WSX20 – Residential retail strategy and analysis

Business plan
2025-2030

Wessex Water
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WSX20 – Residential retail strategy and analysis

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This supporting document is part of Wessex Water's business plan for 2025-2030.

Please see 'WSX00 – Navigation document' for where this document sits within our business plan submission.

More information can be found at wessexwater.co.uk

WSX21 – Annex 2 – Reckon (April 2023) Review of Ofwat's approach to inflation indexation for residential retail price controls, report for Bristol Water and Wessex Water [pdf]

WSX21 – Annex 3 – Reckon (April 2023) Review of Ofwat's use of water companies' cost forecasts in its determination of allowances for residential retail costs, report for Bristol Water and Wessex Water [pdf]

WSX21 – Annex 4 – Reckon (April 2023) Residential retail cost assessment at PR24: projection of cost benchmarks, report for Bristol Water and Wessex Water [pdf]

Executive summary

Our pedigree for providing excellent customer service is well founded. Since our establishment, we have strived to be the best retail service provider in the water industry:

- We remain one of the leading companies on C-MeX
- We consistently have the lowest level of complaints in the water industry
- We hold the gold standard service mark from the Institute of Customer Service.

We were the first to create a separate joint billing company with Bristol Water, called Pelican Business Services. We did this to take advantage of the available benefits from economies of scope and scale and, more importantly, focus on providing an excellent retail service. Pelican's service offering includes:

- The "warm voice" answering of calls has long been a USP of our business, and we have no plans to change this to cut costs.
- A wide range of channel choices to customers to contact us: phone, email, web-based live contact, e-Billing, automated payment lines and post.
- A completely bespoke, customer focused service, there are no set scripts for our customer-facing operatives, resulting in a more authentic and personal customer experience and allows colleagues to use their initiative to do the right thing for the customer rather than following a strict process. This also allows better identification of customers in vulnerable circumstances.

We were the first to recognise that our customers often need additional assistance, be it in affording their water bill, how they communicate with us, or going the extra mile. We are proud to lead the industry in this area. Our vulnerability strategy is laid out in WSX63. In it, we demonstrate our holistic approach to materially improve the lives of the vulnerable customers in our region.

- We have offered a form of social tariff for low-income customers since 2000.
- We have long-standing partnerships with many debt and affordability organisations in our region and are widely recognised as offering best practice.
- We offer the widest range of affordability support including flexible payment plans, repayment agreements and debt write-offs.
- We recognise that vulnerability takes many forms.
- Our frontline and customer-facing staff are trained in spotting the signs of vulnerability.
- We have a range of additional services for vulnerable customers. For example, customers who can request additional meter readings, or bills in different languages, font, size and braille. We also provide a text relay service for customers who are hard of hearing. Passwords can be set up for vulnerable customers.

Providing consistently high levels of service is only part of the picture – we need to ensure we also deliver value for money. Controlling costs and providing an efficient service is imperative for any business. This chapter sets our approach to setting our retail allowances, highlighting how we have consistently been assessed as operating at the efficient frontier of the water industry and how we have continued to forecast stretching efficiency targets into the future.

1. Econometric assessment of costs

Although we acknowledge and support the use of econometric models as part of an overall cost assessment methodology as with wholesale, we are not solely relying on them to inform our forecasts of efficient costs. We do however believe that given the less volatile investment cycle on retail that robust models are easier to arrive at.

To this end we commissioned independent experts, Reckon, jointly with Bristol water to investigate how best to undertake an econometric assessment of efficient costs. We attach their final reports as annexes 1-4.

1.1. Our proposed retail models

This project resulted in the models we submitted as part of the cost modelling consultation. We believe that these represent a robust view of efficient retail costs.

Our submitted models are disaggregated only, at the level of bad debt and other residential retail costs. Drawing upon more enhanced techniques of assessing and selecting models developed by Reckon, we have not included any total residential retail costs because the aggregate models we tried did not perform as well. Variables that were intuitive and worked well in the disaggregate models did not appear relevant or had lower t-ratios on the coefficients when included in the aggregate models.

A key improvement to the PR19 models has been the inclusion of time trend and dummy variables to capture dynamic effects.

- Our **bad debt models** have both a time trend and year dummy variables for 19/20, 20/21 and 21/22. Whilst we recognise COVID impacted one week of 19/20 and this therefore had limited impact on our wholesale operations, we do consider the inclusion of 19/20 dummy year variable in the bad debt models both intuitive and statistically significant because of the action by auditors which necessitated a drastic increase in the provision of bad debt, despite there being limited operational cost impact on retail in 19/20.
- Our **other retail cost models** include either a time trend or year dummy variables for each year of the sample period. Whilst we did not find the same level of support for year specific dummies for 19/20, 20/21 and 21/22 as with the bad debt models, we found controlling for dynamics as per our submitted models, better than models which include only a constant term, as per those used at PR19.

The negative time trend in real panel data set, could highlight the frontier efficiencies that are apparent in the historical data. The positive year dummy variables, in particular for the covid years, are no doubt picking up the increased bad debt provision and other retail costs associated with supporting customers as discussed above. We would recommend Ofwat test the inclusion of dummy year variables for 22/23 when the data is available to capture any cost-of-living crisis related costs.

We are pleased to see that the models that Ofwat then consulted on were similar in style. We note that bad debt poses more of a challenge to model, and interpret relative efficiency given a potential range in companies approaches to provisions throughout Covid and into the cost-of-living crisis.

1.1.1. Bad debt models

Table 1 presents two sets of three models that have a similar structure and include the same set of underlying cost drivers, the main differences being the specification of the dependent variable) and in the models where the dependent variable is specified as the ratio of bad debt related costs to billed revenue, they do not include the variable lnreal_revAdj_hh.

Within each set of three models, the main difference is in respect of the choice of metric to control for variation in deprivations/arrears risk.

Table 1 – Bad debt models

Model ID	WSXRDC1	WSXRDC2	WSXRDC3	WSXRDC4	WSXRDC5	WSXRDC6
Estimation						
lnreal_revAdj_hh	0.975***	1.000***	0.959***			
	{0.000}	{0.000}	{0.000}			
incomescore_unadjusted	0.046*			0.002*		
	{0.089}			{0.055}		
t2020	0.449***	0.380***	0.385***	0.019***	0.016***	0.016***
	{0.000}	{0.000}	{0.000}	{0.000}	{0.001}	{0.001}
t2021	0.389***	0.298***	0.326***	0.014***	0.011***	0.012***
	{0.000}	{0.000}	{0.000}	{0.000}	{0.000}	{0.000}
t2022	0.270*	0.183	0.209	0.009***	0.006**	0.007**
	{0.072}	{0.136}	{0.107}	{0.008}	{0.042}	{0.023}
eq_rgc102		-0.029**			-0.001**	
		{0.042}			{0.044}	
SqIncomeIMD2			13.286*			0.434*
			{0.060}			{0.075}
fye	-0.045***	-0.047***	-0.046***	-0.002***	-0.002***	-0.002***
	{0.007}	{0.006}	{0.006}	{0.001}	{0.001}	{0.001}
_cons	86.357***	95.357***	89.950***	3.239***	3.588***	3.340***
	{0.009}	{0.008}	{0.008}	{0.001}	{0.001}	{0.001}
depvar	lnreal_DCsdebt_hh	lnreal_DCsdebt_hh	lnreal_DCsdebt_hh	ratio_smbdtorev	ratio_smbdtorev	ratio_smbdtorev
Estimation_me	RE	RE	RE	RE	RE	RE
N	153	153	153	153	153	153

1.1.2. Other retail cost models

Table 2 presents four models for other retail costs. The specification of the four models shares some common elements but differ in respect of (i) the inclusion of an explanatory variable to control for scale, and in respect of (ii) the modelling of time-related effects.

Table 2 – models of other retail costs

Model ID	WSXRDC1	WSXRDC2	WSXRDC3	WSXRDC4	WSXRDC5	WSXRDC6
Estimation						
lnreal_revAdj_hh	0.975***	1.000***	0.959***			
	{0.000}	{0.000}	{0.000}			
incomescore_unadjusted	0.046*			0.002*		
	{0.089}			{0.055}		
t2020	0.449***	0.380***	0.385***	0.019***	0.016***	0.016***
	{0.000}	{0.000}	{0.000}	{0.000}	{0.001}	{0.001}
t2021	0.389***	0.298***	0.326***	0.014***	0.011***	0.012***
	{0.000}	{0.000}	{0.000}	{0.000}	{0.000}	{0.000}
t2022	0.270*	0.183	0.209	0.009***	0.006**	0.007**
	{0.072}	{0.136}	{0.107}	{0.008}	{0.042}	{0.023}
eq_rgc102		-0.029**			-0.001**	
		{0.042}			{0.044}	
SqIncomeIMD2			13.286*			0.434*
			{0.060}			{0.075}
fye	-0.045***	-0.047***	-0.046***	-0.002***	-0.002***	-0.002***
	{0.007}	{0.006}	{0.006}	{0.001}	{0.001}	{0.001}
_cons	86.357***	95.357***	89.950***	3.239***	3.588***	3.340***
	{0.009}	{0.008}	{0.008}	{0.001}	{0.001}	{0.001}
depvar	lnreal_DCsdebt_hh	lnreal_DCsdebt_hh	lnreal_DCsdebt_hh	ratio_smbdtorev	ratio_smbdtorev	ratio_smbdtorev
Estimation_me	RE	RE	RE	RE	RE	RE
N	153	153	153	153	153	153

1.2.　　　Inclusion of indexation in retail costs

One area we asked Reckon to focus on was the approach to changing costs over time, specifically should retail costs automatically be linked to inflation. We append their report as an annex to our plan.

Reckon have undertaken a review and assessment of the validity the explanations given by Ofwat in key documents from its PR14 and PR19 price reviews and from its draft and final methodology for PR24. In summary, they make the following points:

- There is no single correct answer to whether there should be some form of inflation indexation – or other adjustment mechanism for unexpected inflation or input price changes – of the retail control. This is a matter of judgement. But this judgement should be made in light of a sound understanding of the relevant arguments and considerations.

- Some of Ofwat's arguments against indexation from PR14 and PR19 do not stand up to scrutiny. Some relevant considerations relating to the impacts on financing costs also seem to have been overlooked.

- We consider that Ofwat was right at PR14 and PR19 to draw on comparisons with the conditions faced by retailers in competitive parts of the UK economy in deciding whether to apply inflation indexation (but we disagree with its interpretation of those conditions).

- There is a reasonable concern that automatic CPIH indexation of retail revenue controls would be overly generous to water retailers compared to the conditions faced by retailers in competitive parts of the UK economy and would lead to unnecessarily high costs to customers in scenarios of unexpectedly high inflation.

- Not allowing for any form of inflation indexation – or other adjustment mechanism for unexpected inflation or input price changes – seems well out of line with the conditions faced by retailers and customers in competitive parts of the UK economy.

- No indexation or other adjustment imposes what seems to be an abnormally large amount of inflation risk on water retailers. And the inflation risk protection that Ofwat is arranging, on behalf of customers, has a cost to customers in terms of the associated financing costs for companies. That high degree of inflation risk protection is not one which consumers usually choose to pay for. Consumers do not typically fix prices for their retail services on a nominal basis for five-year periods.

- Ofwat's decision not to allow CPIH indexation of residential retail controls at PR24 is at odds with its decision to allow CPIH indexation in the calculation of default tariffs for non-residential activities in England. Ofwat does not seem to have provided a good explanation for the differences in its regulatory approach across these two areas.

- At PR19, in explaining its decision not to allow inflation indexation for the retail control, Ofwat emphasised concerns that allowing such indexation would harm water companies' incentives to operate efficiently in their retail activities. This strikes us as a somewhat unusual position in the context of UK price control regulation. We can see arguments to support it, but there are questions of whether this issue is material and whether providing no inflation indexation or other adjustment mechanism is a proportionate response to these concerns.

- Whatever approach is taken on this matter should be properly taken account of in Ofwat's assessment of the retail margin and, perhaps more importantly, the adjustment applied to the appointee WACC to calculate the wholesale WACC."

We strongly think Ofwat should re-consider the case for indexation of retail costs at PR24 based on the above and relevant evidence.

1.3.   Using forecast data

We have also worked with Reckon to review Ofwat's use of water companies' business plan cost forecasts as part of its calculation of price control allowances for residential retail activities at PR19. We have appended the report as part of our business plan. Whilst the focus is on residential retail cost assessment, some issues may have wider implications.

There are a number of risks associated with using forecast cost data, which are expanded on in full in the above report:

- Uncertainty about future costs spanning five or more years
- Prioritisation of forecasting effort
- Accountability for accuracy of cost forecasts

- Incentives that may influence or distort cost forecasts, with implications for both over-estimation and under-estimation of costs

Reckon also draw a useful comparison between the retail market and features of competitive markets, with regard to the implications for PR24 cost assessment. In summary:

Table 3: Insight from competitive markets for Ofwat's use of forecasts in cost assessment

Feature of competitive market	Potential implications for retail cost assessment at PR24
Companies set prices in light of their expectations of future costs, not simply on the basis of the costs they have incurred historically.	Comparison with competitive markets suggests that – as a matter of principle – it is not unreasonable for price control cost allowances to be set in a way that reflects companies' forecasts of future costs, especially where these look competitive relative to analysis of companies' historical costs.
Companies are able adjust their prices as new information on costs is revealed over time and as their forecasts are updated over time.	In deciding what weight to give company forecasts in retail cost assessment, we should recognise that the time period of water companies' business plan forecasts brings a greater degree of forecasting error than the shorter-term and more adaptable cost forecasts that typically underpin prices in competitive markets.
Companies that make bad forecasts of their future costs will tend to suffer from this.	In deciding what weight to give company forecasts in retail cost assessment, we should recognise that there is not the same discipline on regulated companies in terms of the quality of their forecasts and that there are no market selection processes leading to the exit of companies that consistently make bad forecasts.

We see there are two main opportunities to mitigate risks around the accuracy of company forecasts at PR24, beyond established practice:

- **Assessment of the credibility of company forecasts.** While Ofwat's established practice in cost assessment is geared towards addressing the risk that a company's cost forecasts are too high, its practice to date seems to have placed limited emphasis on the risks that a company's cost forecasts are too low. This risk becomes more important if one company's forecast may be used to calculate allowances for other companies, so that it is not just the company that forecasts too low which suffers from this.

- **Triangulation with approaches that do not rely on company forecasts.** Further mitigation can be achieved by Ofwat's cost assessment not giving 100% weight to methods reliant on companies' cost forecasts when setting allowances. For example, by setting allowances based on the average of cost projections based on an approach involving company forecasts and one or more approaches that are not reliant on these.

We strongly encourage Ofwat to consider these in the context of PR24 retail cost assessment and the cost assessment framework more generally.

1.4.   Setting efficient future allowances

Building on our proposed retail models earlier in this document, we also worked with Reckon to consider how to take the outputs from econometric models, such as those which typically rely on backward looking data and how

these model outputs can be used to form projections of efficient cost benchmarks. We have appended the report as part of our business plan. Whilst the focus is on residential retail cost assessment, some issues may have wider implications.

Reckon first provide a detailed review how Ofwat approached this aspect of its cost assessment for residential retail activities at PR19; in particular the 50:50 weight applied to two sets of cost allowances, one based on adjustment for notional efficient costs based on comparisons of modelled costs with business plan forecasts; and the other based on an adjustment for notional efficient costs based on historical cost levels. Appendix 1 of the Reckon report found in WSX21 Annex 4 provides more detail on this and related matters, which needs due consideration in the setting of sufficient efficient cost allowances and incentives at PR24.

The above PR19 method for retail was a novel approach compared to the more mechanical approach PR19 wholesale, where a backward-looking efficiency challenge was applied in addition to an RPEs and frontier shift adjustment.

Reckon secondly set out some conceptually different methods that might be used to move from econometric benchmarking analysis carried out on historical data to make projections of cost benchmarks over the 2025-30 period and highlighting a number of relevant considerations. This is an area that has been given little attention in regulatory economics. These are summarised below (and further detail is provided in Appendix 2 of the Reckon report found in WSX21 Annex 4):

Table 4 - Overview of alternative projection methods

Projection method	Brief introduction
1. Application of separate productivity and input price assumptions	This is what we see as the conventional approach in recent regulatory practice (e.g. applied by Ofwat and the CMA for wholesale base expenditure at PR19). It involves an adjustment for notional efficient levels of costs being applied to modelled costs over the forthcoming price control period, combined with separate adjustments for each of ongoing productivity improvements and input price effects for a notional efficient company.
2. Application of assumed unit cost trend	This has some similarities to (1) above except that rather than separate regulatory assumptions for input prices and ongoing productivity being determined and applied, a combined assumption on the trend in unit costs is determined which is intended to reflect the net effects of ongoing productivity improvements and changes in input prices for a notional efficient company. Ofwat used something close to this type of approach in setting allowances for operating expenditure at PR04 and PR09.
3. Extrapolation from econometric models that involve a time trend	This is an approach in which the effects of ongoing productivity and input price changes are captured by the inclusion of a time trend in the econometric models estimated on historical expenditure, and modelled costs for the forthcoming price control period are calculated by extrapolating that trend. This can be combined with an adjustment for notional efficient levels of costs.
4. Forward-looking adjustment based on	This is based on the component of Ofwat's PR19 approach for residential retail costs which involved the calculation of an adjustment based on an upper quartile efficiency benchmark derived from comparisons of companies' business plan forecasts of retail

business plan comparisons	costs over the 2020-25 period against modelled costs over that period. This adjustment is intended to take account of notional company efficiency, ongoing productivity and input prices in one go.
5. Business plan cost forecasts included in the input data for the benchmarking models	Under this approach, companies' business plan forecasts of retail costs would be included in the set of input data for the econometric benchmarking models. These forecasts would be expected to already incorporate companies' views on the impacts on costs of ongoing productivity and input price changes.

Whilst data will have moved on (and industry-level business plan forecast data is not available), Reckon developed the quantitative methods to develop cost forecasts using methods 1,2 and 3. At this stage in the PR24 process, we consider that the projection methods, and the approach and adjustments that we have used to apply them, are more important than the precise values calculated for the projected cost benchmarks; and we encourage due consideration of alternative methods to setting efficient cost allowances at PR24.

As some high-level findings, the analysis found that the choice of econometric model suite has some impact on the projected cost benchmarks, but this is generally quite small. The choice of projection method (and, for method 1, the assumed productivity scenario) has a somewhat greater impact.

2.   Bottom-up view of future retail operating expenditure

As with wholesale we have used the results from econometric models, and other tools to understand our relative efficiency, but are submitting a plan based our understanding of how our costs will evolve, considering our current efficiency and stretching ongoing targets.

We have considered our retail costs in four tranches:

1. we have worked with our billing company Pelican to forecast their efficient costs,
2. for costs borne directly by WWSL we have used the same approach as wholesale base opex
3. for bad debt we have considered what an efficient level of debt collection would imply,
4. we have considered any step changes in costs that the accounting standards for new systems require.

2.1.   Pelican costs

We have taken the full costs by business unit and analysed each area to consider how the costs are likely to change over time. We have considered:

- growth in customers,
- meter penetration,
- customers on PSR and social tariffs,
- e-billing take up,
- likely increases in costs relative to inflation,
- specific efficiencies arising from new systems, and

- ongoing annual efficiency targets.

Our growth in customer numbers and meter penetration are consistent with our overall plan.

Table 5 – Customer numbers and meter penetration

	2025-26	2026-27	2027-28	2028-29	2029-30
Retail customers ('000s)	1271	1280	1289	1298	1307
Meter penetration %	75%	76%	76%	76%	77%

This will impact our costs, as metered customers cost more to serve. They require meter reading, get two bills per year, and generate more contacts on average than unmetered customers. Although this is recognised in the econometric approach by considering variables that capture this, due to the requirements for consistency in the tables (Ofwat query 29) this is not apparent in the cost to serve lines of table RR7.

Billing and contact centre costs for metered customers are twice that of unmetered customers. Offsetting this we have assumed that:

- We get a c2% annual increase in customers using e-billing, reducing those customers costs by 30%, and
- Increased meter penetration allows greater efficiencies in meter reading costs, we have assumed a 30% improvement on the cost per property.

Other than labour, which we have treated consistently with wholesale, the other key area that our retail costs are exposed to price changes relative to inflation is postage. We have seen postage costs go up in real terms by 8% per annum since 2018, with another 16% rise confirmed this year. This is expected to continue. We have included a 10% annual increase in postage costs in our forecast. To offset this, we will keep pushing customers on e-billing where expected costs are 90% lower.

The impact of a growing base of metered customers is an underlying increase in real costs. We continually challenge the efficiencies across the business and are including a more stretching ongoing efficiency challenge on retail than on wholesale.

This is due to the ongoing negative time trend found throughout the econometric assessment. Whereas on wholesale, underlying costs are increasing, on retail we are seeing the opposite. It is important to recognise these underlying trends when considering our future costs.

We are assuming two streams of ongoing productivity assumptions. An ongoing challenge of 1% per annum frontier shift, and an ongoing impact of moving to a data driven view of customers delivered through improvements to our systems. The below table sets out the efficiency challenge we are applying to all relevant areas from a 22-23 baseline.

Table 6 – Frontier Shift

	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Ongoing frontier shift	4.9%	6.4%	7.8%	8.7%	9.6%

This is equivalent to an annual frontier shift challenge of c1.4%.

The impact of all the above result in the costs forecast set out below, at 22-23 CPIH deflated prices:

Table 7 – Expenditure summary

£m	**Baseline (22-23)**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Total Pelican expenditure	16.9	16.6	16.8	16.9	17.1	17.2
WWSL Share	80%	80%	80%	80%	80%	80%
WWSL expenditure	13.5	13.3	13.5	13.5	13.7	13.8
Real change		-1.5%	1.5%	0.0%	1.5%	0.7%

2.2.   WWSL costs

Although Pelican run our billing and customer contact centre, we do also have direct retail costs within WWSL. We have treated these costs in the same manner as our wholesale base opex, which is covered in WSX08. This results in the following costs including within retail:

Table 8 – WWSL direct expenditure

£m	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
WWSL direct expenditure	4.5	4.5	4.5	4.5	4.5

2.3.   Bad Debt

We have based our approach to bad debt on what we think an efficient level of collections should be, the remaining portion each year being written off as bad debt (i.e. bad debt = HH revenue * (1 – collections)). We have approached this through a number of means and based our submission on a triangulated view.

We have analysed the industry data, published by Ofwat, over 2013-2022, this suggests a range of bad debt of (at the 10th and 90th percentile) of 2.4% to 5.8%. This approach will have flaws, specifically by including the impact of Covid, where the reported bad debt will be recognising the movement in underlying provisions, often dramatically increased, and then released. We have tried to mitigate this impact by only considering the P10 to P90 range.

We have analysed an early view of our proposed retail models, which suggest a bad debt range of 2.9% to 3.0% of household revenues.

We have taken a bottom-up view working with Pelican, who run our household debt collection teams. With the improvements expected through improved billing systems, we expect a bad debt range of 2.8% to 3.0%.

Recognising our weaker performance in some econometric models limited to bad debt, we have picked a figure towards the bottom of these ranges, and assumed a collection rate of 97.2%, with bad debt costs modelled as 2.8% of household retail revenues.

This forecast reflects a true efficient position, as although data suggests some companies may have in some years beaten this, the ongoing cost of living crisis and expected large real bill increases both create a material threat to collections.

Table 9 – Bad debt

£m	2025-26	2026-27	2027-28	2028-29	2029-30
Bad debt %	2.8%	2.8%	2.8%	2.8%	2.8%
Bad debt costs	13.3	15.6	18.0	20.6	23.1

2.4. Step changes in costs

We expect no material step changes in costs, and hence have no cost adjustment claims for retail.

However, new systems moving from capital solutions to SaaS solutions will move costs from depreciation into operating expenditure. The net effect on CTS is expected to be neutral however this will cause a distortion within some of the reported lines.

Our new billing system is expected to be a SaaS solution, and so this will increase operating expenditure and reduce depreciation.

This has the net effect of reducing new depreciation by c£1m per annum, at the expense of c£0.6m per annum additional opex.

3. Capex and depreciation

3.1. Legacy depreciation and capital maintenance

We have extracted our legacy retail depreciation, and rolled it forwards from our fixed asset register. We have assumed a level of maintenance, c£1m per annum, which maintains this at current levels, when using the current average asset lives.

Table 10 – Depreciation and maintenance

	2025-26	2026-27	2027-28	2028-29	2029-30
Legacy depreciation	1.6	1.5	1.4	1.4	1.1
Maintenance	1.0	1.0	1.0	1.0	1.0
Base depreciation	1.7	1.7	1.7	1.7	1.6

3.2. New investment

We are proposing a modest programme of additional investment to continue to drive excellent customer service and deliver continued operational efficiencies.

Table 11 – new investment

	2025-26	2026-27	2027-28	2028-29	2029-30
New Capex	2.7	2.7	1.0	1.0	1.0
New depreciation	0.1	0.4	0.6	0.7	0.8

3.2.1. Need for enhancement investment

Household customers are generally very satisfied with the service we offer and our performance on customer service compared to others. However, they expect us to maintain our leading position and gradually improve in line with their expectations of what excellent service looks like.

By 2050 we want to be a top 10 customer service provider in the UK measured through our ranking on the UK Customer Satisfaction Index (UKCSI), the cross-sector satisfaction survey published by the Institute of Customer Service. We will also continue to maintain our leading water industry position on C-MeX, D-MeX and BR-MeX.

To ensure that we understand our customers priorities, we have undertaken specific engagement and research projects to analyse the customer contacts and feedback we receive. We combine all of this continuous insight with

other data sources such as volume, type and root cause of customer contacts and complaints and benchmark ourselves within and outside the sector to drive continuous improvement in our day-to-day billing and operational services (processes, policies, systems, training). It also allows us to identify customers' priorities for the future when supplemented by bespoke research.

The findings of our research shows the top emerging themes which were most important to customers were communication and efficiency and responsiveness (see WSX02 Chapter 5). We compared the results from the various engagement projects completed to identify our needs, which despite having varying volumes of respondents, have provided us with a consistent message on what our customers see as our key areas for improvement.

3.2.2.   Best options for customers

To address our customers' needs and the feedback we received from our engagement projects we considered a number of options. All options which were considered support our target of being an industry leading service provider and to improve the customer experience – making dealing with us accessible and straightforward. Our investment needs proposed for PR24 can be seen in Table 1.

These investments are the core building blocks which need to be in place next AMP so we can continue to improve our customer service. We have selected these investments based on our knowledge of the customer service offering from organisations who rank high on the UKCSI score. We have also outlined these solutions in WSX02 Chapter 5 (Excellent Customer Service) which sets out our proposals to 2030.

A cost benefit analysis has been completed for these needs and we have assessed these options against needs in the PR24 programme using EDA and our Service Measure Framework.

Table 12 – Investment streams

Investment Need	Description	CAPEX £m	Benefits
Customer Appointment Booking	Customers booking appointment online.	1.28	• Reduction in call handling time to arrange appointments. • Reduction in complaints. • Customers are able to self-serve. • Customers have greater choice on how they can book appointments.
Appointment Window Extension	Extended window for appointments, possibly outside of core working hours.	**0.05**	• Increase in choice for customers.
Voice Analytics/sentiment analysis	Use of AI to identify customers in vulnerable circumstances and for complaints and to anticipate and better meet their needs. Provide them with a better	**0.41**	• Reduction in call handling time. • Increase in identifying vulnerable customers. • Automated survey coding.

	service that meets their needs.		• Reduction in time to resolve a complaint.
Event Management	Proactive event management updates, e.g. road closures - to all channels, including Smart signage.	0.46	• Personalised service and more choice for customers. • Information is more readily available to customers.
Enhanced visual incident reporting	Capability for enhanced reporting of incidents via videos Self-help via virtual diagnosis via web & phone, online or digital channels.	**0.56**	• Keeping up with customer expectation. • Easier incident reporting. • Photos/video to help triage incident.
Live chat and Virtual Agents	Live chat integrations with existing customer contact options.	**0.90**	• Better customer experience, better information to customers, adding another choice of communications.
Single view of customer information	Creating a customer profile which contains all customer information	**0.67**	• Better customer experience, single view of the customer, personalised service, reduction in us calling them back.
E-commerce	Development of an Ecommerce module so customer can order free or chargeable services online, such as Community events and Water efficiency devices.	**0.11**	• Foundational piece of work to supporting our customer and community engagement activities.
Single sign-on integration to Developer Services	Enhance our online portal to allow customers to log in and see a single view and status of their projects, make payments, and interact with us in real time.	**0.35**	• Part of WSX22 - Dev Services strategy. • Removing the need to duplicate entry of customer personal information when applying for additional services from us and therefore the administrative burden on customers is significantly reduced.
Enhanced Customer Portal	Extend and continue to improve our online self-	**1.46**	• Customers can do more themselves easier and

	service offering, including our e-billing service.		quicker at a time convenient to them. • Ensuring we can meet the future needs of our customers.
Mobile Application	Wessex Water Mobile App offering customers the ability to sign in and see personalised view of multiple services provided.	**1.55**	• Step change that supports all items and may be used to support smart metering. • Enhanced self-service capability. • Greater personalised proactive communication with customers.
National Datashare	Next phase of work enabling two-way data sharing with 3rd parties of customers on the Priority Services Register.	0.3	• Regulatory requirement to support customers who need extra help

We rejected some of the options considered where we were not able to robustly assess the benefits to our customers.

3.2.3. Cost efficiency

The investments proposed will be implemented through changes to our IT. To deliver these investments we will engage with our strategic partners to identify if there is an existing product on the market which could deliver our desired outcomes, as opposed to building a bespoke system.

The costs allocated to each investment need have been generated using our ROM (Rough Order of Magnitude) calculator which takes information on similar projects which have been delivered and produces an average cost. We have not approached suppliers for project quotes because technology products and services are currently developing so rapidly that they will have been superseded on commencement of the project. We believe the use of our ROM calculator is the most appropriate cost model.

During project delivery, if costs are forecast higher than in our PR24 proposal we have the ability to descope the project or adjust the requirements to ensure that we still achieve an improvement to our customer service within our budget.

3.3.   Total position

This results in the total profile for capex and depreciation within our plan:

Table 13 – Total profile for capex and depreciation

	2025-26	2026-27	2027-28	2028-29	2029-30
Total Capex	2.7	2.7	1.0	1.0	1.0

| Total depreciation | 1.8 | 2.1 | 2.2 | 2.4 | 2.4 |

4.   Calculation of cost to serve

The above sections set out the constituent parts for out cost to serve calculations:

Table 14 – cost to serve

	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Operational expenditure	18.6	18.7	18.7	18.8	18.9
Bad debt	14.5	16.7	17.6	18.4	18.7
Depreciation	1.8	2.1	2.2	2.4	2.4
Total operating costs	34.9	37.5	38.6	39.6	40.0
Customers	1271	1280	1289	1298	1307
CTS	27.48	29.28	29.90	30.52	30.63

These represent the figures submitted in table RR7 and used throughout the financial modelling.