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Purpose:
This technical appendix sets out how we will manage the identification, classification and recovery of revenue from incorrectly classified gap sites and void properties, in the remainder of AMP6 and AMP7, in response to Ofwat’s expectations set out in the final methodology. It comprises the supporting evidence for business plan Chapter 13 Retail controls and Chapter 6 Outcomes, PCs and ODIs.

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Annex.

Table 1 - Relevant Ofwat tests

<table>
<thead>
<tr>
<th>Ref</th>
<th>Ofwat test</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Focus Areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>The company will explain their level of voids; and their plan will make proposals to identify and manage voids and gap sites.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This Annex explains: Historic and current performance on household and non-household void properties. Our effective and efficient approach to managing voids and gap sites in AMP6 and AMP7. Our performance targets relating to our voids performance commitment.</td>
</tr>
<tr>
<td>Secondary Focus Areas</td>
<td></td>
<td></td>
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<tr>
<td>OC1</td>
<td>How appropriate, well-evidenced and stretching are the company’s proposed performance commitments and service levels?</td>
<td></td>
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</tbody>
</table>
Introduction and context

In this technical annex we explain out historic and forecast level of gap sites and void properties and set out our plan to identify and manage voids and gap sites going forward.

We define gap sites and voids as follows:

- **Void properties:** Voids are household and non-household properties that we do not bill as per our systems they are not occupied. They are connected for a chargeable service and are recorded in our system as vacant.

- **Gap sites:** Gap sites are properties where water and/or wastewater services are being consumed, but the property is not on our system and is therefore not billed. This can occur when information on new properties is not correctly entered into our system or there are illegal connections to our networks.

The issue with gap sites and voids is that they are not always correctly identified and classified either by our customers or in our systems. I.e. there may be some properties classified as void where they are in fact being occupied, however, the occupier has not informed us and/or we have not taken action to update our systems where we know services are being consumed. The consequence is that properties that are classified as void, that are occupied, are not being billed. This means that we have to increase our bills for all other billed customers to recover the correct amount of revenue determined by our price controls. With an improved process in place, to correctly decipher the void properties and gap sites that are incorrectly classified as such, we would be able to reduce the bills to existing billed properties to collect the same revenue set out in our price controls.

It is important that information we hold on consuming properties is accurate as it benefits our customers for two main reasons:

- **Impact on bills** - As we identify properties consuming water we will raise bills that accurately reflect consumption meaning wholesale revenues are collected from more properties, thus reducing bills for bill paying customers.

- **Ensure fairness of billing** - Identifying and billing gap sites and void properties ensures everyone who consumes our services are billed accurately and fairly. Our bill paying customers will pay for their consumption only, not subsidising consumption of others.

Delivering a robust plan to manage gap sites and void properties to increase performance in this area is closely aligned with a key outcome of our plan of delivering affordable bills for our customers. Furthermore, Ofwat identified a requirement in their final methodology for a Performance Commitment (PC) relating to managing gap sites and void properties. As set out in Chapter 6, we have included bespoke PCs relating to household (HH) gap sites and household void properties in AMP7, see TA 6.2 - Our package of PCs and ODIs for more detail.

We have not included bespoke PCs for non-household (NHH) gap sites and voids. In the NHH market, the primary responsibility for managing void properties sits with the retailer and since we exited the NHH market in April 2017, we do not provide retail services to NHH customers. The responsibility sits with the retailer because they have the ability to change “vacant” status in the Central Market Operating System (CMOS). Nonetheless, it is in the interest of all of our customers for us to work with non-household retailers to reduce the number of void properties and we have set out how we will do this below in this technical annex.

Customer insight

We engaged with customers to understand their views on us investing more in reducing the number of properties incorrectly identified as voids or gap sites. Overall, customers viewed this as

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a low priority relative to other priorities across the plan as set out in TA.4.3 - Triangulation of customer priorities.

While some household customers felt that this was very important, many did not see this as a priority and some stated that they believed that we should be checking this as standard practice.

**Past performance**

**Void properties**

**Household void properties: Performance to date and forecast**

We have looked at our historic performance on HH voids to help us understand how we can improve, and to set the target for our future performance. Figure 1 shows our HH voids profile was fairly consistent from 2012/13 through to and including 2015/16. Over the last 2 years, our level of HH void properties has increased but as we start to embed improved working practices (set out later in this chapter), our forecast for the remainder of AMP6 is on a downward trajectory.

![Graph showing HH void properties from 2012/13 to 2019/20](image)

**Figure 1 - The number of household void properties from 2012/13 to 2019/20**

The increase in HH voids was driven primarily by retendering our meter reading contract which subsequently incorporated void property identification, however, embedding this into the contract took longer than intended. It demonstrates the importance of implementing and maintaining an active void management strategy, as HH voids can increase quickly when not effectively controlled. We outline our plan for managing HH void properties in the remainder of AMP6 and in AMP7 below.

**Household void properties: Benchmarking performance against the industry**

When comparing void levels with the rest of the industry, it is important to take into account the impact of meter penetration. It is reasonable to expect that a high meter penetration should mean that a lower level of voids is achievable compared to areas with fewer meters. A higher meter penetration supports an identification of likely occupancy, enabling a targeted approach to void management. Figure 2 shows the correlation between the level of voids as a percentage of total HH connections and meter penetration for Water and Sewerage Companies (WASCs) but little or no correlation for Water Only Companies (WOCs).

In 2018 our HH void property performance was marginally below the WASC average, but above the WOC average despite considerably higher than average meter penetration.
In summary, we find that our performance has worsened in the past two years. Despite this, relative to other WASCs, we have above average HH voids performance. We can draw on our high meter penetration to improve our voids percentage further and have set a stretching target for AMP7 based on this. See below for further information on setting our performance commitment target.

Non-household void properties: Performance to date
Following the opening of the NHH competitive market in April 2017:

- We divested in our portfolio of NHH customers to business retailers
- The responsibility for managing voids, known as vacant supply points, shifted from us to NHH retailers
- Similarly, to HH voids, the reporting requirements changed in 2016 and again following the opening of the market in 2017.

It is therefore difficult to look at the long term NHH void trends in a comparable way, analyse them with any rigour or take key learnings for future performance, especially as the approach to managing NHH voids primarily sits with NHH retailers.

We have compared our percentage of void properties in the NHH market, based on the data available from the market operator, MOSL, for the total voids for water and wastewater. Figure 2 shows that our level of voids is considerably lower than the average for all WASCs.
We saw a 20% increase in NHH voids in 2017 compared to the previous year which correlates with the opening of the NHH competitive market. Our assumption is that NHH retailers were ineffective in identifying voids to minimise the impact on bad debt costs if bills were raised by unpaid by customers for various reasons. This has triggered us to work closely with NHH retailers to enable accurate recovery of wholesale costs from consuming customers.

In summary, our performance compared to other WASCs is relatively strong, however we know we need to work closely with retailers and other wholesalers in our region to reduce the number of voids. This is part of our plan in AMP7 set out below.

**Gap sites**

Given that water companies do not report on gap sites it is not possible to analyse past performance, as we have not historically tracked this information internally, or conduct benchmarking analysis. However, as with the NHH void properties it is in our customers’, and our, best interest to reduce gap sites. Our approach to understanding and reducing gap sites is set out below.

**Our plan to manage void properties going forward**

**Household voids**

There are three types of customers that we have that have differing services and billing arrangements and we have tailored our approach to managing void properties in the remainder of AMP6 to enable us to start AMP7 in a stronger position. The three types of customers are:

1. Households where we provide water and wastewater services
2. Households where we provide wastewater services and bill via the water supplier, South East Water, under a joint billing agreement
3. Households where we provide wastewater services and bill directly.

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2 It is worth noting that although the percentage of voids in the NHH market is higher than HH, the numbers are not directly comparable. For example, one business may have multiple supply points so if the customer vacates that site it results in multiple void supply points.
We are working across all customer, field and third-party operations to align on our approach to managing HH void properties in the three key areas. A joined-up approach across the business and third parties ensures that:

- We increase identification of incorrectly classified void properties to help address the backlog of voids built up since 2016/17
- Properties do not become incorrectly classified as void going forward, thus minimising new voids.

Below we detail the specific initiatives we are delivering in AMP6 to manage our void properties in these three key areas, both targeting existing voids and minimising new voids.

**Households where we provide water and wastewater services**

In areas where we are the water and wastewater supplier, we are working with our field services provider to ensure our existing voids process (contracted alongside our meter reading contract) is implemented consistently:

- Our ongoing approach combines meter reading activity with visits to nearby void properties identified to be consuming water, thus minimising additional effort spent on visiting potentially occupied voids and generating additional costs of operations.
- The meter reading and void property visits is supplemented by lettering campaigns to provide customers with information about how to let us know that they have moved into the area, our range of services as well as our schemes and tariffs available.
- As this approach matures, we aim to maximise the conversion rate of occupied voids to billable and revenue generating accounts.

We have also integrated our approach to HH voids into our wider retail transformation programme, explained in Chapter 13 - Retail Controls. The areas of our transformation programme that have a specific focus on void properties include:

- A specialist ‘Home Move’ team to deal with customers who are moving home. We are improving the quality of conversations at the Move In Move Out (MIMO) stage of our customers’ journey to make customers lives easier. We have found that customers are more comfortable contacting us if their experience is easy when they do. Therefore, a greater proposition of customers will let us know when they have moved home avoiding voids incorrectly classified.
- Identifying and validating customer data at MIMO stage and regularly throughout the lifecycle of an account to ensure that the correct customer is billed.
- Improving data capture and validation routines from everyday contact into the contact centres.
- Better data analysis to target long-term voids, particularly those with material usage, through lettering campaigns.
- Requesting proof of ID from new customers. For a new connection or a currently disconnected property we are only required to provide a supply to the owner or occupier of the property.
- Cross checking void properties against the electoral register.

We have used other approaches in the past such as procuring occupier information from a credit agency. However, problems with data quality mean this approach was less effective, and also delivered a less positive experience for the customer. We will continue to use this approach only where other void related activities have been exhausted and with additional levels of certainty over with the quality of the data.
Households where we provide wastewater services and bill via a WoC
In 2017 we entered into a joint billing arrangement with South East Water to provide Customer Services, Debt Management and Meter Readings for c500k customers within our overlapping operational areas. Through a single bill we have improved customer experience and our approach to voids has benefitted through greater data sharing.

Through the data migration process, we have been able to identify discrepancies in our data sets. For example, we have identified incorrectly mapped void properties where we have a property recorded as void but South East Water has billable occupier details, and vice versa. This data cleansing activity will enable us to reduce the number of recorded void properties.

Households where we provide wastewater services and bill directly
Despite overall performance declining in the past, we have had relative success in reducing voids, identifying those that are occupied, through our partnership with South East Water. As a consequence of this success, we are looking to build data sharing arrangements with other WoCs in our operating areas to develop an ongoing data sharing strategy. This will help to identify properties which we believe are vacant but which the WoC is billing, and vice versa. Data sharing is mutually beneficial and can be achieved at no or minimal cost and is therefore a cost effective way of addressing voids within this key area. We will prioritise efforts on meters that are recording tangible usage and work with the WoC’s to source occupier information.

AMP7 improvements
We will implement the key activities set out above before the start of AMP7. In AMP7 we will continue to improve our approach to tackling voids, allowing us to further reduce incorrectly classified voids. In particular we will:

- Develop the programme of additional visits to void properties (beyond our usual meter read activity) on an annual basis. We have found that the most effective way to address voids is by blending visits with meter reading activities supplemented by lettering campaigns. In cases where there is evidence of tangible usage and occupier details have not been sourced via visits or our lettering campaigns, we will engage with a Credit Agency as a last resort to source credible details. We will implement this programme throughout our water supply region and work collaboratively with the WoC’s across all areas except for the c.500k customers who are within our joint billing arrangement with South East Water.

- We will explore a comprehensive property data share with other utility providers, beyond our partner WoCs to cross reference properties in our operating area against theirs and vice versa to identify void properties that one or the other data set has identified as billable.

We are confident that our improved approach to managing HH voids will deliver significant reductions in voids, driving fairer and more affordable bills for all of our customers.

Voids target profile
We are holding ourselves to account for delivering reductions in HH voids through a bespoke PC for AMP7. We will measure the number of residential properties that are classified as void as a percentage of total residential connected properties. Our target profile is set out in Table 2 below.
Table 2 - AMP7 void properties target profile

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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.3%</td>
<td>2.9%</td>
<td>2.6%</td>
<td>2.4%</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

This target profile has been generated with reference to a range of historic, comparative and expert information, as set out in TA 6.2 - Our Package of PCs and ODIs. It is a stretching profile and represents the best performance possible to attain as a result of our improved approach set out above.

We have conducted analysis to assess the most efficient level of voids. Using our data on classified voids and meter readings we have established that 18k metered voids had no usage recorded up until the last available reading was obtained. This equates to 2.0% of our metered portfolio. We have analysed this further to establish that of the 18k, 10k have had a read taken since the void was classified in our systems. The remaining 8k have not had a further meter read and therefore we cannot say for certain whether they should still be classified as void. We have no reason to assume that they are not void but we recognise that properties can become vacant or occupied very quickly. On this basis, we have assumed that 2.0% is the true level of void properties in our metered portfolio (i.e. those that are correctly classified as void having removed those that are incorrectly classified). We have made the assumption that this ratio holds true in our unmetered portfolio also.

We have also conducted projections of the likely reductions in voids for WoCs across our operational area, taking into account the focus companies will likely place on HH void reduction as a result of the requirement for a bespoke PC. A summary of this analysis is presented in TA 6.2 - Our Package of PCs and ODIs. We project that across our portfolio, our target level of void properties can reduce to 2.1%. We have calculated this based on analysis of a weighted average of three components, which are:

1. Households where we provide water and wastewater services: analysis shows that this gets to a target of 2.0% voids / connected properties by delivering the strategy set out above and based on the level of correctly classified voids we have analysed to be in our customer base.

2. Households where we provide wastewater services and bill via the water supplier, South East Water, under a joint billing agreement: we have analysed South East’s annual performance data and projected forward improvement from a 2017/18 baseline. This analysis derives a target of 2.1% that we can use as a guide to establish our own level of voids for customers billed by South East.

3. Households where we provide wastewater services and bill directly: we have analysed and projected forward the voids percentage of WoCs also in our region (excluding South East) to establish an achievable but stretched target. The target performance based on this analysis is 2.2%.

Our overall target of 2.1% is in line with improved performance by WOCs in our region supported by the increased collaboration embedded in our improved approach to managing voids. Given that WoCs have historically had lower levels of voids on average compared to WASCs we believe this to be a stretching target to reach by the end of AMP7. It is also consistent with our projection of upper quartile performance for water and sewerage companies (WASCs) as set out in TA 6.2 - Our Package of PCs and ODIs.

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3 The calculation of voids used as an input to the Performance Commitment was based on year-end property data in our billing system. Accordingly, the void numbers and subsequent percentages are at each year end. The APP30 Data Table is an average mid-year value.
Non-household voids

Although the primary responsibility for ensuring NHH voids are correctly recorded sits with the retailer, we recognise that partnering with NHH retailers is in the best interests of our wholesale business and HH customers.

We have already piloted an approach in which a third party service provider undertook a desktop exercise to identify potentially incorrect NHH voids. The pilot results revealed that 25% of supply points marked as vacant were in fact occupied. We shared this information with the relevant retailer who was then able to convert the majority into a billable status and generated revenue over 10 times the value of the initial investment.

Given the successful pilot, we are rolling out this approach through a regular audit of NHH voids using a competitively procured third party provider. Starting in August 2018 we will audit a 50% sample of our NHH voids and, based on the pilot, we will target supply points where consumption is being recorded. We expect a similar 25% outturn of occupied supply points which we will share with the relevant retailers for updating in the central market system during October and November 2018.

In 2019 we will sample a smaller proportion non-household voids on a monthly basis using the same third party provider. We expect that the ratio of additional revenue to cost will decrease over time as we begin to see a behaviour change from retailers, who will face a reputational incentive to have accurate voids data via the market performance operating plan set out by MOSL.

We also expect that our approach will become more effective in reducing NHH voids as retailers adapt to the conditions of the newly competitive market. In AMP7 we may look to identify new ways of identifying incorrect voids and adapt our approach accordingly based on the trends we are observe in retailer behaviour.

In addition, with effect from October 2018 changes to the market code will make it easier for other wholesalers in our region to share supply point and meter data with us. This will help to identify unpaired supply points which we believe are vacant but which the other wholesaler has as occupied, and vice versa. Data sharing in this way is mutually beneficial and can be achieved at no or minimal cost. It is therefore a cost effective way of addressing NHH voids.

We do not feel it is necessary to have a PC for NHH voids as we are already working with retailers to improve their void data quality through the activity outlined above. Furthermore as we are not directly able to control voids data, it would be challenging to commit to a specific NHH voids target.

Our plan to manage gap sites going forward

Household and non-household gap sites

We are already strengthening our operational processes and engagement with developers to place greater assurance and controls around the process of adding new properties to our systems. This will help us to ensure that we minimise the risk of new gap sites occurring.

To tackle gap sites that already exist, we will work with a third party provider to carry out an initial desktop data validation exercise and more rigorously reconcile our wholesale requests to access water with our retail systems. This will give us an indication of the number of addressable gap sites in our household portfolio. Based on this we will conduct a field pilot which is likely to involve lettering and agents visiting properties believed to be occupied with the aim of obtaining occupier details. The results of these pilot activities will inform our future approach and give us data from which we can baseline and track our performance. We will seek to expand the pilot if there is a clear benefit to customers.
Given that we do not have a current baseline for HH gap sites, we propose to set a four year PC starting in 2021 to monitor our success in tackling household gap sites. In the interim, our target will be set on a percentage improvement in performance for the last four years of AMP7. We will use the remainder of AMP6 to gather information and data that will help us assess the current level of gap sites and develop an evidence based approach to minimising them. We have proposed that our PC in AMP7 is focused on HH sites enabling us to better assess ways to measure performance for NHH gap sites in future AMPs.

This is a new area of focus for us. We recognise the importance of improvement in this area and we need to ensure we get the right balance of investment and return that delivers the best value for money for our customers. This begins by ensuring we have adequate data to make sound investment decisions.

For further information on our gap sites PC see TA6.2 - Our Package of PCs and ODIs.

**Costs of improved performance**

Below we set out the cost impact of delivering our AMP7 performance commitments.

**Household voids**

We have set a stretching performance target for our household voids performance commitment. We expect to be able to significantly improve our performance without increasing our costs for a number of reasons:

- Our plans to increase the rigour of our existing processes can be implemented with no additional costs
- The voids process operated by our meter reading services provider is embedded within their contract
- We do not anticipate incurring any significant costs from sharing data with WoC as this will be mutually beneficial, so it will be in the interests of both parties to share information without payment.

In AMP7, to achieve our stretching targets, we will implement our programme of additional out-of-cycle visits to void properties, which is outside the business-as-usual (BAU) meter reading activity. For void properties serviced by a WoC we anticipate sharing the costs of additional visits 50:50 with the WoC. This is because there will be a mutual and equal benefit which means it is reasonable to share the costs equally. The annual cost for each year of AMP7 and the total cost of these activities are shown in Table 3.

### Table 3 - Cost of AMP7 HH void reduction initiatives

<table>
<thead>
<tr>
<th>Activity</th>
<th>Annual cost (£ 000)</th>
<th>Total AMP7 cost (£ 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of cycle visits to properties serviced by another WoC</td>
<td>40</td>
<td>199</td>
</tr>
<tr>
<td>Out of cycle visits to properties where we provide water and wastewater</td>
<td>290</td>
<td>1,450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>330</strong></td>
<td><strong>1,649</strong></td>
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</tbody>
</table>

Initial analysis of household data suggests that new customers that are identified through the voids process are less likely to pay than new customers who proactively register with us.

This increases our level of doubtful debt and the associated costs of managing this debt. We have set out a rigorous approach to doubtful debt and debt management in TA.13.1 - Doubtful debt and debt management, and are implementing our Reach and Support strategy (see Chapter 8 -
Helping customers who need our support) which supports customers struggling to pay. We make sure that our approach to tackling voids makes bills fairer for all customers, and that we appropriately manage any debt that arises as a result of billing more properties previously classified as void.

**Household gap sites**

We are currently working to establish a baseline level of gap sites through our desktop reviews and have therefore not yet established a cost for improving the position on HH gap sites.