

Anglian Water

# RETAIL DATA TABLES COMMENTARY



IAP Response April 2019



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# SUMMARY OF CHANGES - SEPTEMBER 2018 TO APRIL 2019

The table below summarises the changes to the input cells in the Retail data tables. Where appropriate table commentary has been updated.

Note: Where line numbers have changed in the data tables, we have re-numbered the commentary accordingly, even if the commentary itself has not been updated.

| Data table  | Lines amended | Years amended      |
|---|---------------|--------------------|
| R1 - Residential retail   | 11-12, 15-16  | 2018/19            |
| R2 - Residential retail special cost factors                                    | No change     | -                  |
| R3 - Residential retail - further information on bad debt and customer services | No change     | -                  |
| R7 - Revenue and cost recovery for retail                                       | 2-6, 13-19    | 2020/21 to 2024/25 |
| R8 - Net retail margins   | No change     | -                  |
| R9 - PR14 reconciliation of household retail revenue                            | 13-24         | 2018/19            |
|   | 45-46         | 2019/20            |
| R10 - PR14 service incentive mechanism  | No change     | -                  |

# R1 – RESIDENTIAL RETAIL

## SECTION A: EXPENDITURE

### Total operating expenditure to 2019/20

With the exception of local authority rates, the operating expenditure analysis from 2015/16 to 2017/18 is taken directly from our Annual Performance Report (APR) and is adjusted to reflect pension deficit contributions and recharges for the use of assets. The business rates figures are taken from the internal analysis we use to derive other operating expenditure in the same reports. Between 2012/13 and 2014/15, costs are also taken from our published APR's, but we have assessed the allocation to measured and unmeasured customers as table 4F was not published for those years.

Operating expenditure in 2018/19 and 2019/20 reflects agreed internal business plans, with the allocation to activity and customer type based on previously reported costs and an assumed allocation to retail.

As requested in query ANH-IAP-CA-015, we revised our original submission of table R1, with changes to lines 5 and 8 (R1003 and BM9021) excluding the recharges for Principle Use Assets. This also impacts lines 10 and 14 (BM9023UWO and R1002UWO), which are calculated cells.

### AMP7 expenditure

Costs in AMP7 take our planned 2019/20 out-turn as a starting point, adjusted for known cost changes and productivity and efficiency challenges. The allocation of costs between measured and unmeasured and service received takes account of the forecast change in customer numbers over the period. With the exception of our bad debt charge, we are forecasting underlying (pre-efficiency) cost increases to follow forecast RPI over the AMP as we expect pressure to be exerted on input prices by our suppliers following a period of relatively low inflation.

We also expect the recent period of real wage stagnation to come to an end, driven in part by the likely reduction in available employees following Brexit, as some European nationals return to their home countries. In order to remain competitive as an employer, we believe this will lead to pressure on our employment costs.

### Line 2: Debt Management

Our cost per customer of debt collection in 2017/18 was £3.39 and by the end of AMP7 is forecast to be £3.37 in nominal terms, and a reduction to £2.93, or over 13% in real terms. Absolute costs grow per year as would be expected given the level of projected growth in customer numbers.

### Line 3: Doubtful debts

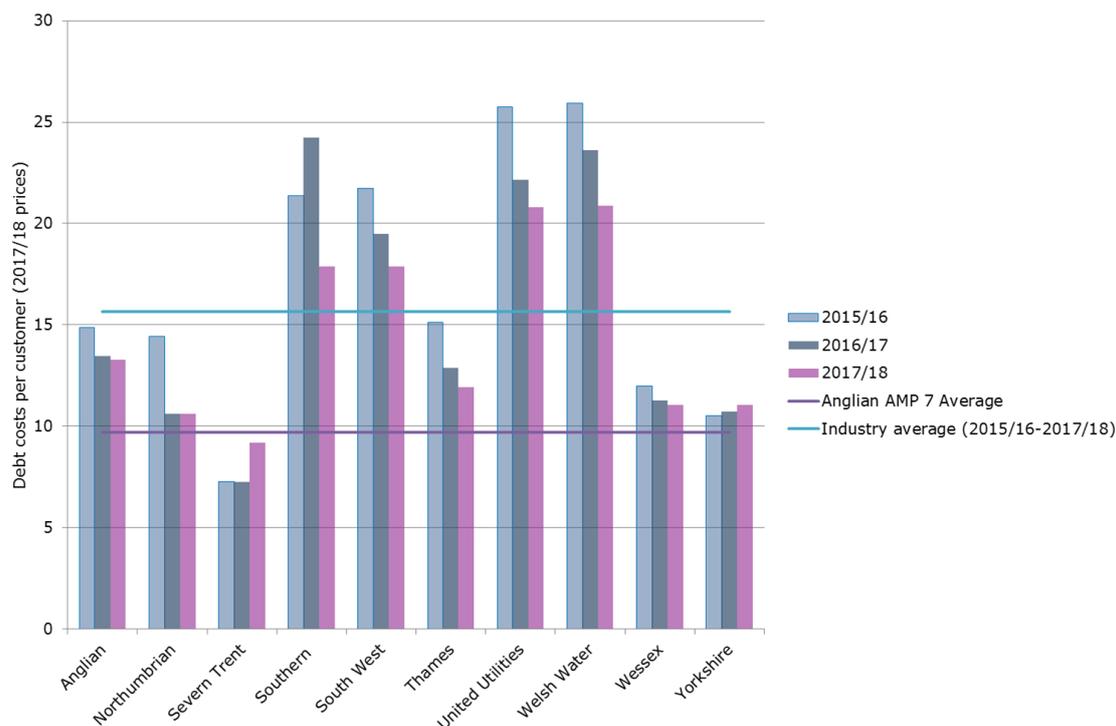
For 2012/13 to 2014/15, we have taken the doubtful debts charge for household reported in the regulatory accounts. This has been split between measured and unmeasured using the estimated movement between metered properties and unmetered properties, using March 2016 as a base point. The service provided split is based on an average of the split in March 2016 and March 2017. Doubtful debts from 2015/16 to 2017/18 are taken from our annual reports and the costs in 2018/19 and 2019/20 are based on internal business plan assumptions.

The AMP7 forecast doubtful debt charge is calculated using the end of AMP6 base position, notionally increased to reflect changes to the level of customer bills with further adjustments to reflect operating efficiencies. This is allocated to measured and unmeasured customers taking account of the change in customer mix over the AMP.

In 2017/18, our cost for bad debt and associated collection costs was £13.28 per customer, compared to an industry average of £14.46.

Because of the measures we are putting in place during AMP7, notably in relation to our proposals on affordability and other operating efficiencies, we are forecasting our cost per customer on average in AMP7, will fall to of £11.30 in nominal terms and £9.70 in 2017/18 prices, a reduction in real terms of approximately 27% compared to our 2017/18 cost per customer. This level of performance would put us beyond the existing AMP6 upper quartile performance.

Figure 1 Industry doubtful debt levels 2015/16 to 2017/18



Customers support a reduction in the cost to them of bad debt. In an activity with our online community in July 2018, we shared the costs of all the support measures we have in place, including tariffs, payment arrangements and bad debt. There was broad support for tariffs and payment arrangements, and even appetite to increase investment in these slightly, but there was little support for paying for others' bad debts.

*"I am impressed to see the extent that AW go to, in order to support vulnerable customers. I am quite happy with £10 of my bill going to this cause. I am not quite so keen on the amount supporting bad debt. Bad debt is the scourge of many companies in the UK. In normal business, they would be pursued through the courts and the money recovered. It seems the utility companies have one hand tied behind their back, by being prevented by disconnecting them. I think that is more of a matter for the Government to pick up". Tech Savvy*

*"The shocking part was the cost of the bad debt, that is a lot of money each that could be used to help the more vulnerable customers." Comfortable and Caring*

This is a comparable performance to the energy sector which the PwC report benchmarked at 1.5% of revenue. This performance would also represent a significant improvement against the current best performing WaSC in the water sector in 2017/18 at just over 2%.

### **Line 5: Other operating expenditure**

The step change is in 2017/18 and is explained in our APR, and in the main reflects the overhead in / borne by retail which was previously shared with non-household. The change beyond 2017/18 is modest.

### **Line 7: Pension deficit repair costs**

We have allocated deficit recovery payments to price controls in line with those reported in our Annual Report and Accounts 2018.

Deficit recovery payments have been agreed with pension trustees until 2026 and will increase in line with RPI from 2018/19. The retail share of the agreed deficit payments are reflected in the table.

### **Lines 11 to 12 and 14 to 16: Depreciation and capital expenditure**

The allocation capital expenditure and the subsequent depreciation between unmeasured and measured and water and wastewater customers for 2018/19 has been updated to reflect revised customer number forecasts.

The total capital expenditure and depreciation figures remain unchanged.

### **Line 11: Total depreciation on legacy assets existing at 31 March 2015**

The reported values are as per depreciation forecasts on SAP for assets held principally in retail commissioned prior to 1 April 2015.

Depreciation is split between measured and unmeasured and between water and wastewater based on customer numbers.

Most assets used in the retail business are relatively short life assets and so the depreciation on assets existing at 31 March 2015 tails off quickly as assets become fully depreciated.

Updated residential customer numbers for 2018/19 affect the proportional depreciation charge and capex allocated to water / wastewater and both.

### **Line 12: Total depreciation on assets acquired between 1 April 2015 and 31 March 2020**

For assets commissioned between 1 April 2015 and 23 February 2018, we have used depreciation forecasts for assets held principally in retail.

For assets to be commissioned in the future, we have used forecast capex for the remainder of AMP6 and all of AMP7 together with anticipated commissioning profiles.

Depreciation is split between measured and unmeasured and between water and wastewater based on customer numbers.

Updated residential customer numbers for 2018/19 affect the proportional depreciation charge and capex allocated to water / wastewater and both.

### **Line 15: Capital expenditure on assets principally used by retail**

This line is based on forecast retail capex split by customer numbers.

Updated residential customer numbers for 2018/19 affect the proportional depreciation charge and capex allocated to water / wastewater and both.

## SECTION B: CUSTOMER NUMBERS

Data has been derived from recorded information and the projected forecast for customers switching from unmeasured to measured and new build properties, in alignment with the Water Resources Management Plan (WRMP).

The data has been derived either through:

- Outturn - recorded property numbers. Total property numbers (water account) have been calculated as part of year-end reporting processes, based upon internal SAP premise data and data on income and tariffs. This allows the derivation of both measured and unmeasured property totals.
- Forecast - the total number of measured properties has been derived using the WRMP, Water Recycling Long Term Plan (WRLTP), as well as a household and population forecast model, baselined to year-end reporting totals.

Forecast growth has been aligned with planning information (collated by Edge Analytics) as provided by the Local Planning Authorities in line with the requirements set out in the WRMP.

Data has been derived from the projected forecast for customers switching from unmeasured to measured status (provided by the metering team and included in the WRMP/WRLTP forecast model) and the forecast for new build properties, in alignment with the WRMP and WRLTP.

The measured and unmeasured forecast split has been derived, using baseline outturn data and the meter installation / optant forecasts, as used in the WRMP demand forecast.

2018/19 forecasts have been updated to reflect actual billed properties for residential measured and unmeasured households.

## SECTION C: OPERATING EXPENDITURE - PART FUNDED THROUGH WHOLESALE

The costs reported in lines for 2013 to 2015 are taken from our supporting calculations to the regulatory accounts prepared in those years, as table 4F was not introduced until 2016. The costs reported from 2016 to 2018 are taken directly from table 4F in our annual report, with our reported 2018 costs inflated to derive the final two years of AMP6.

Demand side water efficiency costs in AMP7 take 2019/20 as a start point, with costs inflated annually and with the additional cost of new programmes of planned demand management work, in line with our water resources management plan. Costs for customer side leak repairs inflate annually from our forecast in 2019/20 as we do not expect the volume of work to change materially.

## SECTION D: RECHARGES FOR ASSETS SHARED BY RETAIL AND WHOLESALE

Recharge of depreciation on assets held by wholesale but used by retail. This primarily relates to IT systems which are shared between wholesale and retail.

Forecast numbers based on forecast capex, expected commissioning profiles and expected average asset lives.

# R2 - RESIDENTIAL RETAIL SPECIAL COST FACTORS

We are not submitting any Residential Retail special cost factors.

# R3 - RESIDENTIAL RETAIL - FURTHER INFORMATION ON BAD DEBT AND CUSTOMER SERVICES

## SECTION A: BAD DEBT INFORMATION

Bad debt remains a key focus with year on year improvements. At PR14 we had the largest household bill decrease (around 7%) across the industry, passing back efficiencies to customers at the earliest opportunity and since privatisation we have limited bill increases to less than 10% in real terms. We offer a range of support for those who struggle to pay their bills, such as the social tariff which provides additional benefits to customers including income maximisation support and advice and the provision of bespoke assistance in the form of concessionary tariffs; LITE, WaterSure and Aquacare Plus. We also provide assistance to customers in managing and getting back on track with their payments through: temporary payment arrangements; support with debt if customers engage in regular payment habits; helping customers budget better by paying their water bills through Department for Work and Pensions (DWP) direct payments; and credit data sharing providing rich data sets to enable targeted intervention and support.

We are committed to ensuring our bills are affordable for customers, including those who struggle to pay their bills. We have a strong track record of ensuring that customers get the help they need when they are debt. As a result of this, our bad debt charge for residential properties has reduced from £30.5 million (3.4%) in 2015/16 to £27.5 million (2.8%) in 2017/18. We operate the best of breed collections system, Tallyman, with full integration into our billing system, decision engines and third party suppliers.

Our decision engine hosts bespoke scorecards that use available data sources, including full credit data, to profile and segment customers at significant decision points within the debt recovery cycle. We enrich data using third party suppliers to improve data quality and enable more targeted strategies to be deployed, and once segmented we route customers down appropriate treatment paths according to risk of non-payment.

We operate champion / challenge strategies to test, learn and deploy new strategies to improve customer engagement and cash collection. For example, we are trialling a separate strategy for customers with high credit scores to promote available affordability schemes, such as concessionary tariffs.

We operate an extensive range of contact channels, including SMS, interactive voice messaging, outbound dialling, letters, emails and doorstep visits, to ensure that our customer can contact us in the best way to suit them. We also promote the use of a payment App during collections to enable customers to pay via credit and debit cards. We use tools to recognise when a customer is calling so that they can be routed to agents who are best placed to serve. Our collection agents, (telephony and field based), are trained to establish income and expenditure details and signpost customers to appropriate help schemes, both internal and external.

We operate a wide range of free payment methods, including counter payments, digital online and telephone payment channels and direct debit, and a range of affordability schemes, such as concessionary tariffs, debt forgiveness schemes (Back on Track and Assistance Fund), temporary installment arrangements and income maximisation assessments.

We share full credit data with two bureaux, Experian and Call Credit and plan to extend this to Equifax later this year. We re-profile customers who reach later stage recovery before routing them down a county court or debt collection agency path. We operate agent dashboards to highlight key information, such as missing data and customer profiles. We enforce county court Judgements via the full suite of available enforcement options, including high court enforcement, attachment of earnings and charging orders / orders for sale. We manage a comprehensive panel

of debt collection agencies for customers who reach late stage recovery where county court enforcement is unlikely to be effective. We employ a data interrogation team to cleanse and enrich our data.

In line with customer feedback, we will focus efforts to improve cash collection and reduce bad debt which is often caused by transient customers who move without leaving their forwarding address, customers struggling to pay and those who actively chose not to pay.

We will build on: our current decision engine hosting bespoke credit scorecards to assess customers by:

- improving profiling and segmentation techniques to enable targeted recovery action
- champion/ challenge strategies to test learning and optimising our collection paths; credit sharing and the procurement of rich data sets to improve quality and targeting of customer contact
- a panel of debt collection agencies for different debt types; enforcement via appropriate litigation methods
- the use of external data and the operation of a data interrogation team to maintain the quality of our data, with specific focus on tracing absconded customers; and personnel trained to identify triggers that enable them to tailor their approach.

All of these have proved a highly effective approach, helping to reduce operating costs and improve cashflow.

Our data interrogation team also manage a comprehensive void management programme and use external systems and data to trace customers who move without leaving their forwarding address. We operate data exchange programmes with landlords, including councils and housing associations and we signpost customers to external help organisations, such as Step Change, Citizens Advice Bureau and National Debt Line.

In AMP7 we plan to build on our strong track record on bad debt and ensure fair charges for all our customers. We will invest in capabilities to enable customers to opt for one touch digital payments and enable continuous payments via debit or credit cards and use a customer engagement platform to enable enterprise wide view of the customer and channel management. An enhanced website and customer App will help to improve customer accessibility.

We will extend credit sharing to a third credit bureau and develop a bespoke calculator to enable 'extra care assessments' including full income maximisation assessment/benefit checks, affordability scheme assessments and signposting to third parties. We have plans to introduce self serve functionality and comprehensive and personalised customer reports that can be sent via post and digital channels, such as email. We are re-developing decision engine capabilities and extending use of Data Science techniques to further improve decision making, speed up cash collection and reduce costs and extending the use of champion / challenge techniques and trials of optimisation solutions. Introduction of integrated systems via Application Programming Interfaces (API's) to bureaux operating validation checks and data enhancement capabilities at the point of on-boarding new customers.

We will extended self service functionality in My Account will enable payment alerts via SMS, email and will remind customers when payments are due and gamification techniques will help to incentivise customers to continue making regular payments. We will make wider use of aftercare and 'check ins' to reassess customer circumstances and targeting of affordability schemes. Procurement of data pinning capabilities to ensure accounts are linked and recovery more targeted at customer level as opposed to account level. New bill designs and functionality to enable autonomous changes, including more personalisation and target campaigns.

## **Line 1: Debt management residential**

The debt management costs are taken directly from table R1, line 2. For more information please refer to Table R1.

## Line 2: Debt written off residential

The historical debt written off figure is the debt written off in the report year, less cash collected on debt written off and less any legal costs written off. We do not sell debt to external debt collection agents therefore we do not receive any payment from them. The forecast debt written off is based on the budgeted amount for 2018/19 as we expect write-offs to be consistent.

## Lines 3 to 15: Revenue outstanding by age

Costs associated with recovery action have been removed from our historical aged debt balances using a report specifically designed to identify these costs.

The aged debt balances include revenue collected on our behalf by water only companies and by Hartlepool Water.

Our debt reports used for internal purposes report debt as measured or unmeasured based on the way the account was billed when the debt occurred. Therefore to enable us to correctly report these balances for our Plan we have used a specially designed report, which identifies debt balances where the measured or unmeasured classification has changed between when the debt occurred and the end of the report year.

The forecast changes in debt balances for 2018/19 and 2019/20 are in line with the forecast bad debt charge each year. The debt balance increases slightly in 2018/19 despite there being a reduction in the bad debt charge, as there was a one off adjustment to the bad debt charge in 2017/18. The proportional split between measured and unmeasured is based on the expected increase in metered properties and decrease in unmetered properties targeted in our metering policy. The split between age bands is based on the proportional split in 2017/18.

The forecast changes in debt balances from 2020/21 to 2024/25 are a calculation based on a combination of the forecast movement in revenue and bad debt charge.

## SECTION B: FORECAST ASSUMPTION

This has been calculated using total revenue recovered in the year divided by total revenue allowed in the year. We are forecasting a reduction in bad debt in AMP7, as explained in the commentary for line 3, table R1.

The revenue recovered in the year, including revenue in respect of bills raised in prior period, is generated from a report built specifically to calculate cash and credit applied to debt in the year. The revenue allowed is the reported household revenue for each financial year.

The forecast revenue allowed in the year is calculated using a number of lines from other tables. For years 2018/19 and 2019/20 wholesale water is lines 15 and 17 from table WS13, wholesale wastewater is lines 15 and 17 from table WWS13 and retail is lines 19 to 24 from table R9. For years 2020/21 to 2024/25 wholesale revenue is calculated from lines 20 and 22 from App17 with an inflation factor applied to get them to nominal value. The retail revenue is from line 19 in table R7. The forecast revenue recovered is calculated based on the movement in debt and revenue balances.

## SECTION C: CUSTOMER SERVICE METRICS

The volumes of our traditional contact channels (such as calls, emails and letters) are expected to reduce year on year during the next seven years as self service digital adoption becomes more popular. We do however recognise that in the Anglian Water region we have an ageing demographic of customers and whilst this does not preclude the use of digital channels it will slow the adoption. We will need to retain all of our traditional contact channels in order to provide a holistic service to all customers and reduce the risk of putting a customer into a vulnerable situation through the lack of an accessible contact channel. We intend to improve our service levels to reflect the speed of response customers now expect. For example, moving from a five day levels of service for responding to e-mails and letters to a turnaround of 24 hours.

This year, we launched our new customer online journey portal which for the first time allows customers to register and then to self serve a number of processes. These include setting up a payment plan, submitting a meter reading and receiving a real time bill.

Whilst we have seen over 180,000 customers register for this service, we intend to promote and develop it further over future years. Our customer contact strategy is to provide and promote self serve functionality wherever possible in line with our overall customer strategy in making our service effortless for our customers.

We do however recognise that emerging technologies and behavioural trends could impact any channel shift significantly. For this reason we have set ourselves targets to achieve in terms of driving digital adoption and reducing cost. These will be revised through the period as new technology becomes available, trends on channel use alter or if our customer demographic or their behaviour changes.

The development of our self service functionality will result in a phased reduction in our more traditional channels. As a result, we expect this to be a steady transition over the forthcoming AMP. Market leading figures suggest 40% of a customer base opting to self serve is the benchmark. We are challenging ourselves to achieve more than this by the end of the AMP. Web-chat as a contact channel is becoming increasingly popular with our customers.

Current technology allows us to switch this channel on and off depending on resource availability which in turn controls the number of contacts we receive via this channel. We expect the technology and therefore our efficiency to improve over the AMP and we would then phase the offering of this channel over a wider working window and increase the number of contacts received through this route.

Social Media as a channel is expected to increase over future years. Our social media strategy is to provide effective and targeted proactive communication with the aim of proactively reaching a wide audience rather than the inefficiencies of dealing with one to one contacts. For example, targeted announcements for outages or planned works will be delivered to specific areas ensuring only the selected customers receive the social media communication. We will also widen our use of geo-targeted 'Pay Per Click' advertising to address common customer service queries alongside developing a content repository of rich-media assets for frequently asked questions. New innovative technologies may however shift or even change this trajectory as new trends and adoption rates emerge through the AMP.

All costs are in nominal values. These metrics look at inbound contacts and annual expenditure costs which are contact centre related as per Ofwat R3 guidance and line definitions provided.

### Line 17: Cost per call

As mentioned in the volume overview, traditional channel contact is planned to reduce. But despite the forecasted reduction, the unit cost of call is forecast to increase following the 3% notional increase and the level of fixed cost as per table below.

|                     | 2017/18   | 2018/19    | 2019/20    |
|---------------------|-----------|------------|------------|
| Volume              | 1,152,000 | 1,137,000  | 1,102,000  |
| Fixed cost          | £764,493  | £787,428   | £811,050   |
| Variable costs      | £4,266,79 | £4,337,571 | £4,330,170 |
| Total cost          | £5,031,28 | £5,124,998 | £5,141,220 |
| Unit cost           | £4.37     | £4.51      | £4.67      |
| Variable unit costs |           | 3.21%      | 3.50%      |
| Volume change       |           | -1.30%     | -3.08%     |

### Line 18: Cost per email

As stated, traditional channel contact is reducing year on year as we can see on the table below.

But despite the forecasted reduction in volume, the unit cost of email is planned to increase following the 3% (notional increase). All email contacts are handled by our off-shoring resources which are all considered as being variable costs.

We are planning a 31% unit cost (+3% notional increase) increase in 2019/20 following contract renewal in 2018/19 with the cost of living where our off-shore partner is located having increased significantly since first the contract was awarded. We are anticipating a price adjustment in that year 2019/20.

|                     | 2017/18  | 2018/19  | 2019/20  |
|---------------------|----------|----------|----------|
| Volume              | 294,000  | 291,000  | 282,000  |
| Fixed cost          | £0       | £0       | £0       |
| Variable costs      | £326,559 | £332,924 | £431,997 |
| Total cost          | £326,559 | £332,924 | £431,997 |
| Unit cost           | £1.11    | £1.14    | £1.53    |
| Variable unit costs |          | 3.00%    | 33.90%   |
| Volume change       |          | -1.02%   | -3.09%   |

### Line 19: Cost per web chat

Web-chat is becoming increasingly popular with our customers and we predict that despite the 3% notional increase, we will experience greater volumes with the same cost based having less idle time and implementing technical solutions, such as chat bots, in order to reduce the handling time. So the unit cost in this area is reducing as per table below.

|                     | 2017/18  | 2018/19  | 2019/20  |
|---------------------|----------|----------|----------|
| Volume              | 29,000   | 38,000   | 45,000   |
| Total cost          | £147,923 | £152,360 | £156,931 |
| Unit cost           | £5.10    | £4.01    | £3.49    |
| Variable unit costs |          | -21.39%  | -13.02%  |
| Volume change       |          | 31.03%   | 18.42%   |

### Line 20: Cost per social media chat

We strongly believe in our social media strategy which will allow us to reach a wider audience than with the 1:1 contacts. This will become more and more popular.

The unit cost follows a similar pattern as the web chat with our plan to exploit technology wherever possible together with the current capacity to exploit more volume with the cost base.

|                     | 2017/18 | 2018/19 | 2019/20 |
|---------------------|---------|---------|---------|
| Volume              | 7,000   | 7,500   | 9,000   |
| Fixed cost          | £5,843  | £6,018  | £6,198  |
| Unit cost           | £0.83   | £0.80   | £0.69   |
| Variable unit costs |         | -3.87%  | -14.17% |
| Volume change       |         | 7.14%   | 20.00%  |

### Line 21: Cost per other letter

This follows the same trend as the cost per email because this activity is handled by our off-shoring resources team which also deals with emails. The unit cost is similar and uses the same assumption as per the email's one.

Despite the forecast reduction in volume, the unit cost of letters is planned to increase following the 3% notional increase and assumption made on the future contract renewal (+31% cost increase planned).

|                     | 2017/18  | 2018/19  | 2019/20  |
|---------------------|----------|----------|----------|
| Volume              | 167,000  | 166,500  | 166,000  |
| Fixed cost          | £0       | £0       | £0       |
| Variable costs      | £185,494 | £190,487 | £254,296 |
| Total cost          | £185,494 | £190,487 | £254,296 |
| Unit cost           | £1.11    | £1.14    | £1.53    |
| Variable unit costs |          | 3.00%    | 33.90%   |
| Volume change       |          | -0.30%   | -0.30%   |

There are no costs reported for the Selfserved webforms and online account management contacts as they do not involve our contact centre resources.

### Lines 22 to 28: Percentage of contacts by category

The percentages have been calculated using the assumptions made in terms of the volumes above.

The following table shows the overall calculation of percentages:

| Type of contacts                                  | 2017/18          | 2018/19          | 2019/20          | 2020/21          | 2021/22          | 2022/23          | 2023/24          | 2024/25          |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Calls   | 1,152,000        | 1,137,000        | 1,102,000        | 1,067,000        | 1,031,000        | 996,000          | 961,000          | 938,000          |
| Emails and letters                                | 461,000          | 457,500          | 448,000          | 435,200          | 421,900          | 407,500          | 393,100          | 382,500          |
| WebChat   | 29,000           | 38,000           | 45,000           | 50,000           | 54,000           | 57,000           | 59,000           | 61,000           |
| Social Media                                      | 7,000            | 7,500            | 9,000            | 10,500           | 12,000           | 13,500           | 15,000           | 16,500           |
| Self served - web form and online account manager | 180,000          | 362,000          | 525,000          | 685,000          | 845,000          | 925,000          | 1,005,000        | 1,060,000        |
| <b>Total contacts</b>                             | <b>1,829,000</b> | <b>2,002,000</b> | <b>2,129,000</b> | <b>2,247,700</b> | <b>2,363,900</b> | <b>2,399,000</b> | <b>2,433,100</b> | <b>2,458,000</b> |
| Percentage of contacts by phone                   | 63.0%            | 56.8%            | 51.8%            | 47.5%            | 43.6%            | 41.5%            | 39.5%            | 38.2%            |
| Percentage of contacts by email and letters       | 25.2%            | 22.9%            | 21.0%            | 19.4%            | 17.8%            | 17.0%            | 16.2%            | 15.6%            |
| Percentage of contacts by webchat                 | 1.6%             | 1.9%             | 2.1%             | 2.2%             | 2.3%             | 2.4%             | 2.4%             | 2.5%             |
| Percentage of contacts by social media            | 0.4%             | 0.4%             | 0.4%             | 0.5%             | 0.5%             | 0.6%             | 0.6%             | 0.7%             |
| Percentage of contacts by self served web forms   | 9.8%             | 18.1%            | 24.7%            | 30.5%            | 35.7%            | 38.6%            | 41.3%            | 43.1%            |
| <b>Total</b>                                      | <b>100.0%</b>    |

# R7 – REVENUE AND COST RECOVERY FOR RETAIL

## SECTION A: RESIDENTIAL RETAIL COSTS – ENGLAND AND WALES

### Line 1: Total cost to serve

This has been populated based upon table R1 (including recharges for principle use assets) line 14 (total residential retail costs (opex plus depreciation, excluding third party services)) minus table R1 (including recharges for principle use assets) line 11 (total depreciation on legacy assets existing at 31 March 2015).

### Line 2: Net margin (excl tax and interest)

This has been populated based upon the financial model:

Retail\_Residential! Row 95 (Residential retail margin - nominal)  
plus  
FinStat\_Residential row 19 (Current tax charge - Residential - nominal)  
minus  
FinStat\_Residential row 16 (Interest income /(expense) excl. indexation of index-linked loans - Retail)

### Line 3: Current tax - residential retail

This has been populated based upon the financial model:

FinStat\_Residential row 19 (Current tax charge - Residential - nominal) \*-1

### Line 4: Interest

This has been populated based upon the financial model:

FinStat\_Residential row 16 (Interest income /(expense) excl. indexation of index-linked loans - Retail)

## SECTION C: RETAIL REVENUES

### Line 13: Revenue - Water - residential retail measured

This has been populated based upon the financial model:

Retail\_Residential row 302 (Measured water customer service revenue inclusive of DPC margin - real) inflated to outturn price

### Line 14: Revenue - Water - residential retail unmeasured

This has been populated based upon the financial model:

Retail\_Residential row 316 (Unmeasured water customer service revenue inclusive of DPC margin - real) inflated to outturn price

### Line 15: Revenue - Wastewater - residential retail measured

This has been populated based upon the financial model:

Retail\_Residential row 303 (Measured sewerage customer service revenue inclusive of DPC margin - real) inflated to outturn price

### Line 16: Revenue - Wastewater - residential retail unmeasured

This has been populated based upon the financial model:

Retail\_Residential row 317 (Unmeasured sewerage customer service revenue inclusive of DPC margin - real) inflated to outturn price

### **Line 17: Revenue ~ Combined ~ residential retail measured**

This has been populated based upon the financial model:

Retail\_Residential row 304 (Measured dual service customer service revenue inclusive of DPC margin - real) inflated to outturn price

### **Line 18: Revenue - Combined - residential retail unmeasured**

This has been populated based upon the financial model:

Retail\_Residential row 318 (Unmeasured sewerage customer service revenue inclusive of DPC margin - real) inflated to outturn price

### **Lines 20 to 21: Revenue - business retail measured / unmeasured**

We have exited the business market therefore this block is not applicable and remains blank.

# R8 - NET RETAIL MARGINS

We have used a retail margin of 1%, as at PR14.

# R9 – PR14 RECONCILIATION OF HOUSEHOLD RETAIL REVENUE

## Updated information for IAP Response - April 2019

### **Ofwat action ref ANH.PD.A3: Anglian Water is required to clarify what the correct number is in table R9 for metered wastewater only customers in 2017/18.**

**Ofwat's response to the post-IAP query reference ANH\_05:** We confirm that we require a confirmation of the correct figure only for one variable which is the actual revenue collected (net) for metered wastewater only customers in 2017/18 (item ref. R9035).

We can confirm that the actual revenue collected net for metered wastewater only customers is £12.583 million.

The actual revenue collected for each customer type for 2017/18 is reported in the company regulatory accounts, table 2F.

The figures submitted in table R9 are aligned with those submitted in table 2F.

Actual reported retail revenue for 2017/18 was overall £5.5 million over recovered based on the weighted average number of unique customers by service. This reflected a minor under-accrual from the prior year; changes in the mix of actual customers compared to the reforecast; lower take up of the social tariff LITE 80 compared to forecast; and an increased take-up of the concessionary tariff Aquacare Plus but at lower levels of average usage as compared to forecast when setting charges.

The latter two elements – lower take-up on LITE and lower average demand for Aquacare Plus – mean that the level of overall discount for these customer groups was lower than forecast and therefore retail charges on a net basis were set too high in order to offset a level of cross-subsidy which in the event was not required.

The extent of this trend was not apparent at the time when charges were set for 2017/18 in the autumn of 2016, and so the full extent was not reflected in calibrating charges to set retail revenue recovery for 2017/18. However, when charges for 2018/19 were set we were able to fully reflect and anticipate how the movement in concessionary tariffs was likely to outturn, and as a consequence the forecast recovery of retail revenue for 2018/19 is likely to result in a partially compensating under recovery.

The movement in actual revenue collected for metered wastewater only customers for 2017/18 was in line with other customer groups.

### **Ofwat action ref ANH.PD.A3: Anglian Water is required to provide further evidence to explain its forecasts which depart from the trend in the first three years of the control period**

The forecast customer numbers (section A) were provided for PR14.

The reforecast customer numbers (section B) reflect the forecast for the relevant charging year when setting charges, and so are informed by the forecast outturn for the prior year. No immediately discernible or consistent trend is therefore to be expected as the reforecast will be dependent on any variation in prior year actual customer numbers compared to those in the reforecast for the prior year.

The trend in actual customer numbers for the first three years of the control period (set out in section C) reflects lower rates of switching by customers from unmetered to metered charging than expected, thereby maintaining higher unmetered customer numbers (and consequently lower metered customer numbers). As meter penetration increases, the financial benefits from switching for many unmetered customers may be marginal and may not compare to the benefit customers

appear to perceive from the flexibility in staying on unmetered charges (e.g. for when adult children return to live in the parental home and similar considerations). The apparent slowdown in house sales and so changes in occupier also mean that switching to metered charging through our enhanced metering programme has not been as strong as expected. On this basis, it has been difficult to reforecast customer numbers, as macro-economic indicators and other demographic changes are significant variables that can impact year to year and are not wholly predictable.

Growth from new connections was initially also lower than forecast at the start of AMP6 reflecting the longer than expected hang-over from the Financial Crash. Growth in house-building is now strengthening (reflected in the over-recovery of allowed wholesale revenue driven by increased new connection charges); this is driving the increase in metered customer numbers. We also reflected higher growth in the later periods, consistent with our WRMP and the methodology to capture local authority planning targets. This results in the higher reforecast customer numbers (section B) for 2018/19 and 2019/20.

The trend for each customer group in the forecast years is broadly in line with the prior years, given the higher growth projections in the WRMP, except in respect of unmetered water only customers and metered water only customers.

The unmetered and metered water-only actual customer numbers for 2018/19 and 2019/20 are higher than the trend up to 2017/18 reflecting a small error in the allocation of customers between single service and dual services. This has no material impact on the level of over/under recovery of retail revenue and will be corrected in the July submission when we report actual numbers.

### **Owat action ref ANH.PD.A3: Anglian Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018/19**

The reforecast customer numbers for 2018/19 set out in section B are based on the charge multipliers used to set charges for our Charges Scheme, as published in February 2018. These are based on forecasts developed during autumn 2017, and reflect a prudent approach to managing revenue recovery.

The 'actual' customer numbers set out in section C for 2018/19 were a revised forecast consistent with the growth figures set out in our WRMP and elsewhere in our Plan and reflected the methodology to capture local authority planning targets.

We now expect to report actual customer numbers for 2018/19 that differ from those submitted previously in R9. Whilst the number of new metered customers continues to strengthen compared to prior years, it is below the figures set out previously, appearing to reflect the current softening in the housing market resulting from short term economic uncertainty. The result is therefore likely to be close to our original reforecast.

On this basis, the provisional 'actual' customer numbers set out in the revised section C for 2018/19 result in an under recovery of retail revenue for 2018/19 of £1.1 million.

### **Lines 1 to 6: Forecast customer numbers**

The forecast of household customers is as set out in the PR14 final determination company specific appendix table AA2.2.

### **Lines 7 to 12: Reforecast customer numbers**

As part of the annual charge setting process a revised forecast of customer numbers for each customer type is made. For years 2015/16 to 2018/19, for which charges have been finalised, the reforecast of customer numbers is that used to set the respective years charges.

For 2019/20 a provisional reforecast has been made. This is as per the household property forecasts detailed in table R1 line 15.

### Lines 13 to 18: Actual customer numbers

The actual number of billed household customers for each customer type for 2015/16 to 2017/18 is reported in the company regulatory accounts, table 2F.

Report years 2015/16 to 2016/17 are pre populated cells.

For 2018/19 an updated forecast has been made based on the latest forecast out turn for the year.

For 2019/20 a provisional forecast has been made. This is as per the household property forecasts detailed in PR19 table R1 line 15.

### Lines 19 to 24: Actual revenue collected

The actual revenue collected for each customer type for 2015/16 to 2017/18 is reported in the company regulatory accounts, table 2F.

Report years 2015/16 to 2016/17 are pre-populated cells.

For 2018/19 an updated forecast has been made that results in an under recovery of retail revenue of £1.1 million.

For 2019/20 a provisional forecast has been made. This is as per the household property forecasts detailed in PR19 table R1 (with the associated volumes in line with recent trends), analysed and multiplied by the 2018/19 household tariffs and the 2019/20 FD14 Modification Factors, to produce a revenue forecast for the respective years.

### Lines 25 to 30: Revenue sacrifice

We have not forgone, and have no plans to voluntarily forego, retail revenue for any report years and therefore all cells are zero.

### Line 44: Discount rate

The materiality test is within the defined threshold. The discount rate has therefore been left blank and will be defined by Ofwat if required.

### Line 45: Residential retail revenue adjustment at the end of AMP6

The table below sets out the reported and forecast performance for allowed retail revenue recovery taken from Ofwat's household retail revenue reconciliation model Calc sheet.

#### Residential retail revenue adjustment at the end of AMP6

|  | 2015/16 to 2019/20 |
|--|--------------------|
| Year 1 adjustment  | £1.428m            |
| Year 2 adjustment  | -£3.447m           |
| Year 3 adjustment  | -£5.523m           |
| Year 4 adjustment  | £1.148m            |
| Year 5 adjustment  | £0.005m            |
| Residential retail revenue adjustment at the end of AMP6 | <b>-£6.389m</b>    |

#### 2018/19 - Year 4

The updated forecast retail revenue is £1.1 million under recovered based on the weighted average number of unique customers by service. This reflects a minor under-accrual from the prior year, and changes in the mix of actual customers compared to the reforecast, off-set by higher average

usage for the Aquacare concessionary tariff as compared to the forecast when setting charges (meaning the cross-subsidy recovered through charges were in sufficient to off-set the level of discount given).

#### **2019/20 - Year 5**

Our charge setting model solves revenue recovery by multiplying the cost to serve per service category by the number of unique customers served on each basis, smearing revenue recovery across the customer base in order to manage bill incidence effects. On this basis we forecast recovery of the allowed revenues in line with the control.

#### **Line 46: Residential retail revenue adjustment at 2017-18 FYA CPIH deflated price base**

This line reflects the output of the Revenue adjustments feeder model (PR19-Revenue-adjustments-feeder-model-01h).

# R10 – PR14 SERVICE INCENTIVE MECHANISM

## Lines 1 to 5: Qualitative performance

Data provided for 2015 to 2018 has been taken from the official Ofwat Customer Experience Survey and calculated in accordance with the methodology outlined in Ofwat's guidance document published in 2015.

The pre-populated value for line 5 (Qualitative SIM score (out of 75)) for 2015/16 shows a value of 63.84. This is produced by calculating a score for the year as a simple average of the four quarterly survey scores – 4.405. Our actual published survey score for 2015/16 was 4.41, which translates into a score for the year of 63.94.

Our forecast performance for the remainder of AMP (2018 to 2020), has been set at a level to ensure we continue to deliver a consistently great and improving service to our customers. We recognise increasing customer expectations will require innovative and efficient new ways of working to maintain industry leading levels of performance, which saw Anglian Water achieve first place in the Service Incentive Mechanism for 2017/18.

## Line 6: Quantitative composite score

Data provided in Line 6 has been taken from our annual audit Yearbook submissions.

The forecast of our quantitative performance is set at a level which is reflective of continued commitment to delivering excellent customer service, putting things right first time and driving continuous improvements to meet increasing customer expectations.

## Line 9: SIM forecast revenue adjustment at 2017/18 FYA CPIH deflated price base

We have made a number of assumptions in estimating whether we were due an outperformance payment or an underperformance penalty and what the magnitude of either might be. These are:

- Our fourth year total SIM score
- Other companies fourth year SIM scores
- The way that Ofwat will apportion the rewards available for SIM.

We have accounted for these assumptions in the following ways:

1. We have assumed that our fourth year total SIM score will be the same as our current year score (taking into account the forecast of the quarter 4 qualitative SIM score and using our current quantitative score to predict the score for the full year)
2. We have estimated other companies' fourth year SIM total scores on the same performance being achieved by all companies as in the third year
3. We have estimated that Ofwat will approximately apportion outperformance payments in a linear relationship between mean score and top score with a mean score gaining no payment and top score gaining 6% retail revenue. As we are currently the top performer in the industry, we have assumed an outperformance payment of 6% of retail revenue.

This outperformance payment equates to £26.202 million in 2017/18 prices.