



Ref 2.6

PR19 Non-Household Retail Business Plan

September 2018

Contents

1. INTRODUCTION2

2. WELSH WATER 20505

3. CUSTOMER VIEWS7

4. HISTORICAL AND CURRENT AMP6 PERFORMANCE11

5. AMP7 PLANS19

6. HOW WE WILL DELIVER FOR CUSTOMERS24

7. CUSTOMER ACCEPTABILITY RESEARCH25

1. Introduction

1.1. Purpose and scope of document

The purpose of this document is to support the submission of our PR19 Business Plan to Ofwat with respect to the non-household retail price controls for AMP7 and beyond. It presents the plans for our non-household retail business, how they will contribute to our longer term strategy, Welsh Water 2050, how they will continue to deliver sector-leading value for money in the retail segment, and how they will deliver improvements in service for our customers.

Following this introductory section, the remainder of this document sets out:

- the strategic context – Welsh Water 2050 – as it is relevant to our non-household retail plan (section 2);
- a summary of the views of our non-household customers on the future development of the retail services (section 3);
- a review of our performance in AMP6 (section 4);
- a detailed description of what we plan to deliver in AMP7, and what it will cost (section 5); and
- a final section setting out how we intend to deliver on our AMP7 plans, drawing in particular upon the lessons we can learn from market opening in 2017.

1.2. Relationship to wider PR19 Business Plan

This document forms part of Welsh Water's PR19 Business Plan, which contains greater detail on our customer and stakeholder engagement, how we propose delivering outcomes in AMP7 and beyond, the levels of service we will provide, financial implications and customer bills.

Our plan supports and provides more detail for the non-household retail sections of the business plan. It should be read in conjunction with other components of the overall plan, notably the following documents:

- Supporting document 0.3: PR19 Business Plan;
- Supporting document 1.1: Customer Engagement Report;
- Supporting document 1.2: Stakeholder Engagement Report;
- Supporting document 3.3: PR19 Innovation Strategy;
- Supporting document 3.9: PR19 Costs: Efficiency, Benchmarking and Recovery;
- Supporting document 5.2: PR19 Performance Commitments; and
- Supporting document 5.5: PR19 Outcome Delivery Incentives.

1.3. Our non-household retail business - overview

It is important, at the outset, to outline the nature of our non-household retail business because, for regulatory and legal reasons, it is unique in the industry.

We currently serve around 110,000 non-household customers in our operating region, covering most of Wales and parts of neighbouring England including Herefordshire.

The Water Act 2014 made provision for the introduction of retail competition for all non-household customers of water and sewerage undertakers whose area is wholly or mainly in

England (henceforth referred to as “in England”). From April 2017, the pre-existing threshold was removed for customers served by those companies “in England”, and all non-household customers served by water and sewerage companies in England were then able to choose their retailer of water and wastewater services.

However there was no change to the threshold for customers of undertakers wholly or mainly in Wales (“in Wales”). This means that the retail market in areas supplied by Welsh Water remains limited to the water supply to non-household customer sites using more than 50 Ml per annum. No customers “in Wales” can choose an alternative supplier for their wastewater service. We currently have 113 sites which use more than 50 Ml of water per annum and are therefore “eligible” for competition. These 113 sites are occupied by 83 different customers.

Welsh Water takes its responsibilities in the non-household retail market for its eligible customers seriously. We undertook all the necessary preparations and processes to be able to interact with the new market systems and comply with applicable laws and regulations in readiness for market opening on 1st April 2017. Specifically:

- we set up our Wholesale Service Centre (WSC) which is our dedicated business unit that was created to be the interface between our wholesale business and the retailers it serves, including our own (see below). It delivers a range of commercial services and support to retailers and New Appointment and Variation (NAV) service providers and ensures our compliance with market codes. It manages commercial and contractual relationships, interacts with Market Operator Services Limited (MOSL), and manages payment terms and processes. In doing so it ensures a consistent level of service to all eligible customers in our operating area, regardless of their market position;
- to ensure that our non-household retail functions receive no advantage as a result of being associated with an incumbent monopoly supplier, we have set up a physically separate team (the Competitive Retail Team - CRT) to operate Welsh Water’s activities with the 110 competitive retail sites. This team is based in a separate office under separate management and uses separate systems from colleagues serving non-eligible customers or those involved in wholesale activities. The CRT reports into the Commercial Division which is organisationally separate from our incumbent business activities. The activities undertaken by the CRT include all those needed to provide retail services to their customers, including account management, billing, debt collection, contact centre, query resolution, and all interaction with the competitive market operator (MOSL) and their CMOS market systems. The CRT interfaces with the rest of Welsh Water only through the WSC on an arms-length basis in the same way as any other water retailer. The systems and processes used to serve competitive customers and their separation from non-competitive activities was the subject of Market Entry Assurance Certification assurance with MOSL and KPMG in 2016 and 2017.

At the same time, we redoubled our efforts to ensure that the majority of our customers who were not eligible for competition continue to receive the highest standards of service and the best value for money. In particular, we have set ourselves the objective of ensuring that they are served at least as well as the equivalent customers in England who are entitled

to 'shop around', and benefit from cost performance that matches or beats whatever the English market can deliver.

1.4. 'Market Opening 2'

The Wales Act 2017 enables the transfer of responsibility for the English area of our operating region from the Welsh Government to the UK Government (DEFRA). As a result, from April 2020 it is anticipated that around 10,000 sites in the English area of our operating region will become eligible for retail competition, not just for water supply but for wastewater as well. Preparations to put in place the processes and systems that will be necessary, in both our wholesale and retail activities, in order to give effect to this change – referred to as 'Market Opening 2' – are already underway. We are committed to ensuring that the transition takes place as smoothly as possible.

However, whilst we are proceeding on the basis that the new provisions will come into effect as expected, we understand that discussions between the Welsh Government and DEFRA continue, and there are important details that are yet to be finalised. We considered the possibility of preparing this plan on the working assumption that the new arrangements do come in on the expected date, but this would have involved some guesswork on their precise timings and details. On balance, therefore, we chose to prepare the plan, including all the tables and associated commentary, on the basis that the existing arrangements remain in place. Where applicable, however, we have set out our expectation of the implications of the likely transfer of the 10,000 customer sites in commentary, including in section 5 below.

As discussions between the two governments are ongoing we can expect much of the uncertainty to have been resolved in the coming months. Accordingly, if appropriate, the full implications of the proposed changes for costs, margins, tariffs, and so forth can be taken into account at the draft determination stage.

2. Welsh Water 2050

2.1. Background

Our PR19 Business Plan, including our non-household retail plan, is set firmly in the context of our long-term purpose which is “to become a truly world class, resilient and sustainable water service for the benefit of future generations.”

Following a major consultation exercise with customers and stakeholders we published our 30-year strategy in 2018 - Welsh Water 2050 (Supporting Document 1.4). It sets out the challenges that we expect to face over the next 30 years, the 18 Strategic Responses that will be required to address them, and the six ‘Customer Promises’ that we have made. It also identified and scored areas of resilience strengths and areas which require enhancement for all aspects of our business, using the Welsh Water Resilience Wheel, which we have developed from international best practice in long-term resilience planning.

We acknowledge that it is vital for us to identify and address emerging challenges and harness new opportunities to ensure we are not storing up problems for future generations. We have identified key future trends that may have a significant impact on our service provision, particularly on our ability to deliver on our Customer Promises.

The 18 Strategic Responses set out how we will work to mitigate the effects of adverse trends, and harness the power of beneficial ones. They include how we will use research and innovation, the organisations that we will need to work with and how our activities will align with our Customer Promises and relevant legislation, including the Well-being of Future Generations (Wales) Act 2015.

2.2. Future trends and challenges for the non-household retail business

Welsh Water 2050 identified a number of key challenges relevant to our non-household retail business, including:

- Non-household customer expectations are likely to evolve, with a desire for a more personalized service, better usage data, water efficiency support and more flexible and user-friendly billing;
- Our non-household customer base ranges from large and complex businesses to those which are similar to household customers, and their requirements will vary accordingly. Tailoring appropriate means of engagement and communication with our circa 110,000 non-household is therefore be a challenge, as well as an opportunity to improve our service; and
- As there is wider competition in retail services for non-household customers in England, it is important that all non-household customers in Wales see that they are also benefitting from any improved customer service, new services and value for money that are delivered as a result of the new retail market in England.

2.3.Strategic Responses

Our Strategic Responses in Welsh Water 2050 set out how we will respond to the challenges and harness the opportunities. These will be regularly reviewed and revised over time.

Relevant Strategic Responses for our non-household retail business include:

Strategic Response 8: Ensuring affordability of services delivered to customers – ensuring that our services remain affordable for all customers.

Strategic Response 12 Leading edge customer service – develop our culture and technology to provide a personalised, responsive and consistent service to customers through their preferred contact channel.

3. Customer views

In developing our plans for serving our non-household customers we have conducted extensive customer engagement in the form of both quantitative and qualitative research.

3.1. Non-household customer satisfaction research

To proactively monitor and maintain high levels of customer service on an ongoing basis we commissioned Accent to carry out independent research through a twice-yearly Non-Household Customer Satisfaction Research with 500 customers. The customers surveyed are randomly selected from all of the non-household customers that we serve whether they are eligible to switch retailer or not. We intend to continue such research throughout AMP7.

The satisfaction results from the two surveys undertaken in 2017/18 are outlined below. Further details on the results of this research are set out in section 5 below.

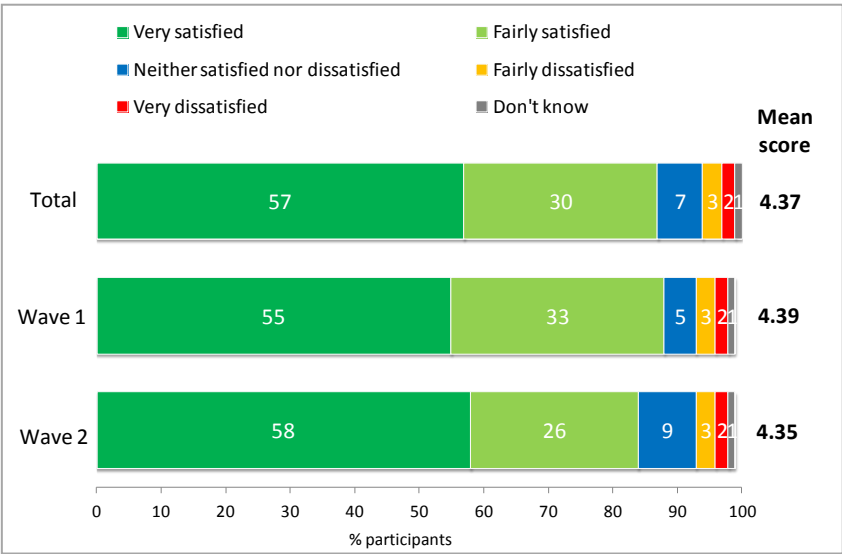


Figure 1: Results from our 2017/18 customer satisfaction survey

Base: All participants who gave an overall satisfaction score: Wave 1 (493); Wave 2 (493)

- As well as providing detailed information on current levels of customer satisfaction, this research has also provided important evidence on what customers want us to focus upon going forwards. In the recent surveys the customers who participated were also asked what Welsh Water could do better. The responses are presented below.

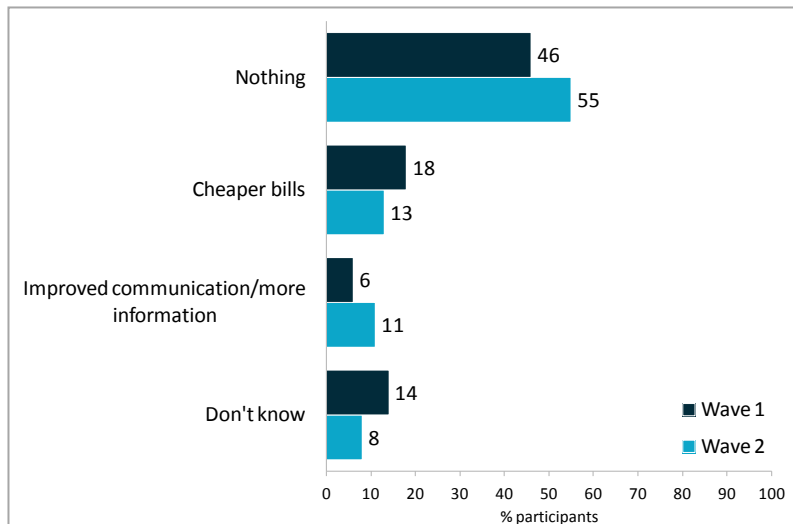


Figure 2: Customers views on what we could do better

Base: All participants: Wave 1 (500); Wave 2 (501)

The notable feature of these results is that around a half of customers responded “nothing”, when asked what Welsh Water could do better. However, customers were also asked separate questions about the added value services and products Welsh Water provide (e.g. water efficiency audits, ‘find and fix’ private side leaks). Customers reported a desire for a wide range of such services to be provided by Welsh Water, although in practice take up of these has been low but is now increasing with our additional promotion.

3.2.PR19 customer and stakeholder engagement

For the specific purposes of PR19, we also carried out a range of customer research projects on the attitudes of non-household customers to the future of the services they receive. Full details of the results of this research are set out in Document 1.1: “PR19 Customer Engagement Report”. The main findings of this work can be summarised as follows.

Non-household customers were specifically targeted in research as follows. In total, approximately 1200 non-household customers contributed to the research programme through focus groups, online surveys, telephone surveys and 1-2-1 interviews. This is from research specifically commissioned for the PR19 business plan and does not include the other trackers or third party surveys which we regularly carry out. This PR19 research included:

- Resilience Research;
- Willingness to pay Qualitative research;
- Customer Priorities;
- Performance measures;
- Customer Service Expectations;
- Environment research;
- Water resource management plan (Qualitative & Quantitative);
- Performance Targets (Qualitative & Quantitative);
- Willingness To Pay - Main survey (Qualitative & Quantitative);
- ODI research;

- Options testing; and
- Acceptability research of our final business plan (see section 7).

The key messages that we took from this work differed somewhat between small and medium-sized enterprises (SMEs) on the one hand and larger account-managed customers on the other. For the smaller customers:

- Few had longer term plans, instead managing threats and risks as they appeared. In other words, a local short-term mind-set was predominant;
- Experience of the services is generally positive
- Customers in general are finding the current economic environment difficult;
- Expectations on the service from their water company are increasing due to comparisons with other sectors, for example the now widespread use of delivery and appointment tracking services;
- Customers need support to cut costs; and
- There is a need to raise awareness of other 'value adding' services available to help customers.

For the large account-managed customers, the main messages were as follows:

- Larger businesses are planning longer term, focusing on growth;
- They are more aware than households of Welsh Water and the work we do;
- There is a heightened environmental awareness in this group;
- They require a higher level of communication, they want support to cut costs and would like to see improved billing services as well as Smart metering that would enable them to monitor water usage;
- They want us to plan for the longer term and prepare infrastructure for growth and climate risks;
- They expect us to be using technology to match other service providers; and
- They also expect us to be investing in renewable energy.

From these findings, we have drawn a number of implications for PR19. In essence, we believe customers want us to:

- Personalise our service based on the differing non-household customer segments. This will contribute to achieving our ambitious performance commitment target of a non-household customer satisfaction score of 4.5 out of 5 (see section 5 below);
- Significantly improve our digital offering and self-serve opportunities to non-household customers, in line with best practice in other sectors;
- Expand our account management capability and overall regular engagement with the non-household community in order to understand customers' changing expectations;
- Deliver electronic billing for all non-household customers who want this facility;
- Appropriately expand the range of added value services available e.g. leakage detection & repair, sub-metering; and
- Develop an effective customer plan to support the implementation of the Wales Act 2017.

Further details on the results of this research are set out in in document 1.1: "PR19 Customers Engagement Report".

3.3.Ongoing customer contact

Finally, we also receive feedback from customers through ongoing day-to-day engagement, which has helped to shape our plans. The recurring themes from this engagement are that customers expect:

- A high level of customer service
- A reliable supply of good quality water;
- Clear communications, customer site visits and personal relationships;
- Competitive prices; and
- Additional services where valuable.

These important findings have helped to shape our strategic objectives for the non-household retail business, as set out in section 5 below.

4. Historical and current AMP6 performance

In order to set the context for our plans for AMP7 and beyond, this section provides an overview of our performance during AMP6 with respect to service, cost efficiency, and our decisions on the level of margins and therefore non-household retail prices overall.

4.1. Service performance

The company-specific Measure of Success that was chosen at PR14 to measure retail performance for the non-household segment was “Business Customer Satisfaction”, defined as follows.

An independent research company randomly surveys 500 non-household customers every six months on our behalf. The reported measure is the average of the average customer satisfaction score in the last two surveys. The following table presents our record so far.

Performance Commitment		Performance Year				
		2015/16	2016/17	2017/18	2018/19	2019/20
D4: Business Customer Satisfaction	Actual	88%	89%	87%		
	FD Targets	87%	88%	89%	90%	90%
	Met (✓) Missed (X)	✓	✓	X	✓	✓
	ODI (Penalty)	0	0	0	0	0

Table 1: AMP6 MoS performance

Our performance during AMP6 on this measure has been strong, with the challenging targets being hit in two of the three years concluded so far. We have achieved an average score of 88% over the last four years which demonstrates a high degree of customer satisfaction.

Comparative information is provided every two years through the CCWater “Testing the Waters” report. This report provides useful information which enables us to target further improvements to service and customer satisfaction. The most recent report in 2016 included an overall measure of the Net Promoter Score (NPS) for each company according to its non-household customers. This showed that Welsh Water has the highest NPS of all the water and sewerage companies, scoring +30, as against an average of +5 for England and Wales. The spread of results is shown below:

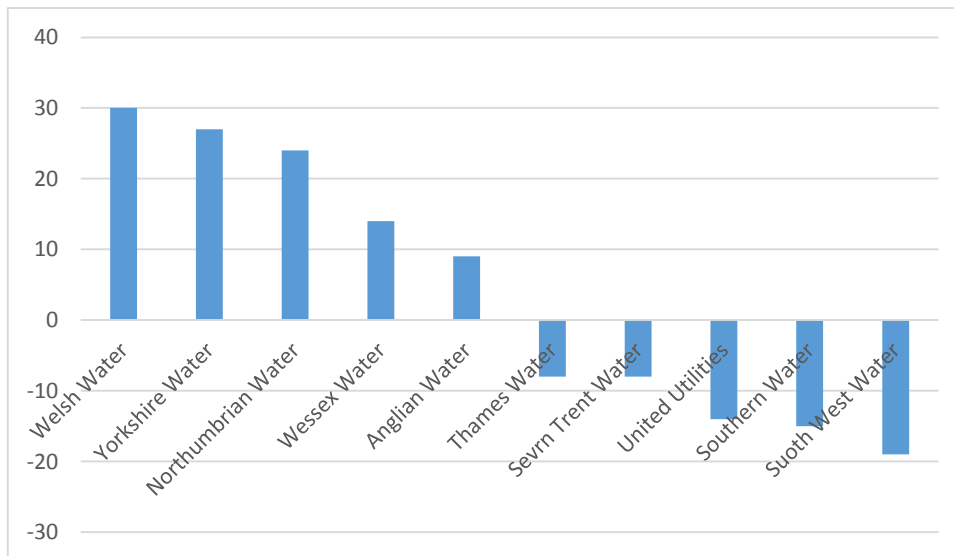


Figure 3: Net promoter score from 2016

Based on this comparative data, we would conclude that our AMP6 performance measure, with business customer satisfaction at around 88%, is likely to be consistent with best practice across the sector as a whole.

We also pay close attention to our performance on the national non-household Service Incentive Performance (SIM) measure. This has shown some improvement over the course of AMP6, as outlined in the table below. We have reduced the level of complaints by around 50% and have had no CC Water investigations. The rate of unwanted calls also fell from 2015-16 to 2016-17 and would have continued to do so for 2017-18 but for the severe weather event that occurred in March 2018, which hit Wales particular hard.

Type	2015-16	2016 -17	2017 -18
Unwanted telephone contacts	18,596	15,782	16,832
Written complaints	1,076	1,152	574
2nd Stage Written complaints	80	78	42
CCWater investigations	0	0	0

Table 2: Summary of customer contacts

4.2.Delivering efficient levels of cost

At PR14 (and again at PR16) Ofwat applied a Wales-specific approach to setting non-household retail price controls. Under the heading “*Protecting prices – Welsh efficiency challenge*” Ofwat decided that:

“..as only a minority of non-household customers would be able to choose their retail supplier in Wales, we set an up-front non-household efficiency challenge for companies operating wholly or mainly in Wales, by comparing their costs at a customer type level in Wales with equivalent non-household retail costs for companies operating wholly or mainly in England....”

As a result of this approach Ofwat made a 24% efficiency adjustment to our proposed non-household retail costs, to be applied over a three-year 'glide path' to 2018-19. By doing so, it sought to ensure that Welsh customers were no worse off in terms of prices as a result of not being able to choose an alternative supplier.

As noted earlier, we fully support this principle, which has been at the heart of our non-household retail strategy. It is essential that our customers can have confidence that they are enjoying top class service and the best value for money from our retail function. As a result of our efforts we have reduced our costs such that we are out-performing Ofwat's determination and indeed, on the available evidence, our costs are now the lowest in the industry. The evidence for these two conclusions is presented in the following two sub-sections.

4.3. Non-household costs compared with Ofwat determination

Ofwat made a determination of non-household retail price controls for the period 2015-2020 in December 2014. The subsequent PR16 determination reset the controls for the last three years of the period. The following table compares the England-benchmarked cost levels set by Ofwat for the three completed years of AMP7 with the out-turn costs that our non-household retail businesses have been able to achieve.

Non-household Retail Costs (£m)		2015/16	2016/17	2017/18
Assumed by Ofwat at PR14 and PR16		9.5	9.0	8.6
Welsh Water outturn		6.7	5.8	5.9
Out-performance		29%	36%	31%

Table 3: Non-household retail costs from Annual Performance Reports and PR16 final determination

Additional costs were incurred in 2017/18 associated with investment in new account management services. These will deliver improvements in service and are expected to reduce costs going forwards. Overall, although the percentage cost out-performance was a little smaller in 2017/18 than 2016/17 we are confident that we will continue to out-perform the determination for the remainder of the AMP6 period.

4.4. Benchmarking our non-household retail costs against the rest of the industry

In order for us to deliver on our commitment to deliver best value for money for our non-household customers we consistently benchmark our cost performance against our peers. We do this by looking at unit costs per retail customer served (counting a customer that receives both a water service and a wastewater service as two¹).

The latest information we have relates to the 2017/18 financial year. Unfortunately, however, with the changes brought about by market opening in April 2017 and in particular the provisions for retail exit, the number of English companies that publish full and meaningful non-household retail information has fallen significantly. This is illustrated by our benchmarking analysis of 2017/18 Annual Performance Reports. The table overleaf shows average cost to serve information for all the companies that published *both* retail cost information *and* summary data on customer accounts in that year.

¹ We acknowledge that the cost of serving a water and wastewater customer is likely to be less than twice the cost of serving a water only or a wastewater only customer, but there is no recognised “abatement factor” that could be applied to dual service non-household customers. In any event, the following conclusions would not be materially changed were such a factor to be applied.

Company	Operating Expenditure	Operating costs ¹	No of water connections	No of wastewater connections	Aggregate no of connections	Operating expenditure per connection	Operating cost per connection
	£m	£m	'000s	'000s	'000s	£	£
Southern ²	0.544	0.544	54.070	83.516	137.586	n/a	n/a
Thames ²	6.117	6.117	181.716	253.976	435.692	n/a	n/a
Welsh	5.176	5.868	100.973	73.469	174.442	30	34
Yorkshire	11.487	12.868	102.805	86.407	189.212	61	68
Dee Valley ³	0.305	0.305	7.430	-	7.430	41	41
South East ³	3.287	3.297	51.518	-	51.518	64	64

Table 4: Average cost to serve benchmarking analysis 2017/18

¹ "Operating costs" is defined as operating expenditure plus depreciation plus pension deficit repair costs.

² Southern Water and Thames Water are included for completeness because they published data on both costs and numbers of connections in 2017/18. However, both companies had "exited" from the retail market: the costs shown in their regulatory accounts therefore represent residual items only (e.g. legacy debt) and do not purport to capture the full cost of providing the non-household retail service.

³ The two water-only companies that published relevant data in 2017-18 are also included for completeness, even though the unit costs are not strictly comparable with those of the two WASCs.

Of the four companies that published comparable data, our unit cost to serve is the lowest, whether operating expenditure or operating costs is chosen as the numerator. Although this is consistent with our ambition to deliver retail services to non-household customers at least as efficiently as the best providers in England, the absence of most of the English water and sewerage companies (WASCs) from this table somewhat dilutes the conclusion.

However, in the previous year, 2016/17, most of the English WASCs did publish the relevant data, many for the last time prior to retail exit. Our benchmarking analysis for this year is presented overleaf.

Company	Operating Expenditure	Operating costs ¹	No of water connections	No of wastewater connections	Aggregate no of connections	Operating expenditure per connection	Operating cost per connection
	£m	£m	'000s	'000s	'000s	£	£
Anglian	11.000	11.100	108.700	112.700	221.400	50	50
Northumbrian	7.400	7.400	94.000	55.000	149.000	50	50
Southern	6.400	6.400	57.600	90.900	148.500	43	43
Severn Trent ²	7.700	7.700	179.867	331.111	510.978	n/a	n/a
South West/ Bournemouth	4.551	4.752	78.002	43.684	121.686	37	39
Thames	34.800	37.900	196.000	268.500	464.500	75	82
United Utilities ²	8.575	8.575	168.279	322.054	490.333	n/a	n/a
Welsh	5.468	5.841	101.328	73.715	175.043	31	33
Wessex	4.300	4.600	47.967	61.201	109.168	39	42
Yorkshire	9.220	9.260	124.462	109.671	234.133	39	40

Table 5: Average cost to serve benchmarking analysis 2016/17

¹ "Operating costs" is defined as operating expenditure plus depreciation plus pension deficit repair costs.

² Severn Trent and United Utilities are included for completeness because they published data on both costs and numbers of connections in 2016/17. However, the two companies' non-household retail functions were merged on 1st June 2016 to form a separate entity, so the cost information does not cover the full retail function for the whole year.

As the table shows, our average costs were the lowest of the eight WASCs for which comparable information was published, at £31 and £34 per connection on the opex and operating cost bases respectively. In 2017/18 we equalled or bettered those figures, and intend to continue to drive down our non-household retail costs for the remainder of this quinquennium. We believe this should enable us to consolidate and improve upon our cost frontier performance.

However, water sector benchmarking is clearly becoming more and more difficult, given the evolution of the sector in England since the new competitive market was created. Ideally we would like to be able to benchmark our non-household retail costs against similar services in other sectors as well, but have yet to identify a reliable source of comparable data. What we would like to see, at some point, is the introduction of basic disclosure requirements for companies operating in the competitive market in England so that we can continue to benchmark our own costs and performance and thereby deliver yet better value for money for customers in Wales.

4.5. Our approach to setting margins in non-household retail prices

We have reflected our objective of delivering best value retail services to our non-household customers through our decisions on retail margins.

At PR14 Ofwat set price controls that incorporated a 1% net margin for all our non-household retail customers, save the larger water supply customers' sites using over 50 Ml per annum (that would be eligible to switch supplier in the new competitive market) for which a 2.5% net margin was allowed.

In the event, when setting 2015/16 and 2016/17 tariffs, we chose to apply a lower net margin of 1% to the tariffs for the large user group. We judged that this was more consistent with the net margins that the English companies would be expected to earn on similar sized customers.

At PR16 Ofwat maintained its approach to our 'non-contestable' customers. However, for the larger > 50Ml water supply customers Ofwat simplified the price control by replacing the 2.5% net margin with a 3.3% gross margin for the last three years of AMP6.

In the event, for 2017/18 and 2018/19 we have maintained our policy of applying a net margin of 1% for that customer group.

Since the English companies were allowed a 2.5% net margin for all of their non-household customers at PR14 the margins we chose in 2015/16 and 2016/17 were lower, thus ensuring that our customers were at least as well-off in terms of the margin in prices as their English counterparts.

Similarly, at PR16 the 2.5% net margin was retained for smaller customers in England and the 3.3% gross margin was introduced for customers using in excess of 5Ml per annum. Again, therefore, our chosen margins are lower than the price controls set in England, further cementing the achievement of our objective that customers should not be worse off as a result of not being able to choose alternative services providers in the retail market.

5. AMP7 plans

5.1. Strategic objectives

Our overall strategic objectives for providing services to our 110,000 non-household customers in AMP7 and beyond have been shaped by the stakeholder views summarised in section 3, within the longer term Welsh Water 2050 strategic context set out in section 2. Although they are closely inter-related and overlap one another to a considerable extent, they can be expressed individually as follows:

- Offer our business customers the most relevant value adding, and cost efficient, services that we are able to sustainably deliver;
- Deliver those services which are in line with the values of the company and its environmental ethos;
- Support our company wide long term sustainability, resilience, levels of service and cost efficiency objectives;
- Make ourselves easy and relevant to do business with from a modern business customer perspective and providing exceptional account management where appropriate;
- Continually review the services provided and improve and evolve them in line with the feedback we receive;
- Work together with our customers to co-create opportunities to further our common environmental objectives, such as through encouraging the efficient use of water and contributing to the circular economy.

Our plans support the delivery of the Welsh Water 2050 Strategic Responses as follows:

Strategic Response 8: Ensuring affordability of services delivered to customers

- Introducing new digital technologies and increasing self-serve, reducing the cost to serve for our non-household customers.
- Introducing more flexibility into our billing and payment systems to support customers in budgeting and managing their finances, as well as reducing the overall cost of debt management activities.
- Providing support, information and incentives to our customers to reduce their water demand and thereby save money.

Strategic Response 12: Leading edge customer service

- Reducing telephone and written complaints by 28% by 2025
- Expansion of our digital services, including the introduction of an online 'My Account' self-service functionality, whilst maintaining a commitment to retaining more traditional channels for those customers (such as small businesses and charities) who require them.
- Providing customers with greater choice and control over the services they receive.
- Improving our response times for all services.
- Increasing the use of data and insight within our customer, billing and debt recovery systems allowing us to tailor our actions according to the circumstances, characteristics and intelligence we gain from our customers.

5.2. What this means for the business

The specific actions we will take in the AMP7 period in order to improve our services to Non-Household customers include:

- Aligning all of the functions in the business who deliver services to our non-household customers. This means that teams from business units as diverse as Trade Effluent and Meter Reading will be aligned around a common set of customer-driven objectives and processes
- We will introduce electronic billing and develop our on-line service capability so that customers can manage their account on-line and in real time using a combination of portal, web, and app-based technology;
- We will improve and re-launch the 'value-added services' we offer to our Non-Household customers. The scope and arrangements of these services will be continually developed through a process of engagement and co-creation with our customers and will include:
 - Private network mapping
 - Assessments of customers' engineering processes that are water intensive
 - The continual development of consumption monitoring by data logging and telemetry systems.
- Our account management arrangements will evolve as we develop relationships with, and better understand, our business customers. Our account management structure will be dictated by the customer base we serve and work is currently underway to profile our non-household customers by geography, industry, size and consumption. We will also develop our 'SalesForce' customer relationship management system as a tool for improving our customer insight and intelligence.
- Building on our research, and to help shape our account management, we will continue to hold regular engagement activities with our non-household customers and their respective industry bodies. This will involve attending trade shows and business societies and becoming a more active part of the business communities in the areas we serve.

5.3. Efficiency and innovation

Given our commitment to ensuring that our non-household customers enjoy a combination of service and price that is at least as good as the best available in England, efficiency improvements and innovation constitute essential elements of the activities we have highlighted above. Amongst the initiatives that will help us to move the service-cost envelope, we will:

- Develop an integrated customer data, research and engagement function;
- Adopt innovative engagement tools to give our customers opportunities to inform day-to-day and long-term business planning;
- Develop a personalized service for our non-household customers through the adoption of technologies such as artificial intelligence and predictive analytics;
- Develop a personalized digital account management and issues tracking systems;

- Use available data to segment our customer services and offerings in order to provide the most relevant and personalized service, particularly for different types of non-household customers;
- Assess the benefits of ‘smart’ metering for non-household customers, including real-time leakage alert systems;
- Develop our understanding of interventions that promote water conservation for non-household customers. This will include exploring the success of approaches such as reduced flushing, rainwater harvesting, greywater recycling, water labelling on appliances, smart metering and dynamic pricing;
- Following the experience during the Storm Emma event in March 2018, when customer side leakage at business customer premises was a major issue, we will experiment with awareness raising campaigns to reduce the risk and costs of internal pipe bursts during very cold weather, building on our successful “Wrap Up Wales” campaign;
- Use similar behavioural science techniques to explore the best ways to encourage and incentivise good behaviour from customers in terms of disposing of waste materials, in particular fats, oils and grease, into the sewer system.

5.4 Performance commitments

We are proposing three performance commitments for AMP7 that are relevant to the non-household price control.

Our Measures of Success for AMP7 include a continuation of our Business Customer Satisfaction measure from AMP6. However, the methodology will change to align more closely with the new household C-Mex measure, in that it will be sampled four times a year (250 customers each time) and will measure a customer rating out of 5.

Our target is to achieve a rating of 4.5 out of 5, which we believe would be consistent with maintaining an average of 90% customer satisfaction over the period. Given CCWater’s comparative data which already shows us as the leading industry performer in terms of NPS, we believe this is an appropriately ambitious target, which will require us to improve on our already very high customer satisfaction scores.

We anticipate that this target will be maintained at that level in future periods beyond 2025, which will again be challenging, given the ever increasing customer expectations and the fact that the survey involves customers who should have increasingly rare need to interact with us, as overall service levels improve.

In addition to Business Customer Satisfaction (reference Sv4), the non-household retail control shares two further performance commitments with the household retail control. These are:

- BI3 “Company Level of Bad Debt”: in 2017/18 the doubtful debt charge as a percentage of total revenue was 2.9%. We plan to improve our performance on this measure progressively over the plan period, so as to achieve a level of 2.0% by 2024/25; and

- BI4 “Unbilled Properties”: in 2017/18 “void” properties represented 4.3% of our total connected properties across household and non-household. We intend to reduce this figure in each of the following seven years, so as to achieve a target by 2024/25 of 3.5%

Further details are set out in our supporting document on Performance Commitments (document 5.2: “PR19 Performance Commitments”).

We gave careful thought to the introduction of a new performance commitment for so-called “gap sites”. We do have a strategy for identifying gaps sites across both the household and non-household sectors, but we do not have sufficient information at this time to calibrate a gap site performance commitment with any degree of confidence, so were we to put one in place the likelihood is that we would significantly either under-perform it or out-perform it (See document 2.5: “PR19 Household Retail Plan” for further details).

The position is further complicated by the uncertainty regarding the status of those customers that fall within our service area but are situated in England. Finally, and in any event, the identification of gap sites contains within it its own financial incentive, since gap sites identified bring in additional revenue which can be used to lower the average bill to other customers.

5.5 Expenditure plans

As set out in section 4 above, we have driven down our non-household retail costs over the course of AMP6, such that our average cost to serve is highly competitive when compared with companies operating in England. Our objective is to consolidate and strengthen this relative position.

Our expenditure projections for AMP7 are presented in the following table. All figures are in £ million in out-turn prices.

Year	Operating Expenditure (£m, out-turn prices)	Operating Costs (£m, out-turn prices)
2015/16	5.910	6.559
2016/17	5.468	5.853
2017/18	5.176	5.935
2018/19	5.125	5.843
2019/20	5.117	5.728
2020/21	5.114	5.804
2021/22	5.200	5.936
2022/23	5.232	6.004
2023/24	5.243	6.031
2024/25	5.270	6.098

Table 6: Expenditure plans for AMP7

As the table shows, whilst there are fluctuations over the forecast period, we are targeting an expenditure profile that stays more or less flat in nominal terms from 2017/18 onwards, i.e. a real efficiency target of around 2% a year over the period. This is the result of three separate influences, namely:

- the initiatives we are proposing to improve service performance, which will tend to push costs higher;
- underlying input price inflation, which will also push costs higher; and
- our strategy to achieve improvements in efficiency on an ongoing basis, through innovation, high service levels driving reduced customer contact and increasing choice of cost efficient contact channels by our customers.

For the avoidance of doubt, as noted earlier, these figures do *not* include the incremental costs that are expected to arise as a result of 'Market Opening 2', the transfer of our 10,000 or so non-household customers situated in England into the competitive market. When this occurs, responsibility for them will pass to our small Commercial Retail Team (CRT). Although it is not possible to give precise cost estimates at this early stage given the uncertainties involved, we estimate that this would increase costs by the following sums, assuming the transfer takes place on 1st April 2020.

	19/20	20/21	21/22	22/23	23/24	24/25
Additional costs in £m (out-turn prices)	0.87	1.31	1.33	1.36	1.39	1.42

Table 7: Costs associated with 'Market Opening 2'

These expected costs have *not* been included in the data tables for now. However, if the Welsh and UK Governments reach final decisions over the course of the coming months they can be added into the expenditure projections later on in the process.

5.4. Retail margins

Finally, we have given careful thought to the level of margins that should be included in the non-household price controls in AMP7. In its final methodology Ofwat has proposed that we retain the same margins that it determined at PR16, i.e. a 1% net margin for all wastewater customers and for water supply customers up to 50 Ml per annum, and a 3.3% gross margin for all water customers using in excess of 50 Ml per annum.

It remains a core principle of our approach to the non-household retail business that our customers should demonstrably be at least as well-off as customers in England, both in terms of costs to serve and margins. Accordingly, since Ofwat is proposing to retain the same margins for backstop price controls in England, we propose to retain the same margins as those that were set by Ofwat at PR16.

6. How we will deliver for customers

In this final section we provide further detail on some of the particular measures we will take to deliver the plans set out in section 5 above.

6.1. Learning the lessons of market opening in England

Our objective since Market Opening in England in April 2017 has been to ensure that non-household customers in our region receive at least as good a service as customers in a competitive market.

To ensure adequate focus and investment in non-household customer services to achieve this objective, we have restructured our longstanding Retail Services division to form dedicated Household and Non-Household (non-competitive) Customer Services divisions. Competitive retail services are carried out in a separate division (the CRT) as explained earlier. Structuring our non-household customer services in this way will help us to focus on the particular needs and preferences of our non-household customers.

The appointment of a Director of Non-Household Customer Services (for non-competitive customers) ensures that the focus on non-household customer service will be maintained at the most senior executive level of Welsh Water.

6.2 How we deliver excellent customer service to non-competitive customers

Our Business Services Team (which reports into the Director of Non-Household Customer Services) provides account management services to non-competitive customers with sites consuming less than 50 megalitres of water a year. We currently provide a successful account management service to some of our largest customers and we will extend this service progressively over the course of the coming years to more customers. The feedback received to date has confirmed that the account management service is well received by customers.

The other actions that we will be taking to continually improve our services to non-household customers include:

- Re-training, personalising and focussing all of the retail functions that interact with our non-household business customers;
- Marketing appropriate 'Value Adding' services to our business customers. These will be based on our core values and environmental credentials as a water company and will include services such as water process and efficiency audits, hydro-geological survey work, environmental planning, and the provision of increasingly accurate and insightful consumption data;
- Regular engagement with customers, both individually and via customer regional forums, to co-create these new service offerings and to continuously improve our levels of customer satisfaction and trust; and
- Refining and developing the systems that support customer enquiries, billing and self-service facilities to our business customers.

7. Customer acceptability research

Our final customer acceptability research for our proposed PR19 business plan, carried out by Blue Marble Research, included focus groups, in-depth interviews and a representative sample of 170 non-household customers. This exercise followed on from the earlier options testing research, which also involved non-household customers. The detailed results of these customer research exercises can be found in document 1.1i: “PR19 Customer Engagement: Options Testing” and 1.1j: “PR19 Customer Engagement: Acceptability Testing”.

In summary, the main findings for non-household customers were:

- 88% acceptability from “informed” customers
- 99% of customers say that the plan is “affordable” (including 22% who say that it is affordable “at a stretch”)
- 83% of customers say that the plan represents good value for money (as against 6% who say that it does not)
- 84% acceptability from customers before the details of the plan had been explained to them (i.e. “uninformed” customer acceptability).

These results show a very high degree of support from our non-household customers for our final business plan, which is consistent with the findings across all other customer groups.