartland of the Cornish mining industry, this is a region, given its dependency on agriculture and tourism, that experiences large socio-economic challenges, with low productivity, low pay and pockets of deprivation, particularly in urban and coastal areas, resulting in low economic growth.

This places an even greater responsibility on the Group, as the largest employer across the Greater South West and for the 3000 colleagues we employ. Given this, we believe that all customers should benefit from what we do; as such, our inclusive approach to affordability has been enhanced in the following 4 areas, working in conjunction with Ofwat and CCW:

- **Keeping bills as lows as possible** – bills across our region are set to be below inflation for 2023/24 despite record levels of investment. South West Water's bills were down £10 in 2022/23 and remain lower than 10 years ago, whilst the acquisition of Bristol Water by Pennon has enabled us to deliver a reduction in customer bills, further aided by an innovative smoothing of bill increases across future periods to mitigate pressure on customers. We are grateful to Ofwat for supporting this change in bill profiles.
- **Offering a comprehensive affordability toolkit** – we provide all our customers with the tools to save water and reduce their bills, with over 75,000 water saving devices issued in 2022 alone. However, we also tailor our support for those struggling to pay and for our vulnerable

customers. We have increased our efforts in this area in response to the additional pressures of the cost-of-living crisis; we are looking to **more than double the number of customers on support tariffs** in South West Water, whilst also continuing the strong level of support for customers in Bristol Water, with over £70m of support made available to customers across both companies this regulatory period to date. We anticipate that will take over 95,000 customers out of water poverty through support tariffs by 2025.

- **Accelerating innovative, inclusive projects to reduce bills and support our customers** – our unique industry leading programmes, Watershare+ and Stop the Drop, developed in are giving over £50m back to customers through reduced bills during these difficult times, whilst also giving customers a greater say in our business and incentivising lower water use to protect our environment for the longer term. Directly in response to the cost-of-living crisis, we have accelerated the second issuance of WaterShare plus, launched this week.
- **Ensuring the South West can “live local and prosper”** by doubling the number of apprenticeship and graduate schemes to 1000 by 2030, and providing 5000 work placements to school children over the same period so that young people don’t believe they need to leave to region to get on, representing our **most ambitious employability and skills investment** to date focused on the regions we support.

Our industry leading ambition to eradicate water poverty is at the heart of our approach and the pressures on customers from the cost-of-living crisis strengthen our resolve to achieve this ambition. We have already made great strides in identifying and supporting our customers proactively, using a data led approach, supported by trained, knowledgeable engagement, through customers’ channel of choice. This has led to nearly 75,000 customers being helped through one of our schemes from April 2020 to September 2022, with over £23m of support provided over this same period.

We also strongly support CCW’s work on the single social tariff and are keen to be at the forefront of work in this area. We highlight the need to focus on ensuring a smooth transition, so that customers on existing tariff mechanisms receive consistent support to avoid bills shocks or pressures on households at a time of already significant challenge.

However, we are acutely aware that the cost-of-living crisis is leading to customers struggling to pay even when they have never before been in that situation. Our ability to identify those at risk of being in water poverty proactively, at an individual household level, coupled with our work on data sharing both with the DWP and local councils, also means we are now auto-enrolling customers onto support tariffs without the need for customers to apply. This reduces the barriers for customers in getting the right support and ensures we are helping more customers than ever before. We expect to more than double the number of customers on support tariffs in South West Water to 69,000 by March 2025 from 32,000 at 31 March 2022, whilst we are focussed on increasing support in Bristol to support over 25,000 customers by the same date.

Innovative charging structures are also key in tackling affordability as well as water efficiency, particularly with the challenges that PR24 will bring in balancing investment needs with affordable bills. In the South West region, 1 in 17 homes are second homes,; consideration of how we charge for reserving ‘capacity’ and rebalance charges equitably is an area we are considering, alongside other mechanisms such as rising block or seasonal tariffs. These present opportunities to develop new and progressive charging mechanisms to help with fairness and affordability, which we are keen to explore.

We are also working closely with our Watershare+ customer panel to listen to their challenges on our work and forward programme, as well as to engage and gain customer feedback both on our performance to date as well as customers' priorities and expectations for us going forward. We will work together to plan an affordable future. We are also investigating further ways to innovate and lead in new charging mechanisms, particularly with the challenge of climate change being particularly acute in our region, coupled with the unique challenge of a region with high second home usage and exceptional seasonal demand due to the tourist industry.

We believe we have taken industry leading steps to support all our customers, and ensure they have affordable bills, whilst also targeting support to those in water poverty. We will continue to innovate and lead in our approach to affordability, whilst also ensuring we work with our communities to support employment, tourism and a thriving region protecting the environment around us. In this way, we hope to build trust with the customers and communities we serve at a time when they need our help the most.

We have included as an annex to this letter further detail on the comprehensive steps we are taking to support our customers through cost of living pressures, but would welcome any questions or further detail you may require.

Yours sincerely



Susan Davy
Chief Executive

Annex: Supporting customers during the cost-of-living crisis

Stretching from Bristol to Bournemouth, Devon, and Cornwall, including the Isles of Scilly, we serve a unique population. A region that given its dependency on agriculture and tourism, experiences large socio-economic challenges, with low productivity, low pay and pockets of deprivation, particularly in urban and coastal areas.

This places an even greater responsibility on the Group, as the largest employer across the Greater South West and for the 3000 colleagues we employ. Given this, we believe that all customers should benefit from what we do, giving those customers struggling to pay their bills the support and assistance they need, to ensure no one in our region is in water poverty.

Whilst our first focus is always on keeping bills low, we are also undertaking a wide range of actions and initiatives to help all of our customers during these challenging times. The value to customers is significant, and we are looking to expand and extend our efforts to make support available to those that need it proactively and supportively. We have summarised the value of this support, both to date and forecast to 2025 - a total of £138.8m, by company in the tables below:

Table 1: Support provided to South West Water customers:

Measure		FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	2020-2025
Customers benefiting through support tariffs: WaterSure or WaterCare	Nr	30,565	32,255	42,000	59,000	69,000	69,000
% of Customers Supported by Tariff	%	3.1%	3.2%	4.3%	5.9%	7.0%	7.0%
Financial Assistance Value by Element of Affordability Toolkit							
WaterSure Tariff	£m	£5.4	£5.9	£6.0	£8.0	£8.2	£33.5
WaterCare Tariff	£m	£1.5	£2.1	£3.3	£6.5	£8.0	£21.4
BECs	£m	£0.7	£0.6	£0.4	£0.4	£0.4	£2.5
Restart	£m	£0.5	£1.0	£0.8	£0.8	£0.8	£3.9
FreshStart	£m	£0.2	£0.1	£0.1	£0.2	£0.2	£0.8
Total Financial Assistance Provided	£m	£8.3	£9.7	£10.6	£15.9	£17.6	£62.1
Lowest Bill Guarantee – Targeted Metering	£m				£3.0	£3.0	£6.0
Water Efficiency Incentive	£m			£7.6			£7.6
Water Saving Devices Money Saved	£m			£0.3	£0.3	£0.3	£0.9
HH Water Share + 2020 and 2022	£m	£19.0		£12.6			£31.6
Community Funds	£m	£0.03	£0.2	£0.1	£0.1	£0.1	£0.5
Total Value of Support and Savings	£m	£27.3	£9.9	£31.2	£19.3	£21.0	£108.7

Table2: Support provided to Bristol Water customers:

Measure		FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	2020-2025
Customers benefiting through support tariffs: WaterSure, Assist and Pension Credit	Nr	20,419	21,209	22,376	23,543	24,710	24,710
% of Customers Supported by Tariff	%	4.0%	4.2%	4.3%	4.5%	4.7%	4.7%
Financial Assistance Value by Element of Affordability Toolkit							
WaterSure Tariff	£m	£0.04	£0.04	£0.05	£0.05	£0.06	£0.02
Assist	£m	£1.1	£1.3	£1.4	£1.7	£1.9	£7.4
Pension Credit	£m	£0.2	£0.3	£0.3	£0.4	£0.4	£1.6
Total Financial Assistance Provided	£m	£1.3	£1.6	£1.7	£2.1	£2.5	£9.2
Merger benefits							
Bill reduction from small company cost of debt	£m				£1.3	£1.3	£2.6
Deferral of revenues below CPIH	£m				£5.9	£5.9	£11.8
WaterShare+	£m			£6.5			£6.5
Total Value of Support and Savings		£1.3	£1.6	£8.2	£9.3	£9.7	£30.1

Keeping bills as low as possible

- **SWW bills reduced £10 in 2022/23, remaining lower than 10 years ago in 2023/24**
- **Below inflation bills for 2023/24 for BRL, aided by benefits from the Pennon acquisition and Ofwat supported smoothing of allowed revenue increases**

Our region has a higher proportion of households with lower-than-average incomes. This, coupled with the size of customer's water bills not being uniform across England and Wales, means that nowhere will the impact of the cost-of-living crisis impact more acutely on the ability to pay water bills than in the South West.

With this in mind, we have acted to ensure that bills across our region for 2023/24 are below inflation; with South West Water (SWW) remaining lower than they were 10 years ago and Bristol Water (BRL) bills increasing below inflation.

One important aspect of trust in the water sector is that we consider the timing and profile of revenue recovery. This is considered at price reviews, but it is important to keep this under review as circumstances evolve. For BRL, we set out in our indicative charges our preference to defer an above inflation bill increase in 2022/23 to 2025/26, where it would otherwise reverse.

This is in addition to the commitment Pennon made in acquiring Bristol Water to reduce the additional cost of small company financing that the CMA included in price limits, which will reduce bills by c1% in 2023/24. Bristol Water customers are also benefitting now from a £13 credit or Pennon share option from the WaterShare+ mechanism, which shares the benefit of financing outperformance with customers.

The CMA at PR19 smoothed out the impact of their re-determination over three years, which back-end loads revenues and then results in a bill drop in 2025/26. The Board set indicative tariffs for 2022/23 on the basis of deferring 5% of K factor until 2025/26, as neither ODI or revenue forecasting adjustments (RFI) for BRL provided offsetting opportunities. This 5% deferment could be done without putting financial resilience at risk (a benefit of the merger in itself) and should allow tariff changes to be broadly in line with November CPIH.

Having made this proposal and with the support of the Bristol Water Challenge Panel, we welcome Ofwat's support following discussions on this shared challenge, indicating that in such circumstances such an approach would not trigger the RFI penalties that could be automatically applied at PR24.

This is a good example that the economic regulation framework in the water sector has sufficient flexibility where companies have proposals which are unambiguously in consumer's interests. It will maintain trust and maintain support for the targeted social tariffs that already work well.

We also know that the GC50 government contribution is critical for our customers in keeping bills affordable; the rebate is a well-established and necessary mechanism to ensure investment to improve 33% of our country's beaches at the time of privatisation falls equitably on our customers. The COVID-19 pandemic has shown how much our nation has benefitted from the improved quality of beaches in our region, as they were enjoyed by millions and proved a major contributor to the region's tourism economy. With everyone's attention on the cost-of-living crisis, as well as regional inequalities, GC50 very much remains a key aspect of supporting our customers and preventing more customers moving into water poverty.

Offering a comprehensive affordability toolkit

- Industry leading commitment to eradicate water poverty in both SWW and BRL
- Proactive, data led approach that auto-enrols customers onto support tariffs
- Over 95,000 customers taken out of water poverty through support tariffs 2025
- Over 75,000 water saving devices issued to customers in 2022 year to date alone
- Proactive, data led approach that auto-enrols customers onto support tariffs

Eradicating Water Poverty

We know there is more to do as all customers are impacted by cost-of-living pressures however it remains vital that the most financially vulnerable in our society receive the support they need.

Both SWW and BRL have made measurable industry leading Business Plan commitments to eradicate Water Poverty by 2025, ahead of the CCW's 2030 ambition, which we are pleased to report we are on track to achieve.

- SWW: where a customer is spending more than 5% of their equivalised income after housing costs on water bills
- BRL: bills represent no more than 2% of disposable income (defined as gross income minus income tax) comparable to the 5% threshold as reflective of a water only bill.

In addition to metering, water efficiency and behavioural change, which will reduce bills and remove customers out of Water Poverty, we currently have 55k customers on a support tariff set to increase to more than double to c95k by 2025 which, for SWW customers only, will see c69k customers eligible and in need our support in 2025, c7% of all SWW households.

Our glidepath based on current data, which is subject to change as external cost of living factors begin to take hold, is shown below.

SWW	2020-21	2021-22	2022-23	2023-24	2024-25
Glidepath	89.00%	92.80%	95.20%	97.60%	100.00%
Actual	89.40%	93.30%			
Forecast			95.20%	97.60%	100.00%
Customers Supported by a Social Tariff	30,565	32,255	42,000	59,000	69,000
*Customers in WP at YE	95,400	61,200	44,235	22,368	0

This further demonstrates that nowhere will the impact of the cost-of-living crisis be more acutely felt than in the South West. This shows the importance and impact of the £50 government contribution being retained, with Frontier Economics calculating, as part of the Single Social Tariff analysis, that at current prices should the subsidy be removed up to 15% of customers would require support.

Bristol Water's Performance Commitment on the percentage of customers in water poverty recorded 0% at half year 2022/23, an improvement from the 1% reported for 2021/22 due to individual customer targeting of the existing effective range of social tariffs.

The innovative use of data is at the forefront of eradicating poverty, allowing us to identify and reach out to the struggling silent. We have partnered with CACI and DWP through our Datashare agreement, also including ONS data so we are now able to identify, proactively engage with and auto enrol individual customers who are in Water Poverty onto support tariffs, with over 5k customers benefitting to date since being launched in July.

We are supportive of the introduction of a new cross industry Single Social Tariff (SST) from 2025 and would welcome the opportunity to share with Ofwat, the CCW and wider industry the challenges and barriers we have faced and are working to overcome as we narrow in on this ambition. These include the consumption increase that naturally occurs where customer moves from a metered charge and, the barrier to accessing help for some customers in privately tenanted properties where metering, which is not only the best way to save but is also a requirement to qualify for support, can be discouraged and at its most extreme can result in the threat of tenancy's being ended should they proceed with meter installation.

Our Affordability Toolkit

Support tariffs are only one of the ways in which we are able to support customers. Our Affordability Toolkit goes beyond this providing a range of measures for all customers designed to lower customers' bills and provide support to those who need it the most.



- Restart and Freshstart - company funded debt write off schemes
- Income Maximisation - benefits checks saving an avg. £43 a month
- Assist Scheme - an up to 90% bill reduction for customers seeking wider debt advice
- Discount for low-income pensioners
- WaterSure+
- Flexible payment plans
- Water Direct
- Home water efficiency audits
- Promoting and providing free water saving devices
- Metering (saving customers on average 15%)

To date over 100k customers have accessed or unlocked financial support from our support tariffs, company funded debt write off schemes and income maximisation. We expect this grow by more than 50% to over 150k to 2025.

Our People supporting Our Customers

Through the development of our affordability toolkit, we have empowered our staff to identify all types of vulnerability, from transient to long-term, to find the right support for our customers through enhanced, innovative training and ongoing support.



We have been supported in the development of our Affordability and Vulnerability Training program, delivered to both Contact Centre and Field Staff, by external partners such as the mental health charity MIND and Dementia Friends. This has enabled us to provide additional insight and awareness for all customer service staff so that they are able to recognise potential and emerging vulnerabilities.



Our retained accreditation of the BS 18477 standard for Inclusive Service provision was specific to the identification and responding to vulnerability. We had a very successful external audit, conducted by BSI, in February 2022 with BRL currently working towards the new BSI 22458, with the assessment booked for 2023.

In BRL we have introduced vulnerability, affordability and PSR subject matter experts known as 'Vulnerability Heroes' supporting colleagues and customers to identify where customers need our help and that we find the right support every time.

Clear and Accessible

We understand the pressure and challenges they can face when seeking support, especially where there is a need to speak to someone directly about money which for many people can be overwhelming and present a barrier to application. We have listened to our customers and this year we have taken the following actions

- Introduced always on 24/7 Web Messaging and WhatsApp, giving customers the option to contact us and have a conversation through their preferred digital channel receiving the same service as they would by phone and making us and access the support more accessible than ever before.
- Refreshed our helping hand cards that our field teams provide to customers including more information and making us more accessible
- Redesigned our website and literature using the gold standard web content accessibility guidelines and followed the CCW's recommendations in respect of common language and simplification.



WaterSure
Capped water bills, however much you use

If you already have a water meter but are finding it hard to save, our WaterSure tariff could help. If you qualify, we'll cap your yearly bill regardless of the amount of water you use.

Is it for me?
WaterSure is designed for our customers on means-tested benefits who need to use lots of water. This could be for a number of reasons. For instance, you could have three or more dependants under the age of 19 living in your home. Or you might have a water-dependent medical condition.

How can I apply for WaterSure?
 Visit www.southwestwater.co.uk and complete the application form.
 Speak to someone in our billing team on 0344 346 1010. We're available 9am - 5pm Monday to Friday and 9am - 5pm on Saturday.
 Text relay please ring 18001 followed by 0344 346 1010
 Minicom: 0800 169 9966



- Streamlined and simplified the customer application process. The online application now considers every support option available, from debt assistance to Priority Services. It then empowers our knowledgeable employees to select the right support package tailored to the customer's individual circumstances.

- Introduced an innovative self-serve benefit and budgeting assessment also giving customers the choice for their application to be reviewed by a WaterCare advisor who can provide holistic support including applying for entitled benefits, receiving extra support, e.g., Warm Home Discount, and a detailed budgeting plan.

We also know that how important it is at this time to ensure that financial information and the support available is visible and prominent on all customer bills. We have already implemented a change to our existing bill format to ensure our primary promotion message is the signposting for support available to those who may be struggling to pay their bill.

A data led approach

We have developed an extensive and innovative suite of internal and external data to inform our plans, target our support and community presence and to identify at a customer level those who are in Water Poverty and are in most need of our support.

Previous industry analysis undertaken to understand the number of Households in need of support at the 5% level has used ONS Medium Layer Super Output Area (MSOA) level of 2,000 to 6,000 properties which shows the average equivalised income less housing cost data in that area. This information was last updated in 2018.

We recognised the opportunity if we were to reengineer, refresh and purchase up to date information which would give us a more concentrated view of equivalised income

To do this we have partnered with CACI to produce equivalised income data at a unit post code level (6/7 digits), a cross sector first. We have then coupled this with actual bill data at a property level and further validated through the use of ONS and socio demographic information. This has allowed us to identify, to a high level of probability, individual customers who are in Water Poverty and their characteristics to a high level of confidence.

Under the Digital Economy Act (DEA), utility companies have been given a unique opportunity to engage with Department for Work & Pensions (DWP) for data sharing purposes, which we implemented this year. This, combined with our own data, not only provides us with the information to be able to auto enrol customers onto our tariffs but has also further validates our own analysis. This data also provides for future opportunity by being able to track and triangulate changes in circumstances and payment behaviours so we can reach out to customers and offer support, before they fall into debt.

This allows us to target our affordability toolkit and, as SWW's WaterCare tariff currently require customers to be in receipt of a means tested benefit, allows us to reach out and auto enrol customers onto our schemes removing the barriers to access and helping us to proactively support the hardest to reach.

For BRL customers we are using DWP data to identify customers who are in receipt of pension credit and proactively providing a 20% reduction on their bill under our discount for low-income pensioners' scheme.

BRL has also established a data share with South Gloucestershire Council where they share customer contact details of customers who may benefit from more support. We are also in the process of setting up a more automated two-way data share with North Somerset Council allowing us to passport customers onto schemes more easily.

We have raised with CCW that we feel the industry could be bolstered with more support with local authority data shares at a more national level with the Local Government Association.

Our data also allows us to analyse significant social factors and population behaviour and gain an in-depth understanding of our customers and better inform the services and expectations they have from their water company now and in the future. The graphic to the right shows at a high level the richness of information available to us which we are using.



Horizon Scanning and Early Warning Indicators

Through the action we have taken to date and the support offered and provided, our key indicators are performing well. However external indicators and macro-economic forecasts, which we continually monitor, clearly indicate that more customers will find it increasingly difficult to pay as inflation and housing costs begin to have a material impact.

- Inflation has now reached 11% and the Bank of England estimate it will remain at historically high levels until at least mid-2023.
- This impacts renters more severely who are typically more financially vulnerable as 1.3 million fixed-term mortgage deals are due to end this year.
- Nation-wide ONS bi-weekly research already indicates that people are changing their behaviours in response to the cost-of-living pressures by spending less on non-essentials (68% of respondents) and using less fuel electricity in their homes (66%).
- ONS report that 47% of customers are already finding it somewhat or very difficult to afford their energy bills. This was only 38% in March of this year
- Pressures on all household bills will only increase when the Energy Price Guarantee comes to an end in April 2023 with the avg. HH bill increasing 43% from £2,100 - including £400 contribution - to £3,000
- According to debt agencies and charities, water bills are classed as 'non-priority'. This could be in part as we unlike other services are unable to disconnect.

At an individual level, even short-term poverty affects mental and physical health. We are able to focus our data and have built a suite of early warning indicators that allow us to look holistically at trends but also make proactive early intervention to prevent customers falling into debt which we will evolve as the cost-of-living crisis develops:

- Payment behaviour - tracking changes in payment behaviour, for example customers becoming a non-payer for the first time, helps us identify if more help is needed.
- Payments by credit card - to identify if customers are extending credit to pay.
- Net Direct Debit Take Up - tracking new Direct Debit and Cancellation trends, which could be a lead indicator of customers balancing payment decisions.

- Direct Debit Rejections - the volume and % of failed Direct Debits which is a lead indicator of customers having insufficient account funds and falling into debt.

Community Outreach

The need to reach and support our communities when they need our help the most only strengthens our resolve to work harder. To help us do this, we have launched our largest ever community outreach programme with our significantly expanded Community Team attending 182 events this year to date where our presence is most needed.

One of the measures of success of our Community Outreach programme is the number of our most vulnerable customers who are on our Priority Services Register. This currently stands at 8% for SWW customers with customers awareness of PSR and the extra support and assistance we offer also leads the industry as measured by the CCW.

Our wider understanding of the affordability crisis and where we can help extends to our community teams, who are currently being trained to have a deeper understanding of energy and other bills so that they can also offer holistic advice.

Through the Bristol the Resource West campaign, a partnership with Wales & West Utilities and National Grid, we are launching a trial of how energy and water messaging and support can be delivered together allowing us to reach even more customers.

Community Funds

SWW have launched two community funds which since 2020/21 have already provided £300k of funding and will continue to provide support in the months and years ahead:

- Water Saving Fund - a first of its kind £75,000-a-year Fund designed to support community groups and registered non-profit organisations within SWW's service area who can provide a benefit to the community by saving tap water and demonstrating a reduction in water use. To date over 59 million litres of water have been saved which not only positively impacts the environment but saves customers money on their bills.
- Neighbourhood Fund - is all about supporting our local community. We have made £100,000-a-year funding available for neighbourhood community groups which inspire physical activities, education, health and wellbeing and deliver positive environmental outcomes.

To date we have funded 120 neighbourhood projects with the aim of:

- Protect nature for the benefit of community health and well-being
- Providing new opportunities for people to learn and develop
- Assisting local projects which bring communities together
- Supporting upkeep neighbourhood centres and facilities to keep communities strong

Partnerships

We understand the value of partnership working to deliver support to our financially and non-financially vulnerable customers and have over 170 relationships in place with a variety of organisations across our regions. These can be split into six key groups:

- 64 local community groups and foodbanks
- 40 council and government groups

- 40 charities
- 9 debt support partnerships
- 20 housing associations
- 3 NHS surgeries

So we can expand our partnerships, which have never been so important, increase the support help us to reach out to the 'struggling silent' who would not otherwise realise they are entitled to support we have initiated the facility for local partnerships/charities to apply for support on behalf of customers through a personalised web page called our 'WaterCare Hub' which also incorporates our affordability toolkit.

Some examples of the work we are undertaking with our partners in response to the affordability challenge all customers are facing include the support we are providing to North Somerset Council's public living rooms, which are warm spaces for our most vulnerable customers. We are providing funding to help run some of these living rooms. With the cost of energy soaring, we recognise that our most vulnerable in society will be choosing between heating and eating, or even both.

We have also partnered with Bournemouth and Poole Citizen's Advice Bureau and Wessex Water to jointly fund a 'Water Guru', who works with customers in-person to advise if they might be eligible for support.

Through our partnerships our community teams have also set up regular stalls in local food banks, job centres and community affordability events, as well as in public living rooms, to increase our visibility and awareness in local communities and have agreed with local food banks to provide information packs on our affordability support in food bank parcels.



Our employees are also acutely aware of the pressures arising in our communities as a result of the cost of living crisis, and we are proud to support the charity Food Action Christmas appeal this year as our charity chosen by our staff in South West Water. In Bristol, we have joined with our supply chain to support Mo's Annual Christmas Toy Appeal, a charity that collects and wraps toys to distribute to children in the local community at Christmas.

Metering

Through our extensive research and customer engagement customers have told us that metering is the fairest way for households to pay for what they use; however, they still value the choice to switch.

Metering saves customers on average 15%. This increases when customers are supported by water efficiency messaging, education and free water saving devices. This is a significant saving available to the majority of customers.

In part due to the historically larger charges in the South West over 87% of SWW customers are currently charged on a metered or equivalent basis through customer appetite alone.

But there is more to do with our data telling us that 12k unmeasured customers will be brought out of Water Poverty just by having a meter installed.

63% of BRL customers are currently metered with a target to increase this to 75% by 2025.

To increase applicants, we launched our 'Cheaper with a Meter' initiative whereby customers can explore the benefits of a meter without the risk of paying any more than their existing bill.

Customers can try the meter option charge for two years, if they do not save we will automatically contact them and offer a refund if they no longer want a metered charge.

Meter Reading and Technology

Customers expect to receive a bill to a reading every time, allowing them to manage their usage and finances. This can be challenging owing to meter locations, failure of remote read devices and, increasingly so customer behaviour in respect of access prevention and cars parked over the meter as pavement increasing becomes parking spaces

AMR and AMI technology will to a certain extent overcome these challenges. However, trials to date continue to demonstrate how difficult it can be to gather remote readings due to meter locations, depth, water and other ingress and rural locations.

We are learning from our work on the Isles of Scilly which is now truly a smart island in respect of metering technology returning regular readings and other consumption and leakage data every day through our AMI network assisting us greatly in leak detection and understanding where our finite resources are being used and where efficiency messaging and support can be best targeted. The lessons learnt from this will be taken forward into our Green Recovery and future AMI plans.

Alongside the development and trials of AMI technology we have recognise the need to act now. This has seen us increase the SWW meter reading resource by 19% this year at a total cost of £350k per annum. This will ensure that we can overcome more of the challenges posed by meter locations and customer behaviour so that more customers receive bills to accurate readings and are better able to manage their consumption and finances.

Innovation

SWW and Exeter University have entered into a joint venture agreement to create a pioneering new collaborative research centre – Centre for Resilience in the Environment, Water and Waste (CREWW). The agreement is ground-breaking and solidifies our partnership over a 25-year commitment with a joint investment of £40m over this five-year period.



The partnership is designed to solve some of the most pressing global environmental challenges of our time and will conduct world-leading research into the provision of safe and resilient water services in the UK and overseas.

CREWW research is undertaken by academics from disciplines including Geography, Biosciences, Engineering, Economics and Psychology, who work with partners in industry, government and NGOs, to develop a shared understanding of the issue.

Affordability, behavioural change and water efficiency is one of the most pressing global challenges of our time and this year we have two pieces of research which will speak directly to this and will help inform our plans. These areas will leverage the opportunity the Green Recovery and the installation of 68k AMI meters in North Devon presents giving us further insights as we approach PR24.

Research Question	Research Question (shortened)
Novel approaches to changing water behaviours	Against a backdrop of climate change and population growth, water resources are increasingly at risk. How can SWW leverage novel approaches to incentivisation and eco-tariffs to change water

	behaviours and engage customers on critical aspects of water consumption and demand?
Using data to understand customer behaviour	SWW is a data-rich company, especially when it comes to customer usage and water demand. This is currently an untapped resource. How can we transition from manual, inefficient processes to interrogate our large volumes of data to actionable insight on customer behaviours, demand, usage and water resources leveraging AI and data science?

Accelerating innovative, inclusive projects to reduce bills and support our customers

- **Stop the Drop provides up to £10m back to customers whilst incentivising lower water usage, resulting in lower bills**
- **Watershare+ gives customers a say in our business as well as providing £40m back to customers through the two issuances – the first in 2020 and the second opened to registrations this week**

Not only will we keep bills below inflation, but we also have a long and proven track record of offering new and creative solutions for addressing affordability. In this period to date we have announced c£78m of customer benefits through a variety of innovative schemes.

This includes our first of a kind share ownership scheme, Watershare+, which returned c£20million to customers in 2020/21 with a further c£20million to be with customers, either through shares in our parent company, Penon Group plc, or through a rebate on their bill. This scheme has been expanded to include BRL for 2022 and has seen 1 in 16 customers become shareholders as a result of the initial programme.

We also believe that linking the need for water efficiency to financial benefit for our customers provides an important opportunity to influence behaviour. Our region, surrounded by the sea, and reliant on rainfall more than groundwater for its water resources, is more at risk from climate change than perhaps any other as this year’s drought has shown with COVID-19 and the record-breaking summer weather pushing consumption to record levels

As part of our drive to increase water efficiency in Cornwall we introduced Stop the Drop first campaign, which includes a first of its kind scheme incentivising customers to save water by offering a £30 rebate if the Colliford reservoir reaches 30% by the end of the year. A total return to household and business customers of up to £10m. We are tracking with interest customers’ response to this scheme and will look at what learnings and further actions we can take from the outcomes of this scheme. We hope this will provide the basis for further innovation, linking tariffs and bills to water efficiency and customer engagement, as we move forward.



We have also launched a doorstop campaign which has a dual purpose of water efficiency, including providing home audits, and affordability. All our community teams are trained to recognise customers who are in vulnerable circumstances, with our presence targeted in some of our most vulnerable communities.

Since August we have already called at the doorstep over 11k customers and to date have provided over 75k free water saving devices and 18k free water butts which will help customers achieve over £275k of annual bill savings. This campaign will continue at pace.

From July we also introduced a free find and fix Customer Leakage process for all customers at a cost of £2.6m per year.

Current legislation places the ownership and responsibility for maintenance with the owner of the property from the meter/stop tap to the property. 30% of all leakage escapes from customers pipework with the identification of a private service pipe leak requires the customer to undertake an unforeseen and unbudgeted investigation and repair.

With the average cost of a private service pipe repair currently £696, for customers who are struggling and have very little or no financial reserves or resilience a leak can cause anxiety, stress and put a customer into debt. The longer a leak takes to repair also means more water is wasted and a customer's bill can be further impacted.

We recognise both the importance of reducing leakage and, at this time more than ever, removing the financial burden and associated impacts of a private leak from our customers.

Our Green Recovery Initiative will also see £17million invested in smarter, healthier homes. This will also empower 68,000 domestic customers to save water and money through AMI metering and provide opportunity for analysis and learnings from customer usage. This is also positive news for the South West as we invest further in the region and create up to 500 new jobs. In the Bristol region the Resource West campaign is starting its joint trial with Wales & West Utilities and National Grid of how energy and water messaging and support can be delivered together.

Ensuring the South West can “live local and prosper”

- **doubling the number of apprenticeship and graduate schemes to 1000 by 2030**
- **providing 5000 work placements to school children so that young people don't believe they need to leave to region to get on**
- **our most ambitious employability and skills investment to date focused on the regions we support.**

The South West is a region, given its dependency on agriculture and tourism, that experiences large socio-economic challenges, with low productivity, low pay, and pockets of deprivation resulting in low economic growth. At the same time, the South West's population is getting older, in Cornwall, there has been an increase of over 25% in people aged 65 years or over with those aged between 17-24 believing they will need to leave the region to get on, and with overall skill levels lower than the national average.

These places an even greater responsibility on Pennon, as the largest employer in the region. We are one of circa 11,000 companies in the UK to be an accredited living wage employer, ensuring employees earn a fair wage for a good day's work. This compares to some areas of the region



where the % of jobs paid less than the living wage varies from 17% in Plymouth to a high of 41.2% in Torridge.

We've therefore just announced plans to double our apprenticeship and graduate schemes to 1000 by 2030 and will offer 5000 work placements to school children over the same period. This will also build on the community education programme, where year to date we have engaged with over 3640 pupils educating them on the importance of using water wisely.

Going Further

We know we must go further and from April 2023 we will be removing the SWW benefits cap removing the last barrier to access support for all customers in Water Poverty. This will allow us to accelerate our auto enrolment program increasing the number of SWW customers benefiting from support tariffs by 17k next year, a more than 40% increase.

This year we also launched a lowest bill guarantee, removing any financial risk of meter switching, to encourage the remaining 13% of unmeasured customers to apply. This learns from the innovative approach taken by BRL who launched their cheaper with a meter campaign in February 2022. We will be launching a targeted multi-channel campaign to encourage application from the c12k customers who through metering alone would be taken out of Water Poverty at a cost of over £6m across the next two years.

Whilst we will be able to take c12k customers out of Water Poverty through metering in the next two years, based on average consumption for the occupancy and type of their property, there is a similar number who whilst they would also likely save have characteristics that would increase their likelihood to be resistant, or potentially unable to apply to have a meter installed.

For example, under the Water Industry Act 1999, customers who are privately renting have a legal right to have a meter installed on their property and do not need their landlord's permission to do so if their tenancy lasts longer than six months. However, although this is their legal right, there is evidence that many private landlords have an objection to this, and although it is the tenant's legal right, it could jeopardize the renewal of their tenancy.

Further to this, many of the customers who may be more reluctant to metering are rural homeowners who may have larger-than-average usage. These are challenges that we must look to tackle if we are to fulfil our Water Poverty commitment.

As we narrow in on Water Poverty, and through the experience gained and the rich data and insight we now have so we are able to identify customers and their characteristics at a property level, we must further innovate and find creative solutions to overcome these challenges across the remaining years of the AMP if we are to achieve our industry leading ambition to eradicate Water Poverty by 2025. We are already working to strategise and explore options and would welcome the opportunity to share our analysis and discuss these challenges, which will be faced by all companies, with Ofwat and the CCW.

Tariff Innovation and PR24

Beyond 2025 the affordability challenge is set to become even more acute. Frontier Economics SST analysis showed that 15% of SWW customers would be in Water Poverty at today's prices with the removal of the government convolution. The highest of any region as shown below:

When we consider that this analysis was undertaken at today's charges, with the removal of the £50 government contribution, this further demonstrates just how important retention of this subsidy, which recognises the unfairness of historically high charges in the South West, is now and in future years more than ever.

This only serves to highlight the challenges that lie ahead and the need for innovation as bills continue to be impacted by inflationary pressures and the potential impact of the requirement for environmental investments driven by new legislative requirements.

We recognise that we will need to go further to maintain our positive track record. As we set out in response to the recent “charging innovation to support affordability” consultation, new tariff structures on their own are unlikely to support affordability in the future.

Recent customer research shows that for the South West in particular, it is important for both fairness and affordability that increased demand driven by new housing and in second home / AirBnB style tourist accommodation pays for the on-going maintenance of additional capacity. Compulsory and smart metering has a role to play, but there is a strong desire to introduce progressive charging alternatives which go beyond rising blocks, to something targeted at property types where there is some degree of consumer choice involved.

We think this could include the equivalent of green tariffs where a more progressive charging structure is applied in return for water efficiency devices, or for garden watering where a smart water butt allows time of use charging with a discount for local storage of surface water run offs into dry periods may be attractive. For others who require greater social protection in their charges, the social provision of such services that others are able to pay for, whilst protecting affordability through tariffs, will be required.

Time of use and premium charges may be part of this however trials would need to be at scale in order to understand the impact. This will take careful design and time to develop, but it is something we would welcome the opportunity to have an open discussion and debate on with Ofwat, CCW and other stakeholders as we develop our future work programme.