Residential Retail Business Plan

Chapter 7: Supplementary document

Document Reference: S6010

This document provides details of our long term strategy and AMP7 delivery plans for the Residential Retail price control. It provides details of our costs relative to customer outcomes and performance commitments and provides details of the activities we expect to undertake to achieve our targets.

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1 Executive Summary

- **Moved from last to 3rd in SIM:** Number one WaSC under UKCSI, hold ICS ServiceMark with distinction. Digitally informed customer service strategies will meet new customer expectations, and enable us to perform against the new C-MeX measure
- **Substantially reduced our annual cost to serve in AMP6, continued reductions in AMP7:** Planning a reduction of around one third, or £48m, between 2015 and 2025
- **Focus on reducing bad debt through innovation, investment and building new capabilities:** Reducing annual bad debt charge from £75m in 2015 to £35m in 2025
- **Our stretching plan delivers substantial reductions in water poverty levels:** 66,500 helped through targeted financial support
- **A 34% increase in the value of financial support United Utilities provides:** Worth £71m in AMP7, financially supporting up to 152,000 customers each year
- **Industry leading Priority Services scheme, instigated in AMP6 and extended in AMP7:** Pioneering cross sectoral data sharing for the utilities sector and support for people resident in business properties
- **Stretching performance commitments on delivering affordability and serving customers in vulnerable circumstances:** Moving the industry frontier with fivefold increase in the number of customers supported through Priority Services between 2015 and 2025

This delivery plan provides details of our long term strategy and AMP7 delivery plans for the Residential Retail Price Control price control. It provides additional details, at a price control level, of how we expect costs to map across customer outcomes and performance commitments and in particular provides detail of the activities we expect to undertake to deliver the targets we have proposed.

It sets out our approach to deliver a customer focused retail services to three million households in the North West of England during the five years from 2020 to 2025. The document summarises Residential Retail relevant text from the Main Business Plan submission (document P0001), supplementary report S2001 “Affordability and Vulnerability Challenge and S6013 “Debt Management Capabilities”. It also provides some new information on void management processes (section 4.2.2), future trends and smart metering (section 2.3) and initial thoughts on a new approach to sharing ODI penalties (section 3.5).

Our plan seeks to improve the quality of retail service we deliver for all customers, with a recognition that customers’ expectations are rapidly changing in a digitally enabled world. We will deliver substantial, industry stretching service improvements for customers in vulnerable circumstances and those with affordability challenges. We will continue to adopted new innovative ways of working, and invest in processes, capabilities and systems that will enable us to achieve material reductions in Cost to Serve. In AMP7 we will achieve industry benchmark levels of customer service and cost efficiency.

At United Utilities, we no longer see our business as individual components delivering discrete services to customers. Instead, we view our business as one end-to-end system where the dependencies and interactions between different elements are understood, allowing for optimisation and proactive intervention. It has redefined our approach to technology and is inspired by the rapid pace of digital transformation outside of the industry.

Changes in technology, innovation and business processes offers significant scope to reduce costs and enhance service for retailers across a range of sectors, including water and other utilities. The opportunities offered through the effective utilisation of the latest digital capabilities has the potential to change both the ways in which we engage customers and the ways customers engage with us. Changes in the application of advanced analytics and increasing volumes of customer data are key examples of technologies that can change the way water residential retailers operate in future, and that is why our innovation proposals target these areas heavily. It will become increasingly important that

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we are able to innovate at speed, measure success or failure through improved analytics and deliver the digital engagement that customers want from us. In the digitally enabled world effective collaboration and engagement can be as important as effective solution design and delivery.
Our commitments are designed to be clear so that we can be held to account on delivery. Our proposed commitments reflect the results of our customer research, as set out in chapter 2 of our Main Business Plan submission (document P0001). They incentivise innovation in our operations and working with customers and other stakeholders to improve service.

Improvements in performance are focused on the aspects which are customers' highest priority for improvement. We have responded to customer and stakeholder engagement. Changes in response to research and engagement include an increased target for number of customers on our Priority Services register and an improved performance commitment on lifting customers out of water poverty.

To accommodate these customer priorities we have set ourselves challenging efficiency targets. After considering these efficiency challenges we have proposed an efficient and stretching level of retail totex (opex + depreciation) of £490m over AMP7, in outturn prices. We have sought to embed efficient cost into our proposed Residential Retail totex plan for the 2020-25 regulatory period. We have developed our cost requirements through a robust and challenging bottom-up process, with particular focus on customer priorities/ expectations and managing bad debt. We have then compared our cost requirements against econometric models and also benchmarked our costs externally.

In producing this plan we have had the support of the Customer Challenge Group who took an active part in developing our proposals to make sure they focus on customer priorities whilst protecting the impact on customer bills. Our plan is fully aligned to the needs and wants of customers and can be implemented within affordability constraints.

2 Residential retail business context

2.1 Customers in the North West

We operate in a diverse region of contrasts: rural communities in sparsely populated areas, significant commercial and industrial centres in major cities, large densely populated inner city areas. This means that customers have varying priorities for the services we provide, although the single most important metric they cite in engagement is the affordability of bills and ensuring that we provide them with value for money. The region has some of the most deprived communities in England and Wales and the need to meet service challenges on the most cost effective basis is always foremost in our mind. Long term forecasts suggest that demand for our services will grow during and beyond AMP7. We need to understand how customers will want to use our services in future so that we can plan to deliver them efficiently and effectively to their satisfaction.

Understanding our customers – segmentation

Key to understanding individual customers is the ability to segment the customer base in a granular and dynamic way. As customers' needs and expectations change we are increasingly seeking to understand how different groups of customers can best be engaged.

For example, as part of developing and promoting new affordability and vulnerability propositions we have undertaken a large-scale segmentation analysis to understand the makeup of relevant customer groups. Working with customer data and marketing experts CACI we have created a set of eight key customer segments, with further sub segments focused on customers in most need of support. We have now developed the capability to match each household in the region to these segments, and have included this segmentation within our billing system, enabling easy use of the information. This is an enhancement on previous segmentation models employed at United Utilities, which were typically targeted at the postcode level and not individual customer level.

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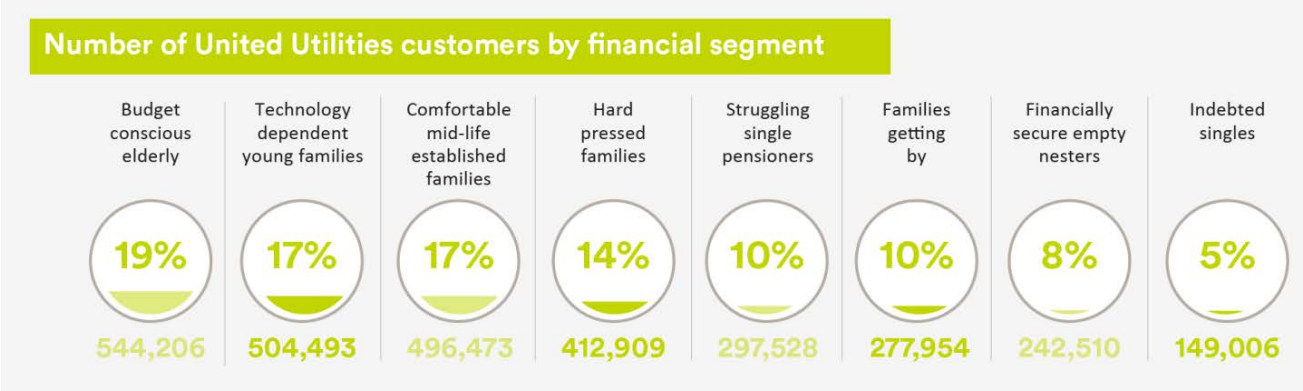
Figure 1: United Utilities Customer Segments developed in conjunction with CACI



For each segment we have created a customer "pen portrait". This provides an overview of the key attributes and behavioural preferences of each group when considering affordability and vulnerability support, as well as helping to understand propensity to engage in other key digital retail offerings. More information on pen portraits can be found in S2001 "Affordability and Vulnerability Challenge", section 4.2.4. By loading this segmentation analysis into our processes and systems we are able to swiftly and repeatedly undertake targeted campaigns and behavioural trials to a) improve the customer experience and b) to reduce bad debt and cost to serve. For example this assessment has revealed that customers in the 'Budget Conscious Elderly' segment are 50% more likely to need to access Priority Services than the average North West household.

This new segmentation underpins many of the new bad debt and customer experience improvements initiatives we have identified for delivery in the remainder of AMP6 and AMP7, for example in chapter 7, section 7.8.3 of the Main Business Plan submission we describe the extensive role that customer segmentation plays in targeting pre-emptive debt interventions

2.1.1 Affordability and vulnerability: Scale of the challenge

The North West of England is one of the toughest operating environments for a utility retailer, due to the levels of extreme deprivation. Like others in the water industry, we are being challenged to improve the scale and effectiveness of the support we offer against a background of rising household costs, economic uncertainty and a decrease in the percentage of people of working age[1]. How we respond to this challenge will be crucial to securing and maintaining customers' trust and confidence in the sector in the years ahead.

[1] Office for National Statistics 2011

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Nationally

People are 3 times more likely to be in problem debt if experiencing mental health problems[2]

1 in 7 people have a literacy age of less than eleven years old[3]

70% of low and middle income households have less than one month's income in reserve[4]

There are currently **850,000** people in the UK today with dementia [5]

In the North West

Four in ten of the most deprived neighbourhoods are in the North West[6]

27% of North West households earn less than £21,000 a year[7]

18% of households are in water poverty, 20% more than national averages [8]

24% greater levels of activity limiting disability than English average [9]

As set out in supplementary S2001 "Affordability and Vulnerability Challenge", section 2 the North West has the largest population of economically deprived households in the country[10]. According to data compiled by Public Health England, the North West is below national averages for several other key indicators of deprivation, spanning not just financial, but also educational, physical and mental health indicators[11].

Building on government assessments of deprivation we have identified that United Utilities has some of the highest level of deprivation in England in our region. 41% of the most socio-economically deprived Lower Super Output Areas (LSOAs) in England are in UU's region, even though only 14% of all homes in England are in the North West.

Table 1: Percentage of most deprived LSOAs (neighbourhoods) by service area and decile

	1% most deprived	5% most deprived	10% most deprived	20% most deprived
United Utilities	41%	32%	27%	21%

Source: United Utilities analysis of Indices of Multiple Deprivation 2015[6]

There is a strong relationship[12] between entering into water arrears and customers falling behind on other residential bills.

[2] Jenkins R et al. Debt, income and mental disorder in the general population. Psychological Medicine 2008; 38: 1485-1493.
[3] Department for Business, Innovation & Skills "2011 skills for life survey: a survey of literacy, numeracy and ICT levels in England", Dec 2012
[4] Resolution Foundation "Living Standards 2016" https://www.resolutionfoundation.org/app/uploads/2016/02/Audit-2016.pdf
[5] Alzheimer's Society, https://www.alzheimers.org.uk/about-us/news-and-media/facts-media
[6] 41% of the one per cent most deprived LSOAs in England are in the North West region. United Utilities analysis of Indices of Multiple Deprivation 2015 https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015
[7] ONS National Statistics, "Households below average income: an analysis of the income distribution 1994/95 to 2015/16"
[8] UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)
[9] ONS "Disability in England and Wales: 2011 and comparison with 2001"
[10] United Utilities analysis of Indices of Multiple Deprivation 2015 https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015
[11] Public Health England, Public Health Profiles Fingertips https://fingertips.phe.org.uk/
[12] "StepChange Debt Charity client insights prepared for United Utilities" August 2017

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Many customers in the North West behind on water charges are also behind on other bills:

60% are behind on their council tax

50% owe money on a credit card
32% are behind on their electricity bill

In the North West **15%** will also have a pay day loan

Source: T2001 "Client Insight Report (StepChange)"

In addition our own analysis of household demographics in the North West suggests that many homes are eligible for Priority Service registration. Based on ONS, RNIB, Department of Health and Social Care, and Mental Health Foundation estimates of support needs in North West England we believe a substantial proportion of households may be in need of additional support. However, as of March 2018 only 52,000 customers are currently registered, suggesting a substantial gap between those that could apply and those that have done so.

This means we must do more to identify and engage with customers in vulnerable circumstances. We acknowledge that some customers will choose not register for vulnerability support, but the scale of the gap between eligibility and live registrations suggests there is more that we could be doing. We are commencing a significantly enhanced engagement programme that will run through AMP7 as set out in section 4.1.2.

2.2 Customer Priorities

Our strategy throughout AMP6 has been to establish a deep rooted understanding of customer preferences and priorities in relation to our customer services and operational activities to ensure that customers are co-designers of our business plans and that their expectations are embedded in our everyday decision making processes.

2.2.1 Insight into customer preferences has been used to design or plan

Over the last two years we have conducted our most extensive customer engagement exercise ever. Building on engagement exercises from PR14 and learning from key stakeholders, including Ofwat we have sought not only to expand the scale of our customer engagement but also to radically enhance the range and depth of engagement exercises. We have sought to move beyond simple stated preference surveys, using lessons from behavioural economics to gain a far deeper understanding of our customers' expectations and service preferences.

In the past two years we have conducted a range of research projects. Of these many have been focused on residential retail services including:

- Ethnographic research into water usage behaviours in the home
- Pricing, service and affordability trials to understand what messaging will change customer behaviour and levels of engagement in the areas of water efficiency
- Depth interviews with persistent non-payers to understand barriers to payment
- Digital insights survey, revealing consumers changing expectations from digital services
- Payment channels research to reveal what wider influences there are on customers' choice of contact channel or payment method

We have also established a digital customer panel with over 7,000 members to provide insight on business as usual process and service changes.

For a fuller description of our approach to customer engagement, and detailed description of the range of surveys and other engagement exercises we have conducted please see chapter 2 of the Main Business Plan submission (document P0001).

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We have been cognisant of the limitations of any individual study or engagement technique. To address this we have sought to triangulate results across multiple studies and engagement techniques to better understand the persistent and strongly held views of our customers. For example, in designing our new Mobile App we have gained input from traditional customer surveys, our new customer engagement panels, employees, and ethnographic surveys.

We have wherever possible sought to deliver enhanced customer engagement exercises as part of business as usual. By utilising data derived from day to day interactions as a key route to developing our understanding of customers' preferences we have been able to access a larger and deeper dataset. This approach has also helped embed a culture of customer engagement within the wider company.

This business as usual, iterative approach to customer engagement is delivering improvements to our service. For example, when updating our Automated Speech Recognition system we used simple trial and error techniques, coupled with wide ranging operational metrics to identify which system set-up is most appropriate for those customers that use the system frequently.

The new system calibration is delivering substantial improvements in successful interactions, with over 75% of calls to the system now resulting in a successful payment.

2.2.2 Engaging with our stakeholders

Central to our strategy of continuously improving our support for customers is developing and utilising community and social partnerships. Gaining insight from other organisations and those that work directly with people in vulnerable or financially stressed circumstances is crucial to improving the services that we offer. Working more closely with these groups means we learn more about the challenges people on low incomes or in vulnerable circumstances face. It also means we can create combined service offers that effectively address customer issues we could not implement on our own.

We have also sought to structure our formal customer engagement exercises to ensure we can segment customer insight to identify how the views of those on low incomes and/or in vulnerable circumstances may be different from the average customer. Chapter 2 of the Main Business Plan submission (document P0001) described some of our key customer engagement and segmentation activities. This approach has helped us recognise where additional services and support may be needed and which aspects of our existing support is valued most highly by various segments of customers. For example, we have identified that customers in vulnerable circumstances placed an enhanced importance on bill affordability than the average customer[13].

Key examples of the ways we have used collaboration and wider engagement to identify opportunities to improve is our decision to hold a North West affordability summit, our work in sharing details of Priority Services customers with Electricity North West and the establishment of an Independent Affordability and Vulnerability Panel. We describe these in more detail in S2001 "Affordability and Vulnerability Challenge".

YourVoice engagement

We have consulted with both 'YourVoice' and the Independent Affordability and Vulnerability Panel (see chapter 2, section 2.11 of the Main Business Plan submission for a discussion on YourVoice engagement) about the affordability impacts of our plans for both average, just about managing and financially stressed customers. Their views have helped inform our proposals, and have directly led to a number of changes to our future plans. For example, feedback from the Independent Affordability and Vulnerability Panel has led to an increased focus on preventative action to help stop customers falling into debt.

2.3 Future trends and smart metering

As part of our work to ensure that we develop a robust, comprehensive and balanced strategy for the Residential Retail business, not just for PR19 and AMP7 but also beyond, we have made use of a framework developed by Business in the

[13] T1028 – Acceptability testing for PR19 stage 1

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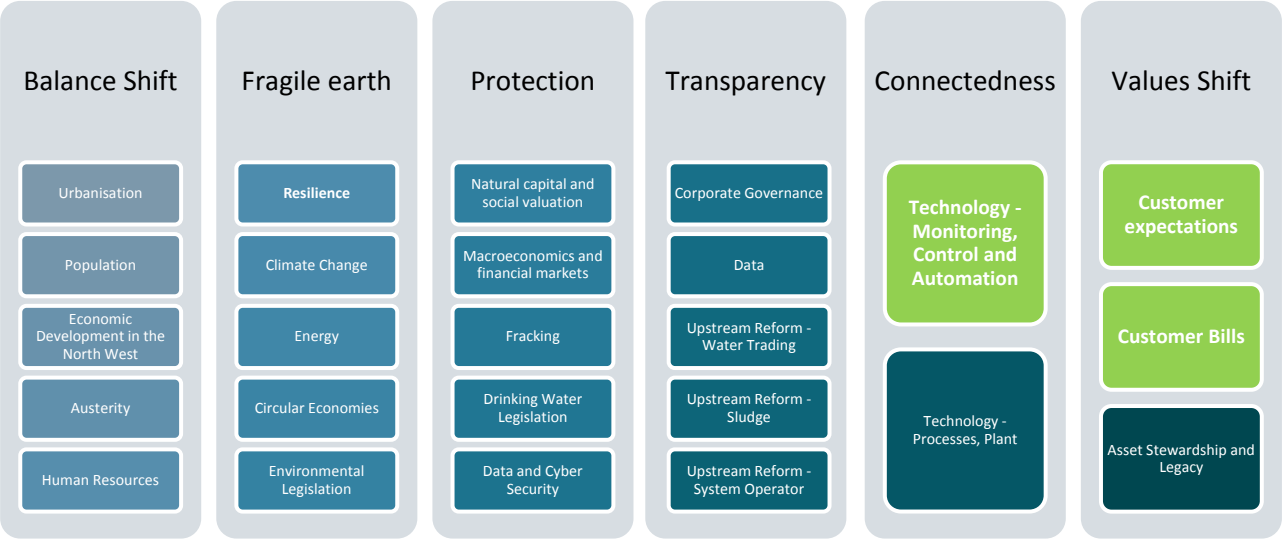
Community. Their 'Forces for Change' framework was created to enable increased understanding of today's radically changing world and synthesise the breadth of complex, fast changing, interdependent factors shaping the business landscape.

Figure 2:- Business in the Community Forces for Change



The framework identifies six themes, or 'Drivers for Change'. It is clear that the "Connectedness" and "Values Shift" themes provide useful context for us against which to develop customer service propositions and elements of the "Balance Shift" theme provides further support for the work we have undertaken to support customers who face affordability and vulnerability challenges.

The technological changes over the last 10 years, such as the advent of social media and smart phones are driving a step change in the service desired by many customers. UU needs to react to these changes just as much as any other service industry. The sorts of expectations many of our customers are likely to now have include:

- **Speed of response**- Most customers are used to the speed of digital interactions. This increasingly leads to them having expectations that companies communicate with them far quicker than historically. There is also an increased expectation of a personalised service. This willingness to engage frequently and quickly gives companies an opportunity to engage customers in forms of co-solution delivery that may not have been viable in the past

- **Ease** - There are growing expectations that it should be easy to do business with companies. That may mean longer opening hours (weekends and evenings) or more self-service, or both. There are also likely to be expectations that all aspects of customer service are mobile friendly. The opportunity to enable customers to resolve their own service needs offers companies scope to accelerate the efficient delivery of many aspects of retail services

- **A joined up service** - Many consumers see a brand rather than a department when they contact an organisation and they therefore expect to be able to address multiple issues in a single contact. They also increasingly expect to be able to switch communication channels readily, for example from webchat to phone seamlessly

- **Influence** - Customers are finding it much easier to influence companies via social media. They are now in a position to praise or complain about service to a wide and immediate audience, and they can also share information very rapidly. This leads to a much greater level of empowerment for the consumer. For the Water Industry, this level of influence means that companies need to be prepared to respond rapidly to customers concerns to avoid significant reputation damage, whilst also recognising the opportunity to spread good news quickly, and drive greater engagement with customers

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At the same time there are still many customers who either through choice or because personal circumstances dictate interact via more traditional channels, so companies cannot assume that solely using digital means of communication is likely to be acceptable any time soon.

Advanced data collection and analytic techniques are providing ever richer sources of information, including day to day interactions, which companies can use to understand their customers' preferences and priorities.

There is huge opportunity for us to drive personalised, effective engagements with customers to enhance their experience of the services they receive and the quality of the feedback they provide to us. An ever deeper relationship with customers can in turn boost opportunities to promote co-delivered solutions, such as water efficient behaviour whilst simultaneously boosting the public legitimacy of the industry and UU.

We also recognise that rapid developments in the Internet Of Things (IoT) market has fuelled an increasing demand for "connected homes" propositions led by the likes of Google Home (Nest), Amazon's Alexa and Centrica's Hive offering.

Ofwat's June 2017 report "Unlocking the Value of Customer Data", identifies that "through customer data, we see opportunities to deliver improved customer satisfaction and smarter working while also securing the sector's resilience". The report also notes that "the water sector is lagging behind" in unlocking this value compared to other sectors.

To date, limitations in communication technologies and availability of ubiquitous data collection networks has severely constrained the attractiveness of smart water metering. Proprietary fixed networks solely for the purpose of smart metering are the only presently available data communication solutions; which are expensive to implement and operate and will not scale to accommodate other sensing devices.

At the same time our existing base of Automated Meter Read (AMR) enabled household meters provide us with the ability to realise some of the cost and service benefits that a fully Smart enabled meter can provide. This means that we are in a position to offer many customers new services, such as online consumption monitoring (see section 4.1.1).

However, we see that these technological barriers are being rapidly overcome by the emerging IoT network developments which will make smart technologies far more viable in the near term. Ofwat's totex and outcomes mechanisms have removed barriers, and will help to better incentivise companies to innovate and invest in integrating into these new networks. In addition, the move to C-MeX, with its focus on wider customer satisfaction incentivises companies to develop new offers that can pull customers into engaging.

3 Strategic overview

3.1 Our performance in the 2015-2020 period

We have been successful in improving customer service over the last 8 years. The first SIM survey placed us bottom of the league table over all. In AMP5 we managed to improve sufficiently to avoid a financial penalty. In AMP6 we expect to receive a financial reward, having improved our overall position for the AMP to above the industry average and, in 2017/18 achieving the 3rd highest score amongst the WaSCs (6th highest overall.)

External benchmarks also show significant improvement. In the July 2018 UK Customer Service Institute rankings, we were the 1st ranked WaSC, 2nd in the water sector and 4th overall out of 28 companies in the utilities segment.

The Institute of Customer Service

In August 2018 we also received accreditation under the ICS ServiceMark, receiving a distinction. Achieving accreditation required us to demonstrate that we have a motivated and engaged workforce, robust policies and practises, and a continuing focus on improving customer service. We believe that these results demonstrate that the quality of our customer service places us in a strong position to deliver during AMP7 and beyond.

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This improvement has not required significant increases in cost; to the contrary, cost to serve has been reducing from an average of £51 per customer in 2014/15 to £38 per customer in 2017/18. We repeatedly find that good service actually costs less. Pursuing objectives such as first time resolution of contacts and complaints delivers both cost efficiency and customer experience benefits.

Particularly pleasing in this context has been our reduction in annual bad debt charges, from £78m in 2014/15, to £50m last year and forecast to be £35m by 2024/25. We have also seen substantial benefits from the implementation of the PwC "Perform" framework, boosting workforce engagement and productivity whilst reducing costs.

We have costed and benchmarked our plans thoroughly and believe that the costs proposed in our plan continue to be commensurate with an upper quartile cost position against the water sector as a whole during AMP7, whilst enabling continued improvements in customer service levels, notwithstanding that the measurement of C-MeX has yet to be established.

In AMP6 we have learnt from network events and radically redesigned our Priority Services for customers in vulnerable circumstances, and in AMP7 we plan to increase the number of customers registered for these services fivefold from 2015/16 levels.

We have also seen how other sectors are using advanced customer analytics to act before customers fall into debt. We are developing this capability and we will increasingly use segmented promotion of new services such our "Lowest Bill Guarantee" and Payment Break options to help at risk customers avoid falling into debt.

The pace of change in the retail sector has been rapid, and the preparations we have made in AMP6 will ensure that the new digital services customers have come to expect are available to them in the future. For example, our new Water Usage Report enables metered customers to see their water usage online, and also access tailored advice on how they can save water and money.

3.1.1 Customer experience programme delivery

During the AMP6 period we implemented a major transformation programme designed to allow us to both reduce our cost to serve and improve customer service, with investment in this programme being underpinned by an ODI. Full details of this programme of work and the basis for the proposed adjustment are set out in Appendix B to our PR14 reconciliation early submission.

As part of the AMP6 Final Determination (FD) Ofwat increased allowed depreciation for the UUW Residential Retail price control[14] to reflect the expenditure required to implement the Customer Experience Programme (CEP). The programme was designed to enable improvements in both customer experience and cost to serve, with a performance commitment and an associated outcome delivery incentive (ODI) mechanism being applied to its delivery.

The CEP is a transformational programme delivering new capabilities for the household function and includes the following functionality:

1. Web contact management system
2. Multi-channel routing
3. Workforce optimisation
4. Analytic capabilities
5. Billing system upgrades
6. Debt management system, and a
7. Customer Relationship Management system

We have successfully delivered five of the seven components of the Customer Experience Programme, realising

[14] Final price control determination notice: company-specific appendix – United Utilities. Annex 4
Capital Funding of £43m was assumed which realises £17.769m of cumulative depreciation in AMP6

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substantial customer service benefits and future cost efficiencies. We plan to deliver a sixth component element by March 2019.

We have revised the scope of the programme and have delivered the programme at a lower cost than was assumed in the final determination. As a result of which we propose that £4.7m of the initial £17.7m assumed depreciation will be returned through the PR14 ODI mechanism during AMP7.

As set out within the ODI definition, we have reviewed the delivery of all the aspects of the programme through milestone reporting to 'Your Voice', our independent Customer Challenge Group. This includes information being provided on 'benefit drivers' which are linked to the technology components, such as increased self-serve, call reduction and failure demand, increased occupancy and first time resolution.

The full programme has also been assured by an external independent audit, conducted by Jacobs, to confirm the level of expenditure and delivery of technology solutions[15]. The reviewed performance has then been reported in our Annual Performance Report.

3.1.2 SIM reward

The success of the Customer Experience Programme has been an important driver in the 25% reduction planned to our costs in the AMP6 period. Our customer service as measured through the Service Incentive Mechanism (SIM) has also significantly improved. Although final performance against this measure is dependent upon the relative performance of other companies, using our understanding of the PR14 approach to calculate SIM rewards we are predicting that our improved position will generate reward of £12.69m nominal (£11.45m 2017/18 prices).

3.1.3 Annual revenue adjustment factors

The Residential Retail price control also provides for annual revenue adjustment factors to reflect differences between actual and expected customer numbers and numbers of metered customers. Customer numbers have been slightly above PR14 assumptions. We are proposing to recover £6.34m (2017/18 prices) of additional revenue, in line with this mechanism.

3.1.4 Total Residential Retail revenue adjustments

The revenue adjustments resulting from each of the AMP6 reconciliation mechanisms that apply to each PR19 price control are set out in below.

Table 2: Residential Retail revenue adjustments £m 2017/18 CPIH FYA prices (post profiling adjustment)

Residential Retail Revenue adjustments	Subtotal	2020-21	2021-22	2022-23	2023-24	2024-25
Residential retail revenue	**6.438**	1.288	1.288	1.288	1.288	1.288
Service Incentive Mechanism (SIM)	**12.225**	2.445	2.445	2.445	2.445	2.445
Customer Experience (CEP)	**(4.565)**	(0.913)	(0.913)	(0.913)	(0.913)	(0.913)
Residential Retail revenue adjustment	**14.098**	2.820	2.820	2.820	2.820	2.820

3.2 The risks which our plan addresses

The risks associated with the potential failure to provide good and fair service to residential customers are material and relevant. Our plan requires that our Residential Retail activities be more efficiently delivered, providing a higher level of service for customers without increasing bills. Maintaining a service which is available when customers need it, especially during a water or wastewater service disruption is vital. We also need to ensure that standards of service remain dynamic and flexible to changing customer demands and to ensure that the proper operation of the whole of United Utilities can be maintained by ensuring customer debt is appropriately managed.

[15] Debt Manager will be assured following completion.

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1. ***Maintaining a continuous residential retail services***
   There is a business continuity risk that residential retail services may become unavailable due the loss of site or core IT system. Events such as a security or Health and Safety issue or infrastructure failure could result in a temporary loss of retail services for customers. An assessment of the impacts of such a loss reveal that key customer contact channels could become unavailable or unserviceable, resulting in customers being unable to contact us in relation to billing or wholesale service issues.

   Ensuring customers are able to contact us, particularly in the event of a water or wastewater service issue is an important part of overall event mitigation and wider service resilience, so mitigating the impact of events which may interrupt customer contact channels is important. A range of options to ensure contact channel continuity exist, including:
   - Maintaining multiple contact centre locations
   - Having arrangement for emergency alternative sites in place
   - Maintaining multiple contact channels
   - System testing and assurance processes
   - Robust loss of IT recovery plans

2. ***Maintaining sustainable levels of household debt:***
   The cost of household Bad Debt and its associated management forms a core part of our business planning process. Uncertainty around the long term economic outlook (particularly given the as yet unknown impacts of events like Brexit), and the uncertain consequences of the Welfare Reform agenda mean that bad debt could increase further. We have in place a range of options available to us to mitigate the impacts of reduced customer payment rates, including:-
   - Flexible payment plans
   - Payment reminders
   - Discount tariffs and grants
   - Payment Matching
   - Early stage incentives to pay, including credit defaulting
   - Late stage incentives to pay via County Court and other legal mechanisms

3. ***Delivering customer service performance:***
   Over the last few years we have improved customer service levels as reflected by improving SIM performance. However there remains uncertainty as to the impacts of customers' rising service expectations and other companies' future performance acting to undermine perceptions of our service offerings. The SIM measure in AMP7 will be replaced with a more stretching C-MeX measure, with a greater focus on more generalised customer experience and perceptions.

   Such a reduction in relative service quality could result in reduced company reputation and legitimacy. We have considered options to maintain and improve customer service including:
   - Tailored consumer propositions, supported by enhanced data analytics
   - Enhanced digital channels and offers
   - Cultural improvement exercises
   - Operational process improvements

3.3 A cost plan that delivers for customers

Across United Utilities we have adopted a common approach to formulating and embedding efficient cost into our proposed totex plan for the 2020-25 regulatory period. In common with the rest of the business, we have developed cost requirements for Residential Retail through a robust and challenging bottom-up process, with particular focus on customer priorities/ expectations and managing bad debt. We have then compared our cost requirements against econometric models and also benchmarked our costs externally. The chart below demonstrates our approach to determining our efficient cost proposal for Residential Retail activities.

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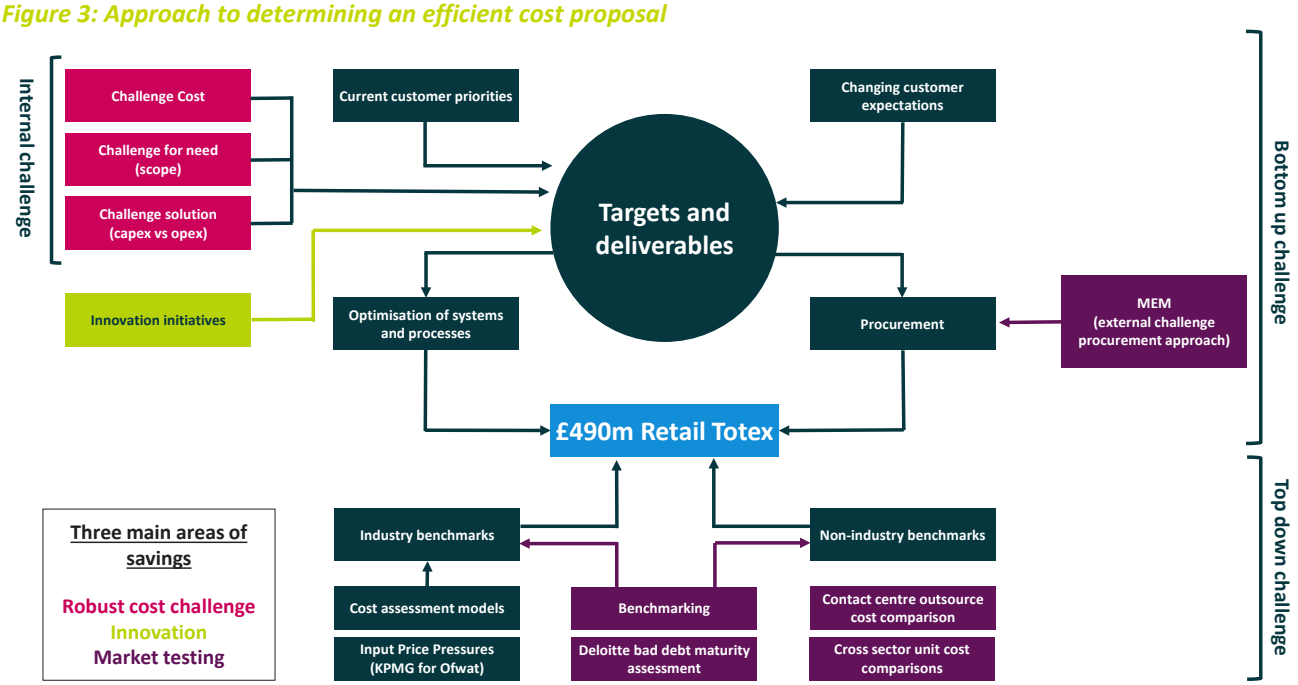
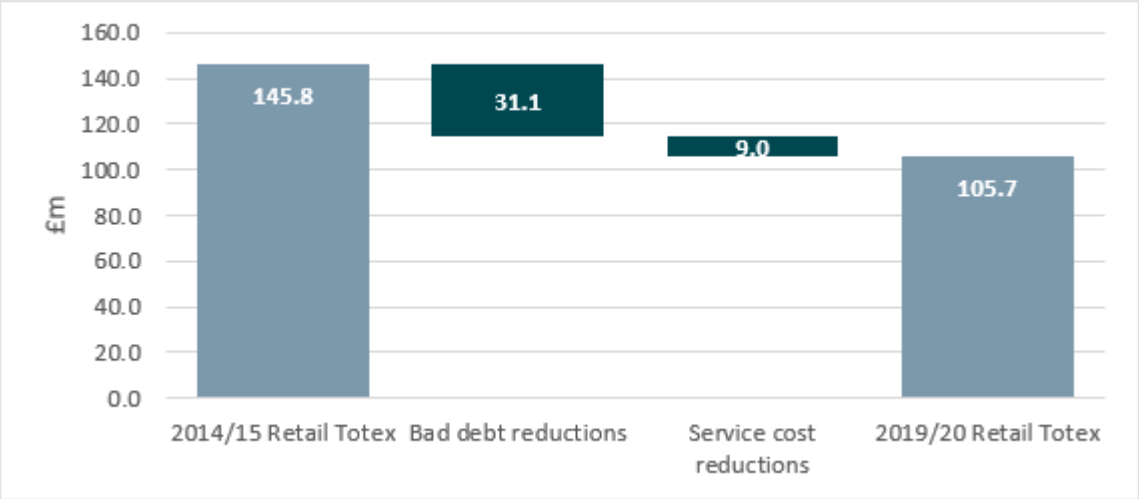
Figure 3: Approach to determining an efficient cost proposal



Overall we plan to reduce annual average Residential Retail totex by £40m/yr (nominal) by 2019/20, from the AMP5 closing position. This represents a substantial reduction of over a quarter during this period, as outlined in the chart below, whilst simultaneously improving levels of customer service.



This substantial cost reduction has been achieved in a large part thanks to working with PwC to implement the industry leading "Perform" framework. This has led to improvements in organisational structures, cultures and processes; helping to boost workforce effectiveness and productivity. Changes have included better performance metrics, quicker feedback on performance for front line agents, and providing front line staff with the authority to do what they believe will best deliver for customers.

The changes ensure that staff can learn best practice from one another and also understand on a daily basis what is working well and areas that they need to individually improve. Optimising team manager to staff and front office to back office ratios has also helped control costs. The initiative's focus on performance metrics also means management can more quickly understand where teams and individuals are performing well, and where efforts to improve should be focused. Since the launch of the initiatives we have seen a 35% boost in productivity, the elimination of unworked back office items, improvements to sickness levels, and a step change in employee satisfaction. This has supported material cost reductions whilst simultaneously boosting customer satisfaction levels.

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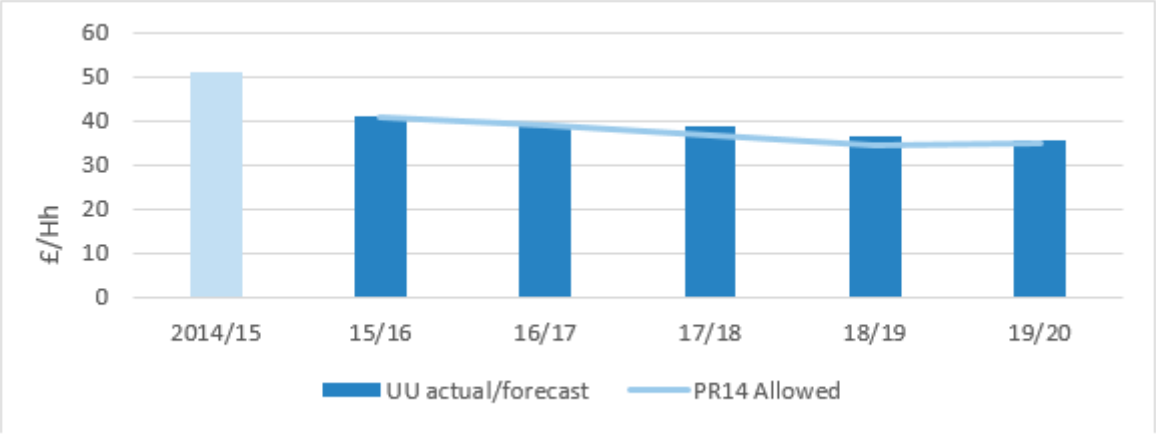
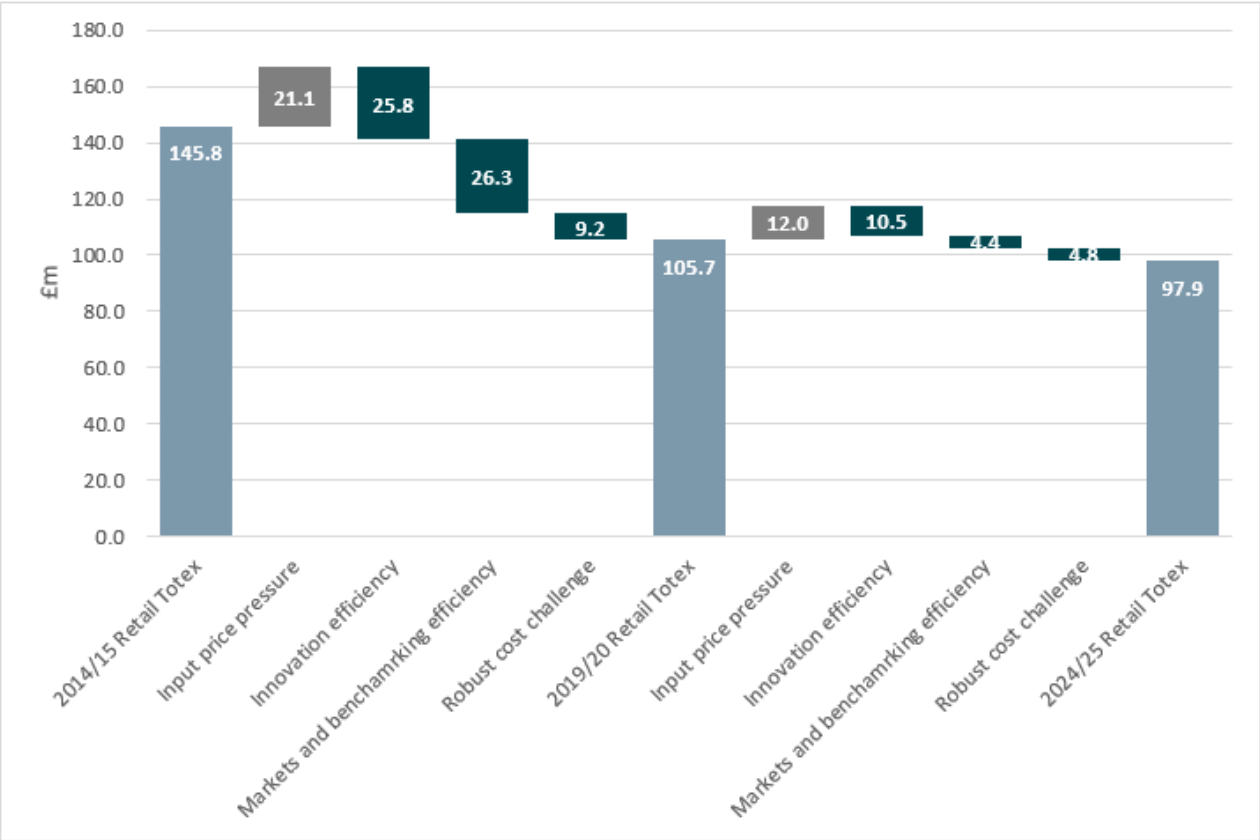
We have also met Ofwat's cost to serve allowance for AMP6, as depicted in the chart below.



We will continue to significantly reduce costs in AMP7, with plans for a further reduction in cost to serve of £8m p.a. by 2020/25, from the 2019/20 base, as detailed in the chart below. Our cost plan will more than absorb input price pressures over this period. Taken together with our AMP6 improvements, this means we will have reduced costs by a very substantial one third since the end of the AMP5.

Figure 4: Retail annual opex + depreciation (nominal) AMP5 to AMP7



Our cost reduction plans in AMP7 reflect our continued commitment to seeking out better ways of working, whilst recognising that efficiency opportunities become increasingly difficult to realise as we close the efficiency gap to the best performing companies. The largest segment of cost efficiencies delivered in AMP6 were associated with markets

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and benchmarking efficiencies as a result of efforts to align our operational practises with cross sector best practise benchmarks. In contrast AMP7 efficiency proposals are predominantly linked to delivering new, stretching innovations. This type of efficiency is naturally harder to realise and as a result the absolute scale of cost reduction in AMP7 is anticipated to be smaller than the rapid catch-up efficiencies realised in AMP6.

Our plan meets the efficient cost challenge

We have taken substantial steps since AMP5 to reduce costs and improve debt collection. This has resulted in our annual retail totex coming into line with assessed industry averages. The substantial further cost reductions in our business plan represent a material commitment to achieving future operationally efficiencies and bad debt reduction. This additional cost reduction will help UU move beyond an average cost position, and instead allow us to state that our proposed level of expenditure in AMP7 is efficient, as verified by extensive benchmarking and market testing.

As an additional cross check we have used our understanding of Ofwat's retail cost models to validate that our AMP7 cost proposals are at an efficient benchmark. Our retail totex plans for AMP7 residential retail operations are within £1m/yr of our best view of industry upper quartile costs, based on our preferred cost model specifications before application of frontier shifts and input price pressures (details of the approach we have taken to assessing an efficient industry upper quartile cost base are set out supplementary S6002 "Cost Assessment Proposal"), and include recognition of the small bad debt benefits realised from c.1% reduction in nominal average residential bills. This provides additional validation that we have developed a cost plan which is stretching but achievable. As a result we can state that our proposals offer customers real value for money.

Managing bad debt

A substantial reduction in bad debt costs has driven retail cost reduction since 2014/15. Through a number of key initiatives we have reduced annual bad debt and debt management costs from £75m in 2014/15 to £50m in 2017/18. We anticipate further reductions in 2018/19 and 2019/20 such that by the end of the AMP our annual bad debt and debt management costs will be at £43m. This represents a substantial achievement, even after considering the bad debt benefits that stem from the c.1% reduction in nominal average residential bills in AMP7.

This cost reduction has been achieved by engaging in a major debt management transformation programme. Adopting a full range of leading debt management practices has helped deliver an award winning debt management process. Some of the key initiatives adopted include:

- enhanced analytics and customer segmentation, leading to improved understanding of in debt customers;
- use of a full data share solution with an external CRA, enabling us to access full credit histories for our customers;
- customer data improvement programme, using third party data to improve the quality of customer records for billing;
- leading suite of assistance schemes helping to reduce bad debt and improve customer affordability;
- market driven Debt Collection Agency panel process, using the power of markets to drive supplier efficiencies; and
- improved collections processes, focused on the effective use of the full range of debt collection techniques, including improved early collections, registering defaults and the full suite of court options.

A fuller description of these initiatives and how they have enabled us to reduce the retail cost base can be found in sections 2 to 6 of "S6013 Debt Management Capabilities". A fuller description of our approach to supporting customers who can't readily afford their annual water charges can be found in section 4.1.3 of S2001 "The Affordability and Vulnerability Challenge".

Strong focus on effective debt management, externally benchmarked

We are effectively addressing doubtful debt in a difficult operating environment, adopting a range of approaches to support those that 'can't pay' whilst effectively utilising a variety of prompts and sanctions for those customers that 'won't pay'. In their 2017 audit of our debt support schemes, processes, and practices CCWater gave UU a score of 24 out of 25 (source: CCWater "United Utilities debt assessment 2017").

"The assessment panel was impressed with how the company dealt with its customers in arrears, showing both effectiveness and sensitivity."

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We have benchmarked our debt management activities against leading approaches from outside the water sector. Working with external debt management experts over a number of years we have made a step change improvement in the way we manage outstanding residential debts. We have adopted a continual improvement approach to debt collection. In summer 2016 and again in June 2018, we benchmarked our operational processes against the very best debt management practice[16]. Helped by leading debt management consultants we understand where we have effective debt management practices, and where we are behind the very best debt management companies from beyond the water sector. Our areas of best practice and opportunities for improvement are set out in "S6013 Bad Debt Challenge Operational Response".

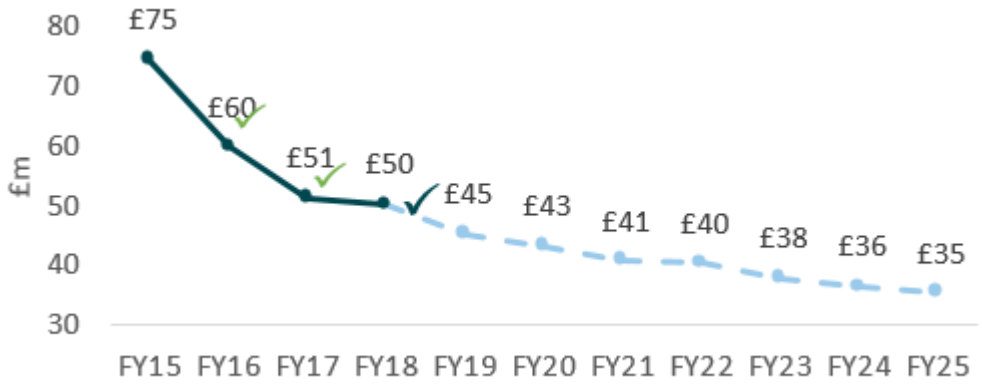
Challenging targets for further reductions in bad debt and operating costs across 2020-25
We have benchmarked our debt management processes against best practice and identified a number of opportunities for further efficiencies, specifically:

- introducing a new "Lowest Bill Guarantee" to help boost confidence amongst key customer segments that could benefit from choosing to take up a Free Meter Option (FMO)
- new Payment Break scheme to support customers facing a short-term financial shock
- earlier interventions, utilising customer data, including CRA data to engage with at risk customers more quickly
- earlier billing, helping customers manage their water charges more effectively, and helping to avoid otherwise good payers falling behind on payments

A fuller description of our debt benchmarking activities can be found in "S6013 Debt Management Capabilities".

Our latest maturity assessment has identified additional efficiency opportunities that will help us reduce annual bad charges by a further £8m/yr by 2025. This is over and above the c.£31m annual bad debt reduction planned to be achieved in AMP6. To achieve these substantial bad debt reductions we will also need to invest further in enhanced debt management activities and capabilities. As a result we anticipate that debt management cost will increase in nominal terms between 2019/20 and 2024/25 by £2.5m.

Figure 5: Bad debt charges are anticipated to drop substantially across AMP6 and AMP7



Our debt reduction plans in AMP7 reflect our continued commitment to seeking out better ways of working, whilst recognising that opportunities become increasingly difficult to realise as we close the efficiency gap to the best performing companies. In AMP6 around £20.7m of final year bad debt charge reduction is associated with adoption of industry best practise processes and systems. In AMP7 we expect this to fall to only around £2.5m, reflecting the fact that the majority of learning from others will have already been embedded in our processes. In contrast AMP7 efficiency proposals linked to innovations are planned at £8.7m. This type of efficiency is naturally harder to realise and as a result the absolute scale of debt reduction in AMP7 is anticipated to be smaller than the rapid catch-up realised in AMP6.

[16] S6014 Deloitte Bad Debt Maturity Assessment Report

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3.4 Our approach to setting performance commitments

Our vision is to be the best UK water and wastewater company providing the best service to customers at the lowest sustainable cost in a responsible manner. Our performance commitments are designed to measure our progress in delivering this aim.

Our commitments are designed to be clear so that we can be held to account on delivery. Our chosen commitments reflect the results of our customer research. They incentivise innovation in our operations and working with customers and other stakeholders to improve service.

We have used a range of techniques to determine appropriate targets, including comparisons with other companies and cost-benefit analysis. We have taken into account the potential for innovation, in terms of potential for lower costs and delivering solutions more effectively.

Improvements in performance are focused on the aspects which are customers' highest priority for improvement. We have responded to customer and stakeholder engagement. Changes in response to research and engagement include an increased target for number of customers on our Priority Services register and improvements to the performance commitment on lifting customers out of water poverty.

In chapter 2 of the Main Business Plan submission (document P0001) we described the range of research which we have carried out, which has then been used to produce valuations to set Outcome Delivery Incentive (ODI) rates. We have "triangulated" the results (used the multiple sources to produce an overall value or range of values, maximising the validity of the results).

3.5 A new rapid approach to paying out ODI penalties

We recognise we don't get it right all the time. Whilst customers don't like service failure we know that companies that respond quickly and effectively to incidents can and do improve trust and legitimacy with their customer base. Customers tell us one of the most important things for them is that when things go wrong is to put it right quickly.

Therefore, in AMP7, we propose to work with Ofwat, other water companies and wider stakeholders to consider ways in which some ODI penalties and compensation can be more rapidly paid to customers directly impacted by service disruption.

Current situation

We have delivered substantial improvements over the course of this AMP, speeding up the time it takes to address complaints. This has resulted in a step change reduction in the number of GSS compensation payments for late or missing responses to customer stage one complaints. This improvement has also helped satisfaction levels and has had a beneficial impact on cost to serve, as fewer complaints has helped reduce associated management costs.

However we recognise that there is more that we can, and should be doing. Through our engagements with customers we have observed a disconnect between customers' expectations and the operation of ODI penalties and rewards.

In particular we have seen that customers do not understand how ODI mechanisms ensure that they receive appropriate compensation for service failures, or how water companies are held to account for service failures. Learning from developments in the rail and air travel sectors we propose that we work with Ofwat and other stakeholders during AMP7 to develop new mechanisms to enable rapid compensation for service disruption linked to ODIs.

Options for change

Where a customer receives below standard service for which we are subject to an associated ODI performance penalty it makes sense to directly compensate the customer impacted. The intention is to whenever possible ensure ODI penalties will get to customers quicker, and will be focused on customers most impacted by service failures.

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One way in which this could be achieved is if compensation takes the form of an allowance being applied to their current bill. We could then seek to apply compensation promptly, on a similar timescale to existing GSS compensation payments. Any payments would be in addition to, not instead of GSS compensation.

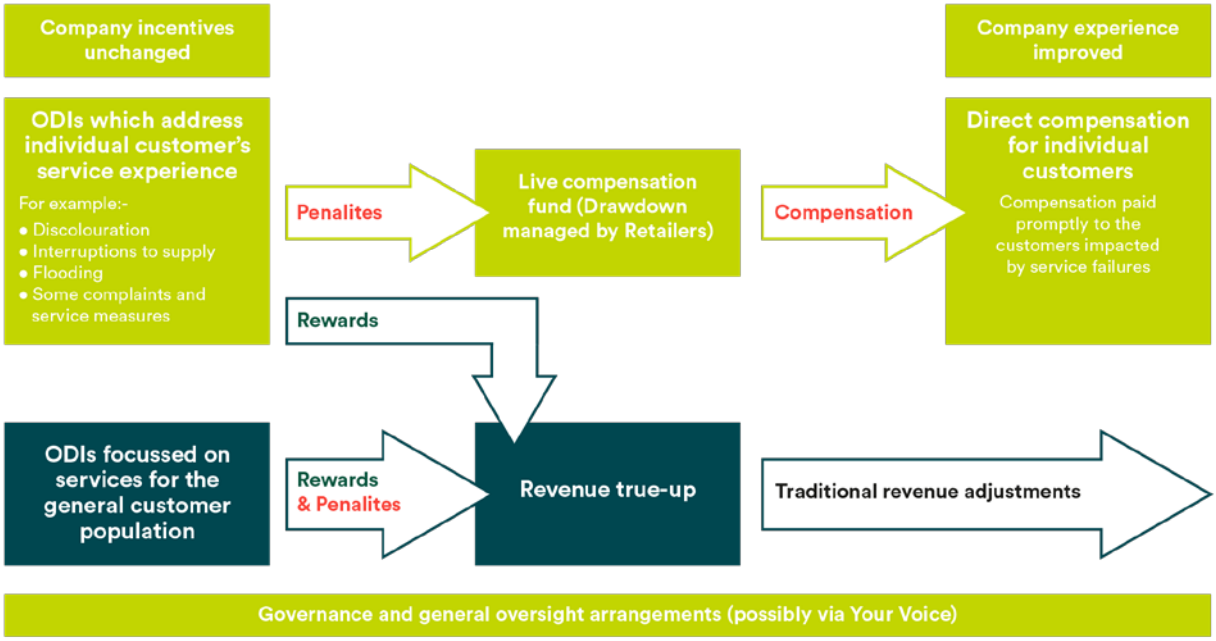
The new rapid ODI compensation payments could apply to those performance commitments for which we are able to directly identify impacted customers and a point in time of service failure. For example, we believe that discoloration events, interruptions to supply, and flooding events would lend themselves to compensation via this mechanism. Some performance commitments, such as the Manchester and Pennine Resilience ODI does not enable direct identification of impacted customers, and so we would not seek to use an accelerated compensation mechanism for penalties under these ODIs. In addition, we do not anticipate that ODI rewards for outperformance will be applied through these new mechanisms.

Such an approach would require support from stakeholders including YourVoice, CCWater and Ofwat. We therefore propose to consult with regulators and stakeholders during AMP7 to assess the feasibility of making rapid ODI penalty payments direct to customers.

Customers can and do hold differing views on appropriate compensation levels in the event of a service failure. If we are able to take these rapid penalty payments forward we will consider how best to determine the level of swift direct compensation that should be paid to customers, considering factors such as ODI incentive rates, customer WTP research and compensation benchmarks observed in other industries.

We recognise that total UUW ODI reward/penalty revenue adjustments will need to be applied in the same way as all other water companies, preserving reputational incentives on us to avoid net annual penalties. True-up of the net reward/penalty position could be achieved via the AMP7 Residential Retail revenue true-up mechanisms. As rapid compensation payments could be made via a revenue allowance any immediate compensation will be returned to the company, meaning full ODI rewards/penalties could be preserved.

Figure 6: An example of how rapid compensation could be delivered within existing Ofwat AMP7 incentive regime



This approach could ensure that whilst in the short –term penalties for service failure will sit in the Residential Retail price control, in the longer-term the price control which owns the performance commitment will bear the full financial accountability for performance.

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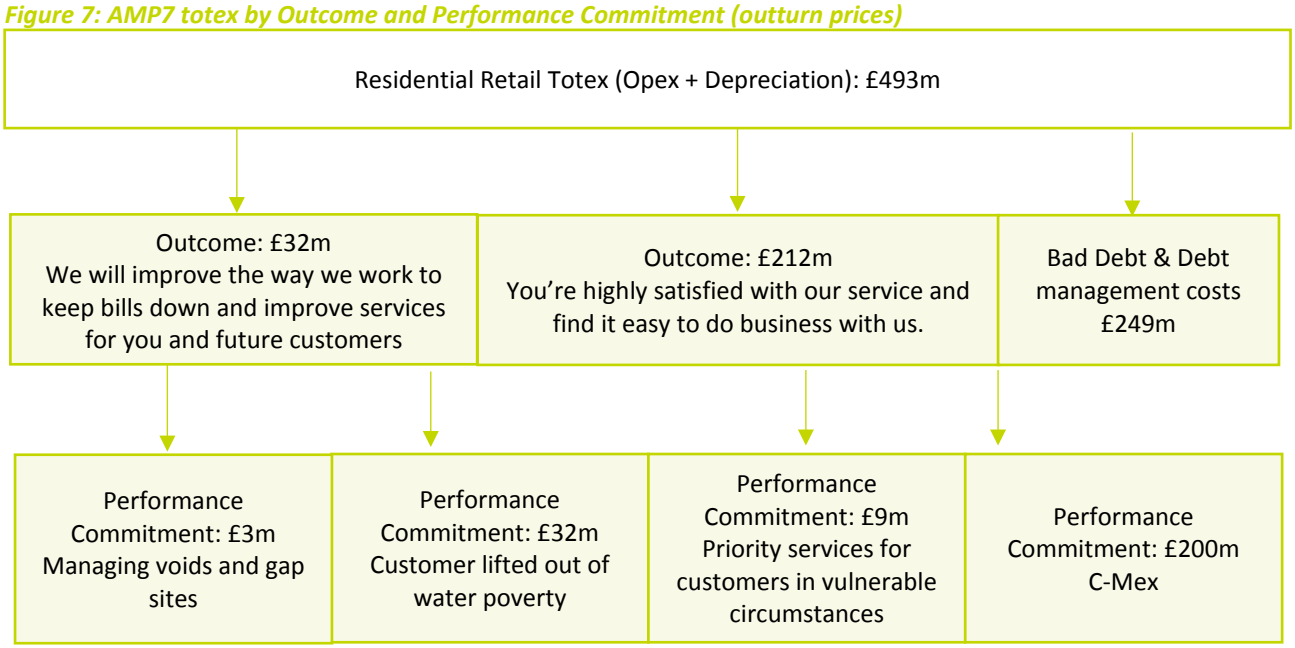
4 AMP7 delivery plan

To meet our customers' expectations in the 2020-2025 period and for the future we must ensure that we invest wisely and efficiently.

Our plan has been developed by identifying customers changing expectations and priorities. Through extensive engagement with customers we have established strategies, programmes of work and individual projects to manage these risks. By embracing innovation and robust testing of costs we have shaped these into a plan which offers customers value for money. We have developed evidence based, stretching performance commitments and have clear innovative plans for delivering against them.

Figure 7: AMP7 totex by Outcome and Performance Commitment (outturn prices)



4.1 You're highly satisfied with our service and find it easy to do business with us

We are committed to delivering the best possible service for customers. Boosting customer engagement in the water sector is a crucial element of maintaining the industry's legitimacy in the long term. We will seek to offer customers the service that they want and value.

We have delivered a substantial improvement in customer service levels in AMP6, as indicated by strong improvement in Service Incentive Mechanism (SIM) performance. This improvement is mirrored by strong improvements in our UK Customer Service Index scores. We have also achieved substantial reductions in unwanted contacts, stage one and stage two complaints. This has been achieved through a focus on swift proactive engagement with customers, and a willingness to listen when a customer expresses dissatisfaction. We will continue to improve customer service quality and levels of engagement, seeking to achieve standards that are stretching not just for the water sector but also for wider service industries. We anticipate that this will translate into improving performance under the new C-MeX measure. We will continue to work with Ofwat and other companies in development of C-MeX ahead of full implementation in 2020/21.

Our plan will continue to improve on the industry-leading support we provide for customers in vulnerable circumstances, extending our Priority Services offering to more customers, and ensuring that we continue to improve the quality and scale of the support we provide to those most in need. Our focused and flexible approach will ensure that all customers, regardless of their specific needs, will find they can engage with their water and wastewater services in a way that suits them. By working in partnership with other utilities, councils, local MPs, Citizens' Advice and other local organisations we hope to reach an increasing number of customers. We have a performance commitment to

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increase the number of customers registered for Priority Services, whilst also protecting the quality of the service provided.

The two residential retail performance commitments which support this outcome. These are:

- D01-HH: Customer experience (C-MeX)
- D03-HH: Priority services for customers in vulnerable circumstances

4.1.1 C-Mex

We will determine our targets for this measure when the details of the measure are finalised. We will be aiming to build on our improving SIM performance to deliver an excellent customer service experience. We are working with Ofwat and the industry to help in designing the best possible incentives.

The plan

Our core service will work for everyone, but some customers want a little bit more. We will actively work within industry guidelines and regulations to enable these additional services. We believe enabling such additional services is beneficial, both in driving customer satisfaction and in terms of providing positive reasons for customers to engage with their water and wastewater services.

The Institute of Customer Service

Our commitment to continual improvement in customer service is demonstrated by substantial improvements in measures such as the UKCSI rankings, we were the first ranked WaSC, and in our recent accreditation under the ICS ServiceMark, receiving a distinction.

Changes in technology, innovation and business processes also offers significant scope to reduce costs and enhance service for retailers across a range of sectors, including water and other utilities. The opportunities offered through the effective utilisation of the latest digital capabilities has the potential to change both the ways in which retailers engage customers and the ways customers engage with us.

Changes in the application of advanced analytics, increasing volumes of customer data and the opportunities from connected smart meters are key examples of technologies that can change the way water residential retailers operate in future, and that is why our innovation proposals target these areas heavily. It will become increasingly important that we are able to innovate at speed, measure success or failure through improved analytics and deliver the digital engagement that customers want from us. In the digitally enabled world effective collaboration and engagement can be as important as effective solution design and delivery.

Recent innovations - in recent years we have delivered a range of new innovations by identifying new technologies and bringing them into retailing in the water sector. We have also sought to apply existing technologies to solve new problems. Examples of recent innovations include:

- **Developing Our Digital Maturity**: We have created an excellent digital foundation across our customer engagement channels. In 2017/18 over 40% of customer transactions were via automated channels. Our digital customer engagement footprint is constantly evolving. Since 2016 we have implemented the following developments;
    - We have launched the first fully native Mobile App for both iOS and Android platforms in the water sector. The App is fully native to mobile devices, meaning unlike other water apps it does not link through pre-existing web pages, helping to improve the user experience
    - UU is already a leader in the sector for automated and online transactions. Our website and “My Account” space have been upgraded, supporting an increase in automated transactions
    - We have provided webchat as a new contact channel

- **Proactive engagement - UMS tool for incident**s: We have implemented a new capability to proactively inform customers swiftly of service events and incidents. Use of a new cloud based Unified Messaging System (UMS), has enabled us to identify all customers affected by an event within minutes and contact them via a wide range of communication channels. This is usually achievable within the first hour of a service event or incident, ensuring as

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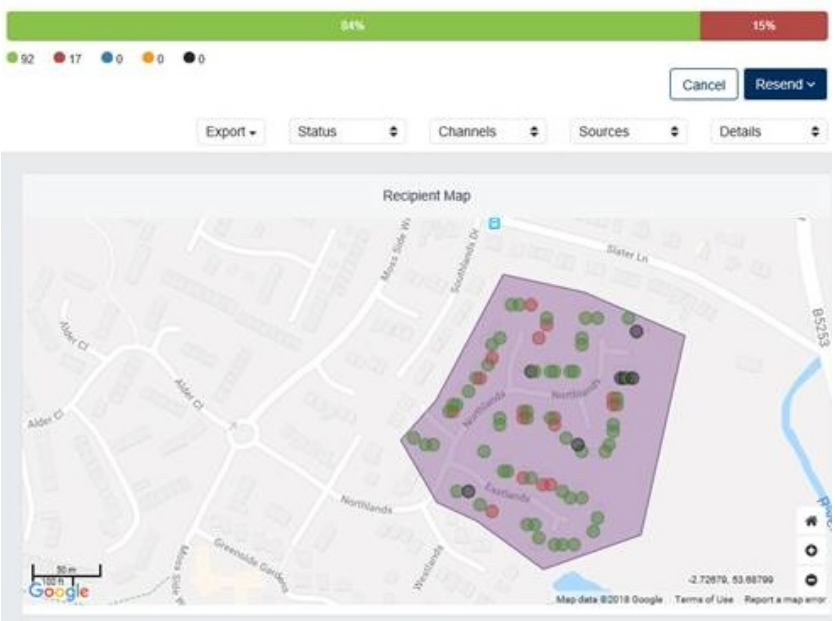
many customers as possible are contacted as soon as possible. In total since June 2017 we have sent over five million messages to customers updating them on what's happening in their area.



Data matching and visualisation

The combination of Geographic data on network and property locations matched to customer contact records allows for swift identification and communication to impacted customers during a service event

All properties, both residential and business, which may have vulnerable people resident can be identified for priority engagement

- **Co-designing improvements with customers - New bill design:** We have engaged our 7,000 strong customer panel in co-designing new residential bills. We have also engaged an employee panel and integrated complaints data and "lessons learned" comments from agents to gain a rich picture of where new bills were working well, and where changes should be focused. As a result of this co-designed output the new and improved bill is helping deliver a reduction in bill related complaints.

- **Customer Data collaboration – Sharing Priority Services registrations**: Since January 2018 we have been actively sharing new registrations onto our Priority Services register with Electricity North West. By sharing registrations (following informed customer consent) we are able to increase our insight into those customers that need enhanced support whilst simultaneously saving customers the inconvenience of going through multiple registration processes. Full details of the trial can be found in S2001 "Affordability and Vulnerability Challenge".

- **Iterative innovation – Reminder letter redesign:** We noted that we received many complaints from our standard reminder letter, and so took an iterative approach to redesigning parts of the debt reminder process, and testing the effectiveness of the redesigned elements as we went along. As a result we have seen a 50% reduction in complaints on the back of reminders.

Future innovation – in AMP6 we have achieved a lot through a more open approach to innovation and we are committed to continuing this going forward. In AMP7 we will increasingly look to digital to provide opportunities to reduce our cost to serve and improve customer service. We currently plan a range of new innovations and improvements:

- **Advancing digital maturity:** Future developments of the UU website, mobile app, and social media channels will focus on creating a continuously improving customer service experience. This will be underpinned by an ongoing content strategy to understand and deliver the information, campaigns and digital engagement that customers tell us they want. By 2024/25 we anticipate that well over 50% of customer interactions will be digitally enabled.

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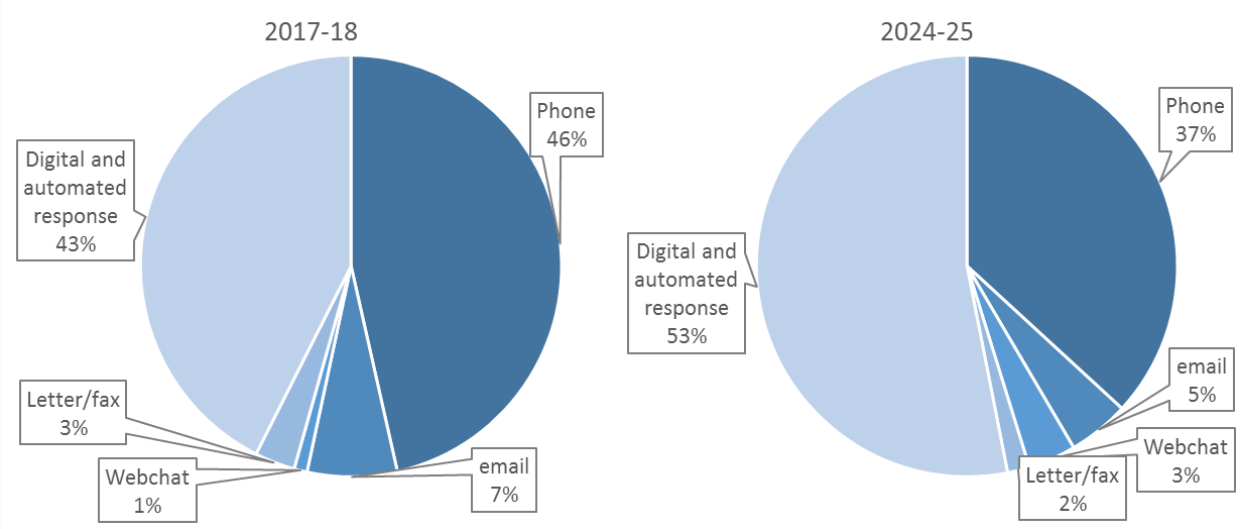
Figure 8: Changing customer contact channel mix



For example the development roadmap for the mobile app anticipates the addition of new functionality such as reporting a leak, push notifications during service disruptions and visualisation of personal water consumption (see the case study for water reports below).

- **New tariffs and payment plans**: Trails of innovations such as our Lowest Bill Guarantee and Payment Breaks are proving effective and popular with customers, we will seek to roll these out more widely and deliver further innovation in this space in AMP7.

- **Customer data and analytics capabilities**: A cornerstone of our future strategy, customer led data will increasingly inform future investment choices, engagement strategies, and intervention design. In chapter 7, section 7.8.3 of the Main Business Plan submission we discuss a range of new initiatives that will utilise customer data in this way, such as our proposals to develop enhanced abilities to identify and engage customers at risk of falling into debt before they actually start missing payments. New tools and capabilities, particularly in the analytics space will be needed to enable this.

- **AI supported chatbots and robots**: As AI driven chatbots become more capable, and social media becomes an increasing customer channel of choice, we will investigate developing a UU Chabot as a means to reducing cost whilst maintaining customer service experience. We are already investigating the opportunity that the latest developments in software robots affords**.**

Learning from the Business Retail market – we moved early to separate activities between Wholesale, Residential Retail and Non-Residential Retail. The separation provided clarity as to the responsibility of each function and the creation of a Wholesale team. Ahead of market opening there was a focus on improving data quality, in particular ensuring that the data being uploaded to the central system was as complete and accurate as possible. This work led to a better understanding of our data and to identifying and quantifying issues relating to gap sites. We also developed data tools that continue to be used on both residential and non-residential data. At the same time, the creation and operation of market codes enabled a substantial level of knowledge sharing or best practice between wholesalers. This drive to better understand how to best provide wholesale services has delivered benefits to retailers in improved services and to wholesalers as they adopt best practice. For UU this has included looking at how other companies manage site area data and process improvements. Having the data in the central market operating system has allowed for central bodies and other stakeholders to compare in a meaningful way the relative quality of wholesalers' data and as a result has provided external pressure to improve data quality for retailers.

We exited from the non-residential market in April 2017. We continually monitor this market, as well as the services provided in other sectors, looking for new developments and innovations. We are ready to consider how such innovation can be adapted for residential water customers as it emerges. At this stage of market development, however, there are no services we have identified in the non-residential market that we currently intend to introduce for residential customers. In preparation for the introduction of non-residential competition, significant effort was put

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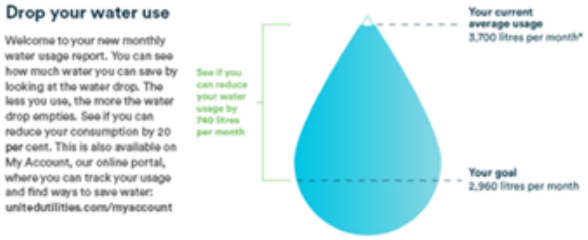
into data cleansing, including ensuring customers were correctly classified as residential or non-residential connections. This has helped improve the service customers receive as they are now provided with services tailored to their specific customer group. The cleanse of non-residential customer data ahead of market opening helped develop data tools that continue to be used on both residential and non-residential data to review our data and support data improvement.

Case study: New Water Usage Report, utilising data to empower customers

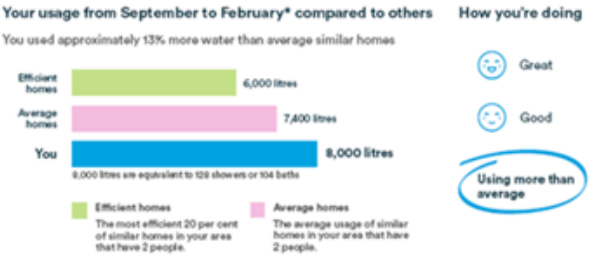
United Utilities collects meter reading data from approximately 1.2m household meters in the North West with 50% of these meters having Automated Meter Reading (AMR) capability. The majority of AMR meters are read "passively"; a process which involves data being collected fortnightly. This represents a substantial dataset which can be used by customers for their benefit. We are engaged in trialling a new Water Usage Report portal for customers.

The Water Usage Report trial (which initially consists of 100,000 randomly selected customers) looks to go beyond simple reporting of data. Instead the trial will utilise meter read data in combination with machine learning and behavioural science capabilities to better engage customers with their water usage and to encourage water consumption reduction. Behavioural science can help in designing new forms of customer messaging, helping us understand what drives customers' behaviours and what form of communications are most likely to 'nudge' customers to change the way they use water. For example, messages on social normative behaviour can prompt change in the behaviours of high water users, but we suspect the messaging will prove most effective if customers believe the comparisons to other homes are genuinely similar. The use of machine learning capabilities will give us a substantially enhanced ability to identify which forms of messaging actually work to reduce consumption with individual customer groups, and ensure these more effective engagement techniques are rolled out to customers. The customer experience will be fully digitally supported through our online customer account manager and mobile app.

Goal pursuit:
Feedback of progress towards a goal can be adjusted to encourage further commitment to the targeted behaviour



Social normative messaging:
Demonstrating what the social normative behaviour is can lead other people to adopt similar behaviour



Water efficiency is particularly pertinent in the North West as it addresses both affordability and demand management objectives whilst also supporting the increasing customer demand to receive services through digital channels. We hope that the trial will be able to demonstrate:

1. Water efficiency benefits of at least 2% across the trial group
2. Improvements in water affordability for customers who are struggling to keep on top of their bills
3. Increased digital channel sign up by up to 15% and current user utilisation by 10% through providing an engaging customer proposition
4. Increased water meter adoption rates, 8% target from trial group

The trial is now due to start in late 2018, running for an 18 month period during which we will be steadily seeking to increase sign-ups from the initial target of 100,000 customers to a broader roll-out of up to 500,000 customers in AMP7.

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4.1.2 Priority services for customers in vulnerable circumstances

Customer Outcome:
You're highly satisfied with our service and find it easy to do business with us.

Summary

This measure commits us to providing further support to customers in vulnerable circumstances. In delivering this performance commitment we will actively promote support for customers in vulnerable circumstances to achieve a growing number of customers registered for our Priority Services offering each year. We will also provide assurance that the quality of support for customers in vulnerable circumstances is of a leading standard by achieving and maintaining certification under BS18477 'Inclusive service provision. Requirements for identifying and responding to consumer vulnerability'.

Current Performance

We believe in delivering great customer service for all customers, and have delivered substantial improvements in customer service during AMP6. We recognise that those in vulnerable circumstances have different requirements to the typical customer. Working with partners and customers we have identified a range of enhanced services which are beneficial to those in vulnerable circumstances.

£9.7m Totex
Expenditure required to deliver this performance

Efficiency

We plan to increase registrations using data share mechanisms and partnerships with support agencies.

Customer Views

71% of customers supported the need for improved levels of support for customers in vulnerable circumstances.

Risks

Concerns over data protection may lead to customer reluctance to share personal information.

Innovation

This measure incentivises both volume and quality of vulnerability support.

Future Performance

Priority Services support and other help for customers in vulnerable circumstances continues to develop. Our long term ambition is to drive a substantial increase in awareness and Priority Service uptake. We estimate it will take up to ten years to achieve full community awareness and registration, and therefore anticipate to have 150,000 customers registered for the scheme by the end of AMP7 and maintain this level

End of AMP Future Targets

Number of customers on Priority Services register	AMP6	AMP7	AMP8	AMP9	AMP10
	77,665	105,000	150,000	150,000	150,000

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Our plan will continue to improve on the industry leading support[17] we provide for vulnerable customers including those facing transient vulnerability, extending our Priority Services offering to more customers, and ensuring that we continue to improve the quality and scale of the support we provide to those most in need.

Our focused and flexible approach will ensure that all customers, regardless of their specific needs, will find they can engage with their water and wastewater services in a way that suits them. Our plan backs up this commitment with a robust and stretching bespoke performance commitment that ensures we will continue to deliver industry leading levels of support into AMP7 at a cost that offers all customers value for money.

Current performance

We believe in delivering great customer service for all customers, and have delivered substantial improvements in customer service during AMP6, for example we have seen substantial improvements in SIM and UKCIS performance (see chapter 8, section 8.5.3 of the Main Business Plan submission). We recognise that those in vulnerable circumstances have different requirements to the typical customer. Working with partners and customers we have identified a range of enhanced services which are beneficial to those in vulnerable circumstances.

One of the key lessons learnt from the Boiled Water Incident in Lancashire (Franklaw) in summer 2015 is that we could have done more to help vulnerable customers during the incident if we had had a more comprehensive register in place at the time of the incident. The lack of information on customer circumstances meant that we weren't easily able to prioritise informing many vulnerable customers about the boiled water notice, or help manage the additional challenges they faced in the circumstances.

Following the incident we set out to radically change our approach to supporting vulnerable customers. This has helped us reform our vulnerability support services, and means we are better able than ever before to provide extra operational support to those that need it most, especially during service disruptions. We believe these changes mean we have developed an industry leading set of services for customers in vulnerable circumstances[18].

As part of the process of reform we engaged with recognised third sector organisations. Organisations such as Age UK, StepChange and Citizens Advice have helped us put in place the measures and support that customers value most. We have then worked with a wider community of stakeholders and our Independent Affordability and Vulnerability Panel to further improve our Priority Services propositions. We have also considered objectives and recommendations from government[19] and regulators, including Ofwat's[20] and CCWater[21].

As set out in S2001 "Affordability and Vulnerability Challenge", section 5.1, the revised service recognises that there are a range of reasons why people may find themselves in vulnerable circumstances, and seeks to provide targeted support to the right customers at the right time. The first step to achieving this is driving customer engagement and registration.

The Priority Services scheme is available to customers who may face vulnerable circumstances due to:

[17] Awards - Excellence in Treating Customer Vulnerability, Credit Awards WINNER May 2017 and Best Vulnerable Customer Support Team U&T Awards Finalist October 2017

[18] A United Utilities desktop review of all vulnerability assistance measures publically offered by all water companies operating in England and Wales identified that United Utilities now offers a wider range and more comprehensive set of support measures than any other company.

[19] For example, objectives in Defra's "The government's strategic priorities and objectives for Ofwat" September 2017; and proposals in BEIS's "Modernising consumer markets: Consumer Green Paper" April 2018

[20] Ofwat 'Vulnerability focus report' February 2016

[21] CCWater "Staying afloat: Addressing customer vulnerability in the water sector (2016-17)" September 2017

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Vulnerability can often arise due to a temporary event, such as illness or life event. Being aware of the reasons why a customer has asked to be added to the Priority Services register is therefore important in understanding what support a customer may need, and also understanding whether this extra support is a permanent requirement or is only needed for a finite period of time[22].

We have created the registration process with advice from support agencies making it as easy as possible for customers to sign up. In 2016 there were just over 20,000 customers registered for additional support. Under the refreshed scheme we have achieved a substantial increase in registrations. In March 2018 there were over 52,000 on the United Utilities Priority Services register. Promotion through publications like "All Together Now"[23] and on prescription packaging[24] have helped boost self-identification from eligible customers.

Once on the register, customers can speak to a dedicated team who have had training by organisations such as MIND and The Samaritans, via dedicated phone lines or email address. With guidance from these advisors, customers can select from tailored offerings which best suit their needs.

In the event of supply interruptions we provide proactive communications and couriered bottled water delivery for Priority Services customers. We also offer much enhanced accessibility tools on the United Utilities website and app, with adaptations for partially sighted and blind customers as well as support for over 100 languages. For example we have been working on improving the support available for those with hearing loss, and recently achieved "Louder than Words" accreditation[25].

[22] Ofwat 'Vulnerability focus report' February 2016
[23] All Together Now is a popular free newspaper aimed at those with disabilities (circulation of 500,000) and is also distributed through hospitals, GP surgeries and supermarkets
[24] We promote Priority Services on 400,000 pharmacy bags distributed by 200 pharmacies in the region in partnership with Electricity North West.
[25] Action for Hearing Loss offer "Louder than Words" accredited partners status to organisations that have demonstrated commitment to improving access to their business for people who are deaf or have a hearing loss.

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Figure 9: Customers can select from tailored offerings which best suit their needs

With guidance from our appropriately trained advisors, customers can select from tailored offerings which best suit their needs:	
Priority bottled water deliver via a dedicated courier service during supply interruptions	Quarterly meter reading if the customer is blind or partially sighted
Proactive communications during water supply issues or flooding, providing reassurance, help and guidance	Relocate meters to more accessible locations if the customer may find it difficult to access the meter
Nominee scheme if our customers have difficulty in communicating so a friend or family member can manage their account on their behalf	Knock and wait protocol when visiting customer homes who may have limited mobility so they do not have to rush
Choice of preferred mode of contact	Proactive bill and tariff review
Password scheme when visiting customers' homes to help protect them against bogus callers	Text Generation Text service to help people with hearing loss to access our call centre
Finance advice and guidance	Key language leaflets
Braille, Large print or Audio leaflets and bills	Translation service

We are mindful that operational incidents also affect customers resident in business properties, such as care homes and hospitals. We have established robust operational processes to support these customers during an operational event or incident. All sensitive customers are flagged on our systems to enable us to easily identify those affected by a no water supply or water quality issue. Each sensitive customer is also segmented into one of the following tiered levels of support:

- High dependency / vulnerable residential population including where re-location is highly problematic e.g. Hospitals and Prisons. These customers are considered for dedicated tankered water provision
- Vulnerable residential population e.g. residential care homes (elderly, infirm, hospices). These customers are considered for a dedicated tankered supply or dedicated static tank or bottled water
- Non-residential but unacceptable societal impact e.g. educational establishments, NHS walk in centres, Day-care facilities. These customers are considered for a dedicated static tank or bottled water provision
- Agriculture / economic hardship e.g. premises with livestock, where re-location is highly problematic and no access to environmental water is available. These customers are considered for a dedicated static tank (non-potable water options are also considered) during an extended event

This operational approach was tested during the recent Freeze-Thaw Extreme Weather event earlier in 2018 and proved to be effective in quickly identifying at risk customers, and prioritising our operational responses accordingly.

We have received excellent feedback from customers on the quality of our vulnerability support services. In a recent survey of all customers registered for Priority Services 95% said they are satisfied with the service they have received, and that services are easy to access[26]. As reported on business plan table App4 – Customer metrics, line 20 we plan to maintain this excellent level of customer satisfaction with the service we offer.

Customer expectations

It is crucial that our plans show an effective approach to helping customers in vulnerable circumstances, recognising the specific needs of different types of customer and ensuring that the services provided are tailored to their needs. This

[26] Business plan table App4

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measure addresses Ofwat's expectations that all companies should propose a bespoke measure focused on vulnerability.

This measure builds on our existing Priority Services scheme by targeting an increase in the number of customers registered for the service.

In June 2016 we carried out customer priorities research ("YourChoice")[27]. Our initial priorities research included "Ensuring that the water needs of customers in vulnerable circumstances are met" as one of a list of areas that UU should focus on, which 62% of customers supported.

In autumn 2017 we tested an initial version of our business plan with customers. Participants were able to provide feedback on the acceptability of this overall package and could indicate the service areas where they would like the company to do more, with associated bill changes, over the next five years. The sample population was representative of our region, in terms of age and socio-economic characteristics and also included a specific element of engagement with customers who are hard to reach and in vulnerable circumstances. One of the areas listed for focus was "Ensuring that the water needs of customers in vulnerable circumstances are met". 71% of customers supported our planned level of improvement or higher.

Customer feedback included:

- Issues that make someone vulnerable such as a disability, illness or old age are seen as outside of an individual's control. Customers surveyed were willing to pay more to subsidise this
- Customers don't understand what help is provided but have high expectations of the support UU should provide
- Customers are increasingly aware of the growing incidence of mental illness and dementia
- Willingness to support customers in vulnerable circumstances cuts across affluence. People from all income groups showed a willingness to help support those in vulnerable circumstances
- Many customers said they would support bill increases and levels of support beyond the maximum proposed

We have also discussed the design of this commitment extensively with YourVoice, and have sought to take their views and suggestions into account. The Independent Affordability and Vulnerability Panel[28] has also considered our work to benchmark registration rates and service standards.

Feedback from engagement with those customers on the Priority Services Register tells us that they place great weight on the quality and scope of the Priority Services offerings.

Taking all customer and stakeholder feedback into account we have altered the design of this Performance Commitment in several ways since first proposing it in December 2017. We have:

- Increased annual Priority Services registration targets
- Introduced a requirement to hold certification under BS18477 'Inclusive service provision' to act as a quality gateway before rewards for outperformance can be claimed
- Reduced the scale of proposed incentive rates so that any rewards or penalties from future out or under performance against performance commitments is shared with general customers
- Included a commitment that should UU receive any future net rewards[29] under this ODI that exceed the annual costs of running the Priority Services Register we will seek to reinvest into support for customers in vulnerable circumstances[30]

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[27] See document T1012 – YourChoices, customer priorities
[28] See supplementary S2001 "Affordability and Vulnerability Challenge, section 3.2
[29] Net rewards are assessed as ODI annual reward less marginal cost of serving additional Priority Service registered customers
[30] See chapter 3, section 3.7 of the our business plan

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The plan

We have made great strides in improving Priority Service support, but there is more to do.

For example we have considered the distribution of Priority Services registrations across the areas that we serve. It is clear that levels of engagement in some areas are higher than in other areas, reflecting both demographic differences as well as differences in local attitudes to such services. We recognise that when designing the initial Priority Services offering we did not have a full understanding of which of the range of support services we offered customers would value most.

One way we can substantially boost Priority Service registration is to put in place data sharing arrangements with energy providers and other utilities[31]. Following the North West Affordability Summit in January 2018 we have also identified a number of ways in which we can improve the quality and accessibility of the services we offer, including establishing a North West Community Advice Hub, as detailed in S2001 "Affordability and Vulnerability Challenge", section 3.3.

We are also extending some of our Priority Services offerings to our wider customer base to enable co-delivery of support. In June 2017 we began notifying all customers with contact details about disruptions to supply or other service events. These updates allow customers to make more informed decisions and keep them aware of what help is available and how to access it. We believe that taking this wider community approach will help customers self-identify if they need more support and will allow people to help more vulnerable people within their community, potentially in a swifter and more effective way than the assistance we can offer. As stated in business plan table App4 – Customer metrics, line 12 we anticipate that these efforts will result in levels of customer awareness of vulnerability assistance increasing by nearly 50% by 2025.

We utilise a range of data sources to enhance our ability to identify customers in vulnerable situations, including:

- Socio-demographic data, including CACI's ACORN consumer classification data
- Credit Reference Agency data sets, including full Insight data sharing arrangements via Equifax
- Internally captured data
- ONS/national data sets on vulnerable customers

We have undertaken a large-scale segmentation analysis with CACI, matching ACORN information to internal United Utilities data sets. Using this matched dataset we have created a set of key customer segments that we have the ability to match to each household within our region. This is an enhancement on previous segmentation models employed at United Utilities, which were typically based at the postcode level and not individual customer level.

For each segment we have created a pen portrait – this provides an overview of the segment's key attributes and behavioural preferences. A key element of the segmentation model is the provision of a score that relates to the propensity of the customer to be on a Priority Service Register with another supplier, as a result the segmentation analysis gives an indication by individual customer categorisation of a likelihood towards vulnerability. This has enhanced our ability to identify and reach out to customers in vulnerable circumstances.

One early example of this work is the changes we've made to our bills that now include specific messages targeting those customers that are most likely to benefit from registering for Priority Services. This form of highly targeted promotion will become increasingly important as we aim to achieve substantially higher registration rates in AMP7.

Feedback from customer engagement tells us that customers in vulnerable circumstances place great weight on the quality and scope of the Priority Services offerings. In recognition of this we are proposing a Performance Commitment and ODI to incentivise active identification and registration of those customers in need of support, whilst ensuring that the quality of our Priority Services offering is protected by requiring that we achieve British Standard 'Inclusive service provision' certification.

[31] In all cases sharing of personal data is subject to compliance with GDPR.

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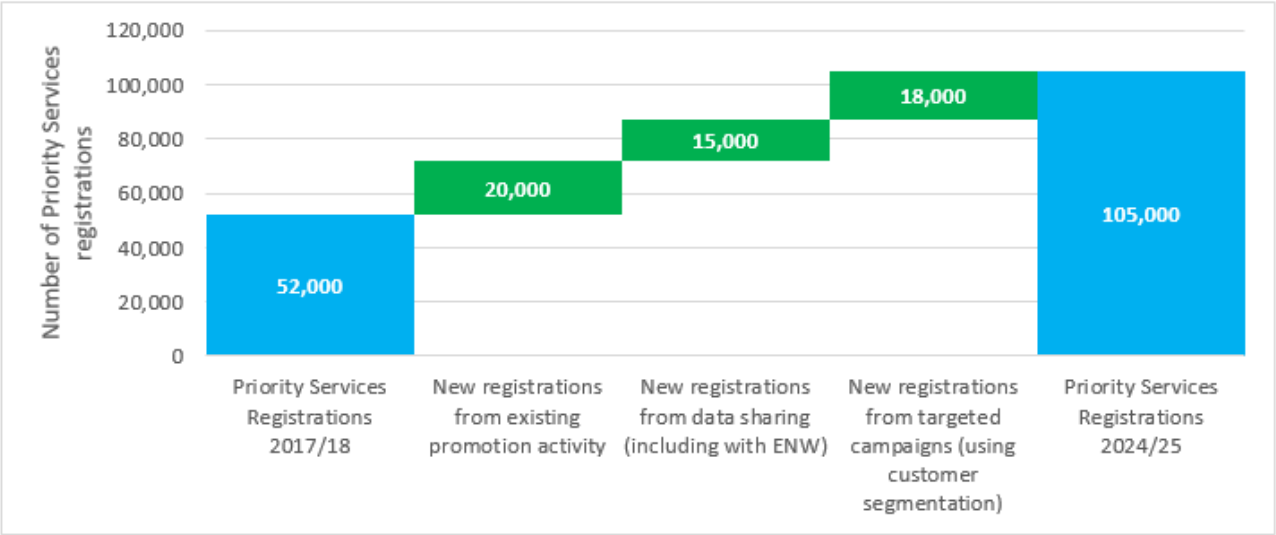
This measure incentives us to provide support to over 100,000 customers in vulnerable circumstances by 2025, with financial penalties for failing to reach this target. It is a stretching performance commitment, pushing up both United Utilities registration rates and setting a new industry frontier for Priority Services registration rates. Target registration rates are reported on business plan table App4 – Customer metrics, lines 13 and 14. Following engagement with YourVoice the incentive rate has been set at a stretching level, ensuring we are incentivised to deliver a cost efficient service, so providing value for money for wider customers.

Figure 10: Forecast sources of new Priority Services registrations



We will actively promote our support for vulnerable customers to ensure we have a minimum number of customers registered for our Priority Services offering each year. We will also provide assurance that the quality of vulnerable customer support is of a leading standard by achieving and maintaining certification under BS18477 'Inclusive service provision. Requirements for identifying and responding to consumer vulnerability'[32].

In addition we recognise that the support water companies provide for customers in vulnerable circumstances is an issue that rightly attracts particular attention from a wide range of stakeholders. In developing this ODI with the United Utilities CCG 'YourVoice' we have agreed that any net rewards[33] that United Utilities may receive from this ODI will be reinvested in providing support to customers in vulnerable circumstances.

A fuller description of this Performance Commitment and ODI can be found in chapter 5 of the Main Business Plan submission (document reference P0001).

4.2 We will improve the way we work to keep bills down and improve services for you and future customers

We aim to keep future bills down for all our customers by helping more customers to pay, and ensuring that all people who are receiving our services are being billed.

[32] Bsi, https://shop.bsigroup.com/ProductDetail/?pid=000000000030213909

[33] For the purposes of this commitment net rewards are assessed as ODI annual reward less marginal cost of serving additional Priority Service registered customers

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We will increase the level of affordability support for those that find paying their water bill a challenge. Our affordability research found that 82 percent of customers believe our proposed AMP7 charges will be acceptable[34]. By using ever advancing data on customers' financial circumstances, coupled with dynamic insight into customers' perceptions and expectations, we have developed an industry-leading set of support schemes to help those customers that need it. These schemes provide a range of support to address different financial challenges that customers may face.

We are proposing our largest ever bill reduction of £45 by 2025. We forecast that reduction, plus growing household incomes will support 250,000 customers moving out of water poverty by 2025.

During AMP7 we will also substantially increase the level of tariff discounts provided to customers that remain in water poverty. By 2025 we will provide financial support sufficient to lift an additional 66,500 customers out of water poverty each year, over and above the 250,000 helped through falling bills. We have adopted a standard definition of water poverty as "Spending 3% or more of household income after housing costs on water and sewerage bills"

We are introducing a new "Lowest Bill Guarantee" to help boost confidence amongst key customer segments that a water meter can work for them to help reduce their water bill. We are also offering a new "payment break" scheme to support customers in managing short-term financial shocks, such as changes to benefits payments.

We will provide £71m of support to over 152,000 customers a year through financial assistance schemes including discounted tariffs, UU Trust Fund grants, and "Payment Match+" arrears allowance scheme.

We have undertaken a robust exercise to ensure that the long-term bill impact of our plans will not impose affordability challenges on future generations. More details of our approach to affordability are set out in chapter 3 on affordability and vulnerability.

In order to reduce the number of customers who are receiving our services without paying bills, we have adopted performance commitments for gap sites and vacant premises for both residential and business customers.
There are seven performance commitments which support this outcome, three directly related to Residential Retail. These are:

- E01-HH: Customers lifted out of water poverty
- E02-HH: Household occupancy verification
- E05-HH: Gap sites (retail)

[34] Based on acceptability of 'Plan A' proposals, which tested average nominal household bills of £451, £11 greater than final business plan proposals. This is as a result of including the full bill impact of the Manchester and Pennines Resilience project in AMP7 bills. In practise it is proposed that full bill impacts for M&PR will not be realised until 2029/30.

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4.2.1 Customers lifted out of water poverty

Customer Outcome:
We will improve the way we work to keep bills down and improve services for you and future customers

Summary

In our business plan we have sought to put in place an effective approach to helping customers in financial stress and to ensure that assistance is accessible to all low to middle income customers. There are many people in the North West who are in uncertain financial circumstances, with 18% of households meeting the definition of being in water poverty in 2016-2017. This performance commitment seeks to incentivise greater levels of affordability support in AMP7.
During AMP7 we will substantially increase the level of tariff discounts provided to customers that remain in water poverty.

Current Performance

In 2017/18 we assisted 35,000 customers out of water poverty via our Back on Track and Help to Pay tariffs. This is forecast to increase to 55,000 by 2019/20 as we identify more customers we can support. We are looking at more and innovative ways we can engage with customers who are struggling financially, using customer segmentation, partnerships with support agencies and nudge marketing.

£14m Totex

Expenditure required to deliver this performance commitment

Efficiency

Using third party we will be able to efficiently identify eligible customers at risk of falling into debt.

Customer Views

51% of customers supported our planned level of customers being lifted out of water poverty.

Risks

The impact of welfare reform and universal credit rollout may mea more customers fall into water poverty.

Innovation

This measure uniquely incentivises both the volume and quality of affordability support, ensuring that help is well targeted and adequate.

Future Performance

Our long term ambition is to maintain the number of customers we are able to assist with our payment assistance schemes. We will continue to support customers who have affordability issues by ensuring they are on the most suitable tariff and payment plan for their circumstances, and employing other non-financial assistance schemes. We will also work with community stakeholders, regulators and government with the aim of introducing new mechanisms for supporting customers under financial stress.

End of AMP Future Targets

Number of customers lifted out of water poverty	AMP6	AMP7	AMP8	AMP9	AMP10
	55,400	66,500	66,500	66,500	66,500

Some customers have persistently low household incomes, with correspondingly low ability to afford their water charges on a continuing basis. For these customers our cost benefit assessments indicate that in addition to the

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payment support options discussed in S2001 "Affordability and Vulnerability Challenge", section 4.1.5, a meaningful discount to tariffs is the most effective way of alleviating water poverty.

We have identified that in 2016/17 18% of households were likely to be classified as living in water poverty. The impact of United Utilities' proposed bill reductions for AMP7 will change the levels of water poverty in the North West. Based on our forecasts the impact of falling bills and rising household incomes will lift 250,000 customers out of water poverty. This will still leave 9% of households in the North West in water poverty by 2020.

Current performance

Many people in the North West have difficult financial circumstances so we try to handle non-payment sensitively and identify those customers most likely to find payment difficult. In 2016/17 bad debt costs added around £17[35] to the average United Utilities annual water bill. We are increasingly using cutting edge proactive debt engagement practices to keep this as low as possible and avoid putting customers under financial strain. As set out in S6013 "Debt Management Capabilities" section 2, for those customers who are struggling to afford their bill we promote a culture of rehabilitation back into making payments and offer several avenues of assistance. If any Priority Services customers fall into debt we have a segmented approach which allows us to offer them a more sensitive and tailored customer experience. As a result of these targeted promotional activities we anticipate an increase in customer awareness of affordability assistance measures.

This approach to supporting customers facing affordability challenges is distinct from the way in which we manage debt with customers that do have the financial means to afford their bill. In supplementary S6013 "Debt Management Capabilities" we set out our approach to prompting payment from customers that can afford to do so.

We are receiving external recognition for best practice in collections and debt management. In 2017 our debt management team won Water Team of the Year at the Utilities and Telecoms Awards and we were shortlisted at the Market Research Society Awards for our innovative approaches to customer reengagement. These awards recognise excellence across the utility and credit industries, not just the water sector.

Customer expectations

We have carried out extensive customer research, trials and engagement with stakeholders to develop our approach to helping customers who struggle to pay their water and wastewater bills.

Our Customer priorities research ("YourChoice") in June 2016 included a question related to providing financial help and support to those who are struggling to pay. This emerged as an important issue for customers, particularly among lower income socio-economic groups.

In autumn 2017 we tested an initial version of our business plan with customers. Alongside other elements of our plan participants were asked about their willingness to help customers who are struggling to pay.

The background information provided to customers in the research testing our plan was:

> *Customers in severe financial hardship may sometimes find paying their bills beyond their means, and this can lead to 'bad debt' that is hard to recover. Additional support in terms of flexible payment arrangements for these customers can reduce the bad debt costs that United Utilities incur, which is around 4% (£17) of the average annual water bill. United Utilities can invest further in flexible payment plans and other support services, to reduce the number of customers in water poverty and keep bad debt as low as possible to avoid putting others into financial strain.*

51% of customers supported our planned level of improvement or higher. Customers that did not support our initial proposals generally acknowledged the importance of the issue and provided insight into their concerns:

- Customers questioned how UU are able to assess genuine need, and wanted reassurance that support would be effectively targeted

[35] Based on implied bad debt associated costs in United Utilities AMP6 Retail Cost to Serve revenue allowances

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- Customers generally empathise and wanted to help 'within limits', with contributions from UU expected
- Awareness of support schemes on offer was a recurring theme, with many customers unaware of social tariff provision unless directly affected
- Maximum contribution is largely supported by those who've experienced severe hardship in the past, or can see they'd benefit themselves

Following further engagement with the UU CCG "YourVoice" and the independent Affordability and Vulnerability Panel we have redesigned the "Number of customers lifted out of water poverty" Performance Commitment and ODI to better reflect customers' expectations. In particular we have strengthened the requirements to assess customers' needs by providing detail on how an affordability assessment will be completed, we have reduced the scale of the measure by reducing incentive rates, and in our wider plans to support customer affordability we have committed to increasing levels of customer information and engagement.

Collectively customer research and stakeholder engagement has told us that this performance commitment needs to be set at a level such that our contribution to financial support schemes increases, and that incentive rates should closely mirror the marginal cost of additional tariff registrations. Financial incentives should require us to commit to helping more customers, and rewards should only be sufficient to cover the cost of tariff discounts. Our customers expect that we will place increased focus and effort into identifying the customers who are genuinely in need of our support. We have reflected this feedback in our final proposals.

Options

We have assessed our affordability schemes to ensure they represent value for money for both those in receipt of support and to the wider customer base.

Demonstrating that reduced charges are effective in returning customers to good payment patterns is important. It is not enough to simply reduce charges if this doesn't lead to customers finding the new charges affordable as it will not enable them to return to good payment. We have conducted a cost benefit assessment for all of our direct support schemes, assessing costs, benefits and total net anticipated benefits for all schemes from a company perspective. Benefits include reduced bad debt charges and reduced debt management costs.

Table 3: Cost Benefit Analysis of each financial support scheme[36]

Scheme	Benefit to cost ratio	UU contribution	Customer contribution
Back on Track tariff	1.30	100%	0%
Help to pay social tariff	0.49	50%[37]	50%
WaterSure	0.94	0%	100%
United Utilities Trust Fund	1.32	100%	0%
	Additional cash recovered		
Back on Track tariff	£1,772	100%	0%

This assessment considers United Utilities costs and benefits from affordability schemes. A value of greater than 1.0 indicates that benefits exceed the tariff discount costs of offering the scheme. It is not an assessment of total societal benefits. Financial assistance schemes are a transfer of value between different parties. This is between different customer groups (in the case of rebalanced social tariffs), or between customers and United Utilities (in the case of United Utilities funded schemes) and we believe that a total society CBA would yield cost/benefit values near to one.

[36] Total aggregate gross costs and benefits of financial assistance schemes is reported in table App 4 – Customer metrics, lines 7 and 8

[37] In UU contributions to the Help to Pay social tariff are capped at c.£1.4m/yr. In 2017/18 this equated to 50% of total tariff discounts.

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In conducting this cost benefit assessment we have looked at the observed six year impact on average customer payments and the costs of providing the schemes. For Payment Matching we have used a slightly different approach to assessing the benefits, focussing on the additional cash recovered from each customer versus their payment habits before sign-up.

We have identified that our most beneficial schemes are the Back on Track support tariff and United Utilities Trust Fund. Both are 100% funded by Untied Utilities, with no direct customer contributions. The Back on Track tariff offers sustained bill reductions for low income households, whereas the United Utilities Trust Fund provides one off grants for customers in hardship. Given these positive benefit ratios we plan to increase the focus and promotion of the Back on Track scheme in AMP7.

The United Utilities Trust Fund also offers net positive returns and so we will continue to make trust fund contributions and to promote the scheme to customers. In recent years we are increasingly finding that ongoing tariff discounts can offer better sustained solutions for many customers when compared to one off trust grants. Therefore we anticipate that the number of United Utilities trust grants may reduce as we promote the benefits of ongoing discount tariffs instead.

The Payment Matching+ arrears allowance scheme is also cost beneficial. We anticipate that as the number of customers in debt reduces we will need to develop new and better ways of identifying and promoting the scheme with eligible customers (see supplementary report S2001 “Affordability and Vulnerability Challenge”, section 4.2.5). We anticipate that this increased activity will be sufficient to maintain scheme registrations despite the material reduction in the eligible customer base in AMP7.

We have an increased mandate from wider customers for the Help to Pay social tariff[38]. Customers have provided this support based on their willingness to cross subsidise bill reductions for the poorest pensioners. The cost/benefit for United Utilities, before the rebalancing of reduced tariffs onto the wider customer base is less than one; however the scheme was designed and promoted as a mechanism of support for customers, not a cost efficiency initiative. Given this we believe the tariff is fulfilling the purpose on which the customer support is based, so we will look to further promote the benefits of this tariff to those that are eligible. We will continue to improve our ability to promote the tariff with those customers that stand to gain the most from the discount in AMP7.

Similarly the WaterSure scheme is a government mandated scheme put in place to ensure fairer charging for those least able to pay high metered charges. We will therefore continue to promote the scheme appropriately.

Each scheme can be more or less effective for different customers in different circumstances, and we expect the macro economic and social environment to change over time. As such we will keep the cost/benefit of each scheme under review and may increase or reduce the relative scale of each scheme over the course of AMP7 as our observations of customers’ needs change, ensuring that we continue to deliver support schemes in a cost efficient, socially responsible manner.

The plan

In chapter 9, section 9.9.3 we discuss our proposals for a new Resilient Communities Initiative. The Base Element of the initiative represents a core commitment to support financially stressed customers. In AMP7 we propose to provide direct company funded support worth £71m through our discounted tariff schemes. This compares to £53m in of support provided in AMP6. The following schemes are included within this element of the initiative:

[38] T1030 – Use of behavioural economics in Social Tariffs research

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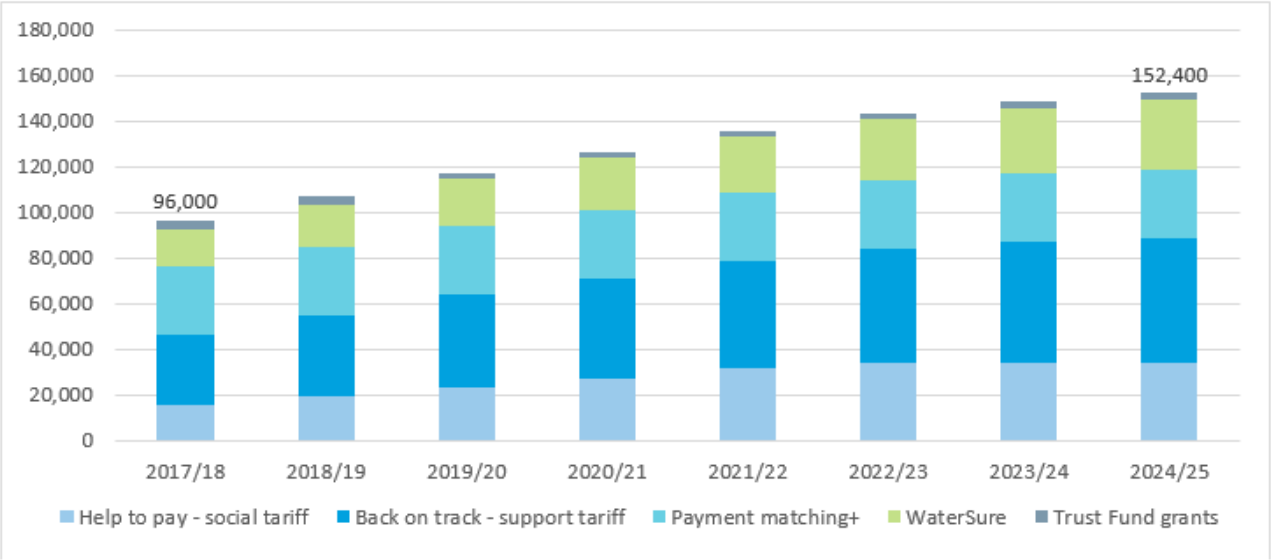
As we move into AMP7 we may decide to alter the mix of funding between the schemes and/ or invest in other types of tariffs and customer support schemes to reflect further learning through experience and customer engagement. Each year we will report on the number of customers on each scheme, and present to United Utilities' CCG, YourVoice commentary on what has driven movements in each scheme.

In addition to the above direct company support customers will also contribute c.£71m in AMP7 via the Help to Pay social tariff and WaterSure tariff. We have sought to ensure that the company contribution to customer support schemes are comparable to that made by customers, the latter being determined through a combination of direct consultation with customers and the government mandated WaterSure tariff.

This additional investment will enable a substantial increase in the number of customers receiving financial support in AMP7. We aim to increase the number of customers receiving financial support each year to over 152,000 by 2025.

Figure 11: Forecast support scheme sign-up rates



Some of the solutions we are implementing for low to middle income customers, such as a Lowest Bill Guarantee and Payment Breaks are also likely to help the lowest income households.

We are proposing a new bespoke Performance Commitment and ODI structured to ensure that we seek to provide financial support to as large a number of customers in water poverty as possible, and to ensure the degree of support provided is significant in the context of each customer's individual circumstances. It is intended to focus on the outcomes of our interventions, ensuring that company activity is targeted at those most in need.

This measure is structured to ensure that we seek to provide financial support to a large number of customers and to ensure the degree of support provided is significant in the context of each customer's individual circumstances. We aim to effectively target those customers who will benefit most from our assistance and provide the most effective support mechanism for that customer which will enable them to be lifted out of water poverty. This measure will result in more people than we have ever helped before being lifted out of water poverty. The commitment focuses on both the scale and effective targeting of support, ensuring we are able to tailor assistance to customers' specific needs.

Our discount tariffs such as "Back on Track" offer a discounted or capped tariff funded by us. These tariffs are set at a level intended to lift customers out of water poverty. In AMP7 we will reach our remit for the number of customers we can help via the "Help to Pay" tariff. The incentive rate we have set for this performance commitment is aimed at covering the cost of providing affordability tariffs. The cost recovery mechanism we have proposed will therefore allow us to sign up additional customers onto our "Back on Track" tariff and enable us to target effectively more customers to lift out of water poverty.

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4.2.2 Managing voids and gap sites

Customer Outcome:
We will improve the way we work to keep bills down and improve services for you and future customers

Summary

We aim to keep future bills down for all our customers by ensuring that all people who are receiving our services are being billed. We have adopted performance commitments for vacant properties and gap sites. Our commitment for vacant properties measures the number of domestic connected properties that have been robustly verified as either occupied or as void/unoccupied. Our measure for gap sites commits us to ensuring that we have all connected properties in the region recorded on our billing system.

Current Performance

In 2017/18 we verified the occupancy status of 95.1% of household properties using a number of data sources such as CRA data and visits to properties. We aim to maintain this performance to 2020. We have been developing methods for identifying missing properties for some time, which has resulted in a number of gap sites being identified and has helped us to put in place an enduring process.

£3.2m Totex
Expenditure required to deliver this performance

Efficiency

Raising accurate bills for all the properties we serve will help us to provide the lowest possible average household bills.

Customer Views

Billing all connected properties will results in a fairer distribution of water charges across all customers.

Risks

Changing data protection rules and regulations could make sharing of data with third parties more difficult.

Innovation

Occupancy verification measure covers occupied properties as well as voids.

Future Performance

For our occupancy verification measure our long term ambition is to maintain the % of our property base that has been verified as we feel that this is an economic performance level.
For our gap site measure our long term ambition is to maintain and improve the accuracy and completeness of our data. We believe that due to current activity the gap sites in our region have already been greatly reduced and so there will be a minimal number of annual gap sites identified from 2025 onward. Our target is therefore zero.

End of AMP Future Targets

	AMP6	AMP7	AMP8	AMP9	AMP10
% of properties verified	95.1%	96.1%	96.1%	96.1%	96.1%

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We recognise the important role that effective management of property data has in supporting the fair billing of all customers. It is in all customers' interests that do all we can to identify occupiers or confirm that properties are truly unoccupied. Equally we need to actively ensure that all residential and business properties connected for water and wastewater services are registered on billing systems and appropriately charged.

In recent years we have substantially improved the processes, systems and data used to manage property and occupier records. The introduction of business retail competition has changed the way that the industry collectively manages property records, and has helped focus our efforts to identify and correctly classify residential and business properties and customers.

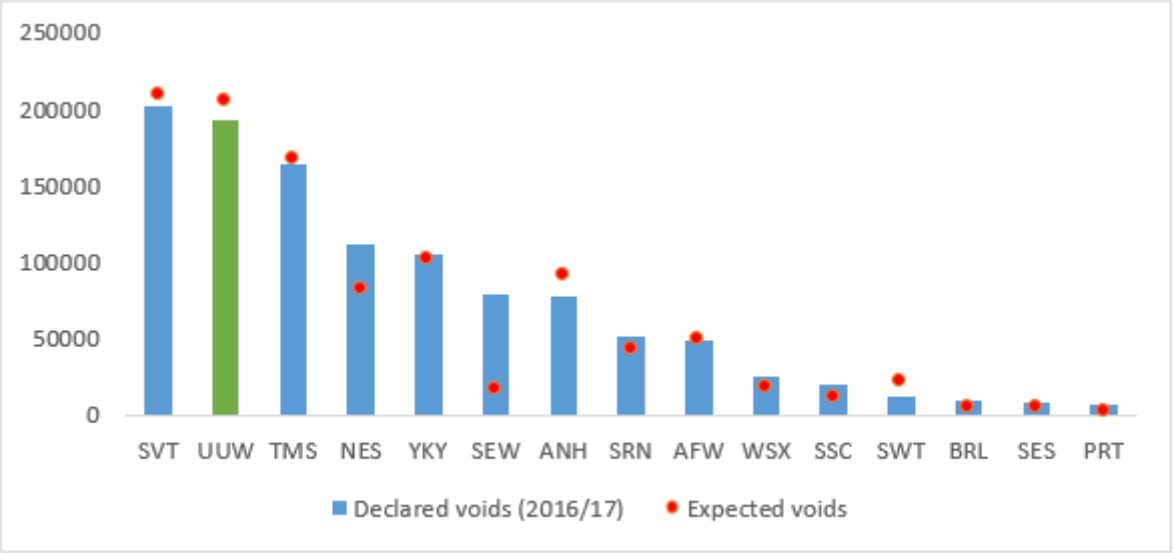
Household voids

Our household void management process is focused on independent verification of property void/occupied status, utilising third party Credit Reference Agency data, such as information on mortgage applications, mobile phone contracts and personal loans, as well as our own property visits to validate our records. Our systems and datasets enable a deep understanding of the occupied/void status of the total household property base.

We believe this process is robust, likely to be sector leading and is proving a very effective process for managing voids. An independent assessment by Deloitte endorses this view[39]. We have achieved good results, with almost half of void properties positively verified by third parties as being empty, and over 60% of properties yet to be validated have been empty for less than 6 months.

In addition to these processes, we also test levels of void properties against independent external data on household occupancy rates. We have compared levels of water company reported voids against an econometric model of predicted voids, which uses government data on levels of long-term vacant homes[40]. This demonstrates that UU reported levels of void properties are in line with industry norms once normalisation for regional differences in the numbers of empty homes is applied.

Figure 12: Company voids in 2016/17 vs Expected voids as indicated by the DCLG Vacant Homes



[39] See S6014 Bad Debt Management Maturity Assessment (Deloitte)
[40] We have used 2016 DHCLG information on long term vacant homes based on council tax discounts and exemption applications. Table 615 All long-term vacant dwellings by local authority district, England, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609298/LT_615.xls

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Household gap sites

We have been developing alternative methods for identifying missing properties for some time, and as set out in S6013 "Debt Management Capabilities", section 5.5 we now have a robust and effective process for making best use of third party data to identify missing properties. In 2016 we started to develop new techniques utilising third party data to identify these properties, and improved follow up activity to verify occupancy details. This work resulted in a number of gap sites, or missing properties, being identified and has helped us to put in place an improved enduring process to address this issue. We believe that on an on-going basis the volume of gap sites is not high but it is in customers' interest that we maintain an on-going regular activity to validate our billing records.

Property management process

Insight from Credit Reference Agencies and data management consultancy specialists indicate that our void management and verification process is a leading approach both within the water industry and in other utility sectors.

Historically we have relied predominantly on prompting direct engagement from homeowners and tenants to receive customer contact details. Where repeated prompts to contact have not elicited a response we have made use of regular void property visits to attempt to ascertain whether or not the property is occupied, and if so to try and get customer contact details.

We have been developing alternative methods for managing our void properties for some time. Our void management process is now focused on independent verification of property void/occupied status, such as third party validation against CRA data. Our systems and datasets enable a deep understanding of the occupied/void status of the total household property base.

Our property management process:

- We use a combination of operational data from meters, data from property visits and data from an external Credit Reference Agency (CRA) in an attempt to verify occupancy status and occupier details.

- We systematically request CRA details of any credit footprint at "void" properties for review. This data includes information from the Electoral Roll, Rolling Register, BT Fixed Line and all "Insight" providers e.g. banks. The data is then scored to determine if the property is empty (little or no credit activity at the property) or if an occupier can be identified.

- If an occupier is identified a confidence score is assigned (High = significant levels of credit activity, Medium = standard levels of credit activity and Low = minimal levels of credit activity). We will then automatically letter the identified occupiers requesting they contact us to confirm their occupancy, and if no contact is received from a High/Medium confidence occupier they are automatically moved in and a bill issued in their name.

- An occupancy check is conducted after an unmetered property is registered as void, and reviewed on a cyclical basis. For metered properties, observed consumption acts as a trigger for CRA and other occupancy checks. In addition unoccupied properties will also receive a series of visits, up to 4 times per year, in an attempt to establish if the property is occupied and if so to obtain occupier details.

- When dealing with newly connected properties, or void properties with very high levels of consumption we will also conduct a land registry check to establish who the owner of the property is. Once ownership details are obtained we send letters and bills to the owner seeking payment or confirmation of whom the occupier is.

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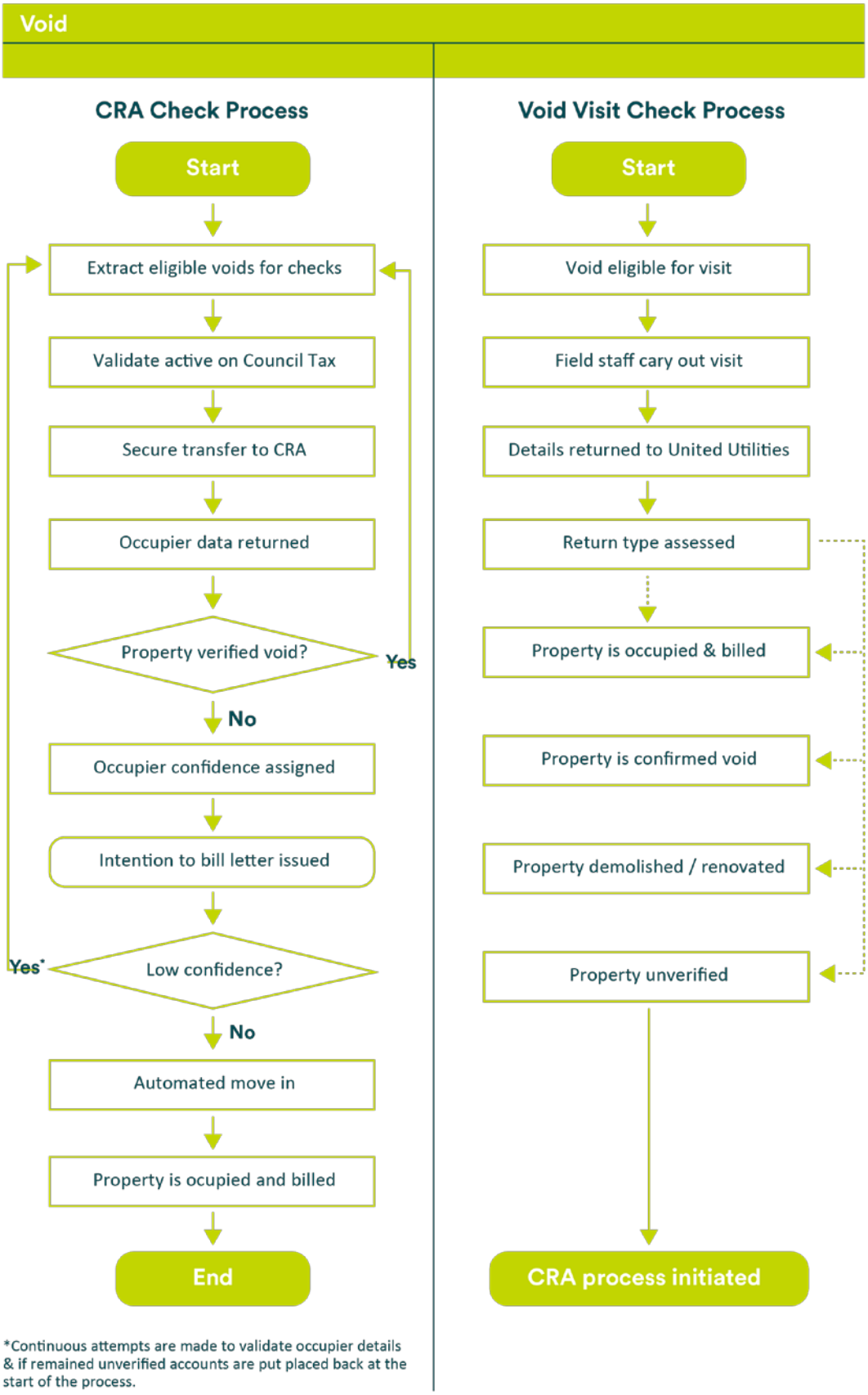
Figure 13: United Utilities voids management process



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