Chapter 9: Affordability

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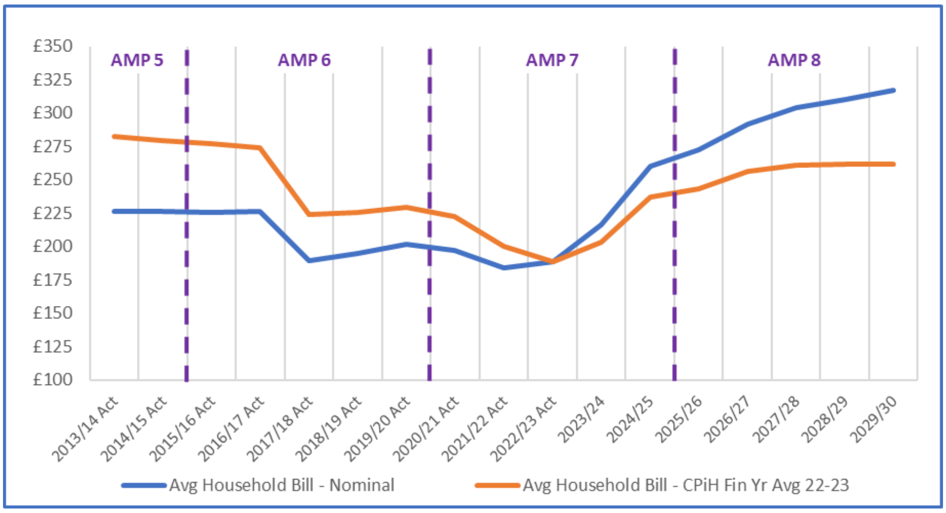
In this chapter we explain the impact our plan will have on customer bills and what is driving the increase in bills over the five year period. We demonstrate that we have considered long-term affordability and intergenerational fairness when setting bills. We explain how customers who cannot afford their bill will be supported financially and our ambition to eliminate water poverty, so that no customer spends more than 5% of their disposable income on their water bill.

A. Affordability today

1. We supply drinking water to 750,000 customers in parts of Surrey, Kent, West Sussex and south London. Chapter 5: Our customers and their priorities, describes how diverse this customer base is. While many of our customers are amongst the most affluent in the country, we also have many customers who may struggle to pay their water bill today or in the future with significant demographic differences across our supply area.
2. At PR19, bills reduced in real terms by 15%, and by 2022/23 the average bill was 67% lower than 10 years ago in real terms. Rising inflation has resulted in significant cost increases since 2020, however we have kept our bill below or at national average for the past three years with an average annual bill of £216 in the current year. In our Annual Report for 2023[1] which is published online we reported that just 5% of customers disagree that we offer value for money today, which is better than our performance commitment of 6% by the end of PR19.
3. The forecast average bill for 2023/24 has increased by 15%, and the forecast for 2024/25 is a further 20% increase. This has largely been driven by an inflationary lag in the tariff formula, and recovery of investment spend in prior year.

Figure 1: Average household bill change between 2013 and 2030



Source: SESFin - SES Financial Model

[1] SES Water annual performance report | SES Water

4. Throughout our engagement programme, the cost of living has emerged as a key area of concern for customers and remains so, despite recent data suggesting that wages are increasingly keeping up with inflation and that we may be seeing the end of the cycle of interest rate increases. In our Affordability and Acceptability Testing (see Section C below), 27% of household customers told us their current bill was either very or fairly easy to afford, with 21% saying it was fairly difficult to afford and 5% saying it was very difficult to afford. 47% said it was neither easy nor difficult.
5. We know that it is a challenging time for many, and we have worked hard to increase awareness of the support schemes that we offer through our own and our partners' channels. Despite clear concerns about affordability, we have not seen any material increase in the number of customers asking for financial support or any real sign of financial stress in payment behaviour. Over the past twelve months we have increased engagement with customers so we can offer financial support more proactively, where it's needed. We have seen an increase in the penetration of Direct Debit as a payment method to 69%. This makes it easier for us to spot any early signs that customers are struggling to make payments. The percentage of all customers with debt meeting their payment plans has also increased from 80.6% to 84.4%. We have however seen an increase in the number of customers asking to move to measured billing to help manage their costs.
6. We also asked customers how confident they were in being able to afford their water bill over the next 12 months in our bespoke research into customer willingness to support the social tariff (see Appendix SES018D – Customer Research Output Reports). Just over two-thirds said they were confident they would be able to afford it. While many customers referenced factors linked to the country's economic performance and personal circumstances, others talked about issues linked to the structure of the water sector. A few erroneously believed that we have the highest bills in the country, and some said water companies make too much profit. These latter factors are not directly related to the affordability of bills but demonstrate how media coverage of the wider sector is influencing customer perceptions.
7. Our ambition is to eliminate water poverty by 2050, meaning that no customer is putting more than 5% of their disposable income towards their water bill. We have made significant progress towards this in AMP7. The Water Report in February 2023[2] reported that we had the second highest scheme take up per 10,000 household customers of any water company in England and Wales in 2021/22, despite having one of the most affluent customer bases. Almost 19,500 customers receive a 50% discount on their water bill through our Water Support tariff today and 98% of customers on support schemes pay on time. We are working to increase this number to 25,000 by 2025, which is a 78% increase from 2019. This will not be easy as despite increased efforts to raise awareness and remove barriers to accessing the tariff we have seen a net increase in the number supported of less than 100 customers since April 2023.
8. 19,000 of these customers are funded by a £6 per year cross-subsidy from other customers while our shareholders provide the funding for the rest. By the end of AMP7, they will have provided £2.6m of additional funding to help us support more people.
9. Another way that we help make bills more affordable is by installing water meters for customers and helping them reduce their usage. 68% of household customers are now on a meter, which will rise to at least 85% by the end of AMP7. We have almost 500 customers on our capped tariff Water Sure taking the total number of customers supported through the two schemes to almost 20,000. More customers will benefit from Water Sure as metering penetration increases or by moving to our Assessed Household Charge where metering is not possible.

[2] The Water Report February 2023 TWR Feb 2023 joomag

B. What our customers will pay between 2025 and 2030

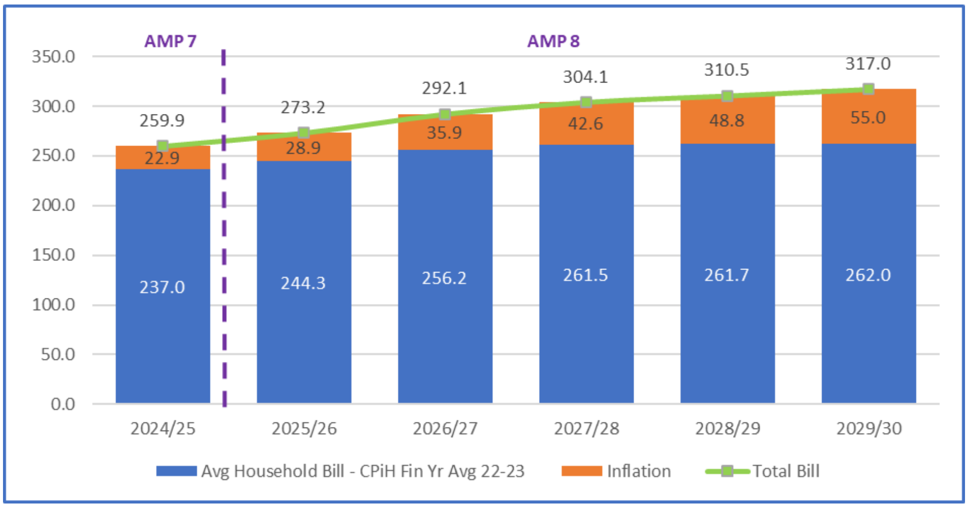
10. To achieve our long-term ambitions and deliver service improvements in line with our customers' priorities and our legal and regulatory obligations, we will need to spend more in AMP8. Our investment approach and resulting bill profile has been designed to ensure that we invest responsibly and efficiently, spending money only when it is needed and spreading the cost appropriately over the next five years and beyond.

11. Most of our customers receive wastewater and sewerage service from Thames Water. We have an agreement to bill on their behalf, so that our joint customers only receive one consolidated bill. 7.7% of our customers receive a separate wastewater and sewerage bill from Southern Water, using billing data that we provide. We are cognisant that water and sewerage companies (WaSCs) are proposing significant investment programmes, primarily being driven by the need to improve the environment through the reduction of stormwater spills and enhanced wastewater treatment to remove nutrients. We have taken this into account when developing our own investment programme and have tested the overall affordability of the combined water and wastewater bill.

Customer bills between 2025 and 2030

12. Our business plan will see bills rise by £25 from £237 in 2024/25 to £262 in 2029/30 (in 2022/23 prices excluding inflation), a 10.5% increase. Our proposed bill profile allows the delivery of our proposed capital expenditure profile for PR24, in addition to considering related affordability and financeability matters. In Figure 2 below, we show the year-on-year change in bills over the 5-year period.

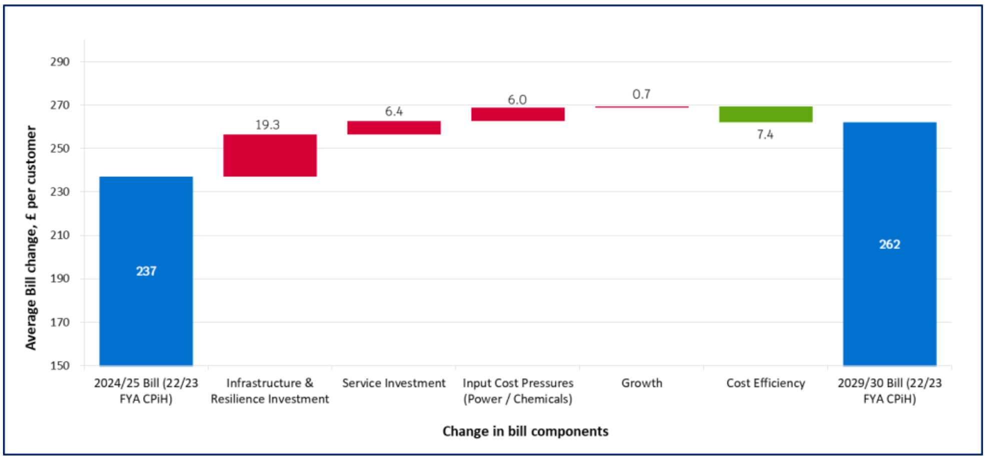
Figure 2: Average household bill movement between 2022/23 and 2029/30



Source: SESFin - SES Financial Model

13. In Figure 3 below we show the main drivers of the £25 change in average bills between 2024/25 to 2029/30. The investment programme to deliver our ambitious plan increases average bills by c.£26 over the period, with additional costs pressures of power, chemicals and network growth adding a further £7. These increases are partly offset by a £7.40 reduction to bills due to increased cost efficiency in AMP8.

Figure 3: Average household bill movement drivers between 2024/25 and 2029/30



Source: SESFin - SES Financial Model

14. Ofwat will fully transition to CPIH indexation of the Regulated Capital Value (RCV) from 1 April 2025, which has the potential to impact future bills by changing the recovery rate of past investment spend. We have been mindful of the impact that has on bills between different generations, both in terms of affordability of the business plan in the round, and the prioritisation and sequencing of our investment programme to meet our long-term ambitions.
15. Consideration of the above included where investment choices could be smoothed current and future AMPs – see Chapter 5 for our review of choices on delivery of schemes (e.g. for leakage). This was tested and validated through our customer research so we understood customer choice around bill impact options to balance affordability and financing considerations. The CPIH transition has fed into bill/allowed revenue modelling and so influenced how the Company has considered affordability in the round.

How customer insight has informed the sequencing of investment

16. We have engaged extensively with a wide range of customers from across our supply area to ensure that their views have shaped our priorities, levels of ambition and pace of delivery in the areas where there is a genuine choice. We have shown customers the indicative bill impacts of different choices where we have discretion over spend to help us understand how this influences their priorities and how they feel we should profile our investment over the next 25 years. We set out what customers told us and how it influenced our plan in Chapter 5.
17. We have carefully weighed up the performance levels we will target over the next five years, so our plan is not unaffordable. We have taken the most cost-efficient approach possible to reducing leakage, which reflects our strong starting position and that the cost of reducing leaks gets higher the greater the progress we make. This means we have delayed increasing the rate of water main renewal, the most expensive method of reducing leaks, until 2030. Instead, we will focus first on customer-side leakage, maximising the benefits of our investment in smart meters. Holding back investment in mains replacement until 2030 means we will benefit from investment in technology that will enable us to better understand the condition of our pipes so we can make intelligence-led decisions about our maintenance and renewal programmes and deliver best value to customers.
18. Our plan also includes more modest reductions in water mains bursts and supply interruptions over the next five years, as these areas have not been prioritised by

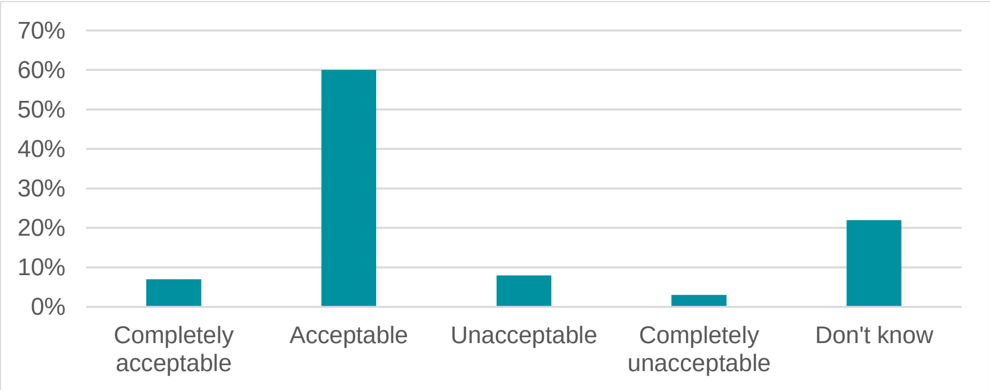
customers. That said, we will continue to perform in the industry upper quartile and beyond 2030, our performance in these areas will also benefit from the ongoing use of our smart network and targeted mains replacement programme. We have also reduced the pace of our carbon reduction programme, in line with our customers views, so that the cost of achieving net zero does not fall on our customers.

19. The result of this is a plan that strikes the right balance between investment and affordability. It will deliver the improvements required by law to help protect and enhance the environment. It also takes a risk-based approach to improving our resilience to external factors such as climate change, using our long-term delivery strategy to confirm what investment is needed over the next five years.

C. Customers views on the affordability and acceptability of our plan

20. We have tested the affordability and acceptability of our plan in-line with Ofwat's guidance, details of which can be found in Appendix SES018C Customer Research Output Reports. We carried out the research with 506 household customers, including 216 customers who had struggled to pay at least one household bill, and 67 non-household customers.

Figure 4: Household customer acceptability of future plan

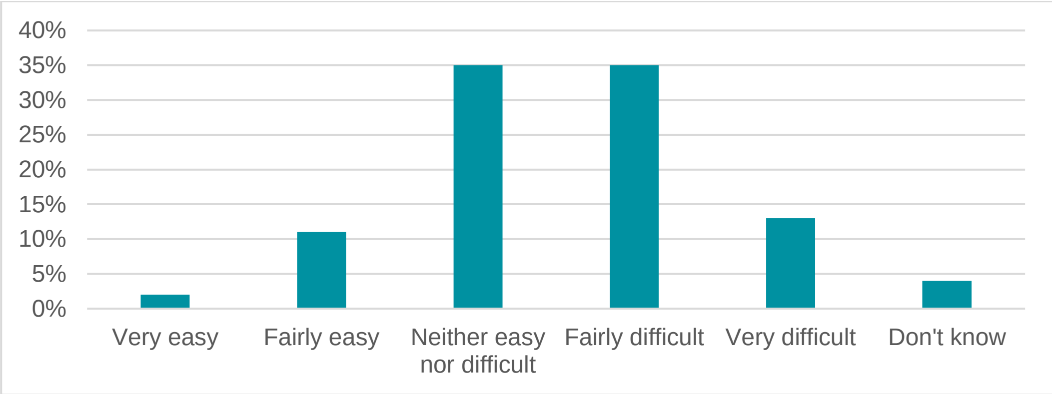


Source: Affordability and Acceptability Research SES018

21. 66% of household customers and 79% of non-household customers thought our plan was acceptable or completely acceptable. Just 11% of customers said it was unacceptable. The most important areas for customers were reducing leaks, helping customers become more water efficient, stopping pesticides entering water sources and enhancing biodiversity.

22. The single biggest reason that respondents gave for not finding the plan acceptable was that they believed companies should fund service improvements themselves, with 37% indicating this as one of their top two reasons. 28% said they believe that company profits were too high as one of their top two reasons. This demonstrates that there are wider sector reputational issues impacting customers' assessment of our plans and proposed bill increases.

Figure 5: Household customer affordability of future bill



Source: Affordability and Acceptability Research SES 018

23. When asked about whether the plan was affordable, 13% of household customers and 36% of non-household customers said it would be easy or very easy to afford. A further 35% said it would be neither easy nor difficult and 4% didn't know. 35% of household customers said it would be fairly difficult to afford and 13% said it would be very difficult. For many this genuinely reflects the reality of their financial circumstances in the current economic climate. Of the 11% of customers expressing concern about the plan's acceptability, 28% cited that the increases are too expensive as one of their top two reasons for not finding the plan acceptable.

24. Throughout this process we have shared research findings with the other South East water companies to identify any anomalies or regional variances. We observe that the companies testing the highest and lowest bill increases in the region have recorded exactly the same affordability scores using the common methodology. This suggests that for some customers the actual level of the proposed bill increase is not the main issue.

25. We recognise this presents a challenge – we have a plan that is highly acceptable to customers and delivers against their priorities, but which causes affordability concerns for some in the current economic climate. In Chapter 7 we explain the choices we have made to ensure that our expenditure plans are efficient while reflecting the best value options for our customers. Below we set out the measures we will put in place to protect the most financially vulnerable, including a new grant-based debt clearance scheme and tariff innovation that will spread the cost of water usage more fairly.

D. Intergenerational fairness

26. Within our financial model, that also calculates customer bills, we have applied RCV run-off rates at 7% which is consistent with AMP6 and AMP7. Whilst we are conscious our rate is at the high-end versus sector-wide RCV run-off rates, it is deemed most relevant for our Company and its asset mix. In determining these run-off rates we have considered the following:

- **Intertemporal fairness** – the RCV run-off rates are consistent with AMP6 and AMP7 and provide consistency across the generations of customers. A lower rate would reduce the amount of investment recovered from bills, and therefore place a greater burden on future bill payers; and
- **Affordability** – by submitting our plan with a 7% run-off versus Ofwat's intended 4.5% there is a c£40m bill impact over the AMP, which based on average bills we consider remains affordable for customers and provides the consistency in bill levels noted above.

27. Given the long-term nature of our plan and the need to invest now to ensure that we can deliver our ambitions for 2050 and beyond, it is important that we consider the views and interests of future bill payers as well as current customers as far as we can. We describe how we have done this in Chapter 5 of our Business Plan and in Appendix SES018. We consider that the proposed AMP8 bill increases are appropriate in the context of the long-term bill profile as noted in our LTDS, ensuring appropriate bill increases across the period to 2050 are broadly in line with our expected capital expenditure but taking into account affordability and financeability matters.
28. In our Bespoke 2 research (SES018) we asked customers what level of ambition we should aim for and how quickly. Customers were given different options and bill profiles so that they could make their choices with an understanding on affordability for themselves and for future generations.
29. We also asked how customers would prefer to see bills increase over time as part of our Affordability and Acceptability testing. 40% of household customers felt an increase in bills starting sooner, spreading increases across different generations of bill payers, would be preferable to starting later, while 47% said they did not know enough to give an answer. The remaining 13% felt an increase starting later, putting more of the increases onto younger and future bill-payers, would be preferable. Our plan reflects this preference with the necessary level of investment in AMP8 to enable us to deliver our long-term priorities, which is fairer for all.

E. Supporting customers who are struggling to pay

Financial support for customers

30. We will continue to offer a 50% reduction on customer bills through our Water Support tariff which will enable us to support 25,000 customers on our social tariff throughout AMP8, with the overall value of the discount increasing as bills rise. This equates to just over 8% of forecast household customers in 2030. We believe we will still have one of the highest percentages of households receiving financial support in the sector despite the relative affluence of our supply area.
31. Our level of commitment to remaining a leader in this area does not change. We believe this remains an ambitious plan when coupled with a commitment to better target the help we give so that the customers on our Water Support scheme are those who are in genuine financial difficulty. This will also improve fairness by ensuring that we are applying the cross-subsidy appropriately. To help deliver this, we will create a new metric to measure the number of customers in water poverty and reduce this over AMP8.
32. Since summer 2022 we have removed over 2,000 customers from our social tariff when our audits identified that these customers no longer met our eligibility criteria. Meanwhile, research conducted by Sagacity in partnership with Southern Water as part of the Water4All proof of concept[3] found that out of 15,000 customers potentially eligible for Pension Credit, 35% were receiving a social tariff despite being able to manage their finances and showing no signs of financial difficulty. In the Reducing Water Poverty section of Chapter 10 we set out how we plan to use data and partnerships to increase the targeting and quality of our support over AMP8.
33. We have conducted quantitative interviews with a representative sample of 869 household customers to understand attitudes to our social tariff and customer willingness to contribute through a cross-subsidy. Customer attitudes to the social tariff and cross-subsidy vary significantly across different segments. When shown information about how our tariff works today and our plans, 34% of customers agreed that it was acceptable to use customer funding to increase support for customers struggling to pay while a further

[3] Sagacity | Water4All Identifies Financial Vulnerability (sagacitysolutions.co.uk)

17% said it was neither acceptable nor unacceptable. 55% were willing to contribute something extra, with an average amount of an additional 38p a month being deemed acceptable. Added to our existing cross subsidy of £6 per annum, this will bring the cross subsidy to £10.56 per annum in 2030. The full findings are in Appendix SES018D.

Table 1. Number of customers receiving Water Support over AMP8

	Customers supported	Customer contribution	Water Support Cost	SES Company Contribution
2025/26	*25,000*	*£3.2m*	*£3.5m*	*£0.3m*
2026/27	*25,000*	*£3.3m*	*£3.7m*	*£0.5m*
2027/28	*25,000*	*£3.4m*	*£3.8m*	*£0.5m*
2028/29	*25,000*	*£3.4m*	*£3.9m*	*£0.4m*
2029/30	*25,000*	*£3.5m*	*£4.0m*	*£0.4m*

Source SESFIN - SES Financial Model

34. We will also offer a range of other schemes that are designed to help our customers who are struggling to pay. These include:

- Water Sure - A capped tariff for metered customers that protects eligible households from paying more than an average household;
- Helping Hand - A new grant-based scheme that will write off eligible customers' debts, subject to them meeting agreed payment plan for current usage. This replaces our old Clear Start scheme; and
- Breathing Space - Our payment pause scheme offering customers 90 days' breathing space to help them get back on their feet.

35. We will also help customers reduce their bills by:

- Installing smart meters and providing detailed consumption data and targeted advice to help customers identify leaks and become more water efficient;
- Using our smart meter data and cross-sector learning to trial and implement more progressive tariffs from 2025, improving affordability and fairness for all; and
- Reducing the number of void properties, which are occupied but not billed, to no more than 2.2% by 2025 and by maintaining accurate billing data we will keep levels at no more than 1.5% between 2025 and 2030, which is amongst the best in the sector.

F. How we will demonstrate that our bills remain good value for money

36. For customers to feel that our bills are good value for money, it is important they understand how their bills are made up, what they can do to influence them and how we are spending their money. Our Annual Performance Report provides details on our performance and we also publish our annual 'Keeping it Clear' document, which is our customer-friendly guide to our finances and governance including important topics like where our money comes from and how we spend it, dividends to our shareholders, executive pay, tax and our ownership structure. We will introduce a new annual Your water, your say event to make it easier for our customers to challenge us on how we are delivering value.