







South Staffs Water

PR14 Customer Research

Summary of Findings of the Customer Acceptability Study

In 2014 Ofwat, the water regulator, will set new limits on the prices and bills that South Staffs Water can charge its customers over the period 2015-20.

As part of this price setting process South Staffs Water will be submitting to Ofwat in December 2013 a proposed business plan for 2015-20. This plan will set out service and spending priorities for the water and sewerage supply services provided to 570,000 household and business customers in the South Staffordshire region and 130,000 in the Cambridge region of England.

This plan will take into account an extensive programme of consultation and engagement with customers. South Staffs Water will be expected to demonstrate how its plan and impacts on bills align with customer priorities and expectations.

In summer 2013 ICS Consulting & eftec were commissioned to conduct research into the acceptability for the proposed business plan.

The finding of the research is that South Staffs Water is able to demonstrate considerable support for its business plan and high levels of acceptability.

This report summarises the high level findings from this research.

ICS consulting

eftec economics for the environment

SOUTH WEST WATER

KEY FINDINGS



VIEWS ON CURRENT SERVICE & BILL

We asked customers their views on current service and bill levels

- 96% of customers stated they were 'very satisfied' or 'fairly satisfied' with the service they receive
- Respondents generally consider the bill to be about right but 1 in 10 find the bill far too high
- Most customers find their water bill affordable, but 1 in 5 have difficulty paying



VIEWS ON FUTURE SERVICE

We asked customers their views on the proposals in the business plan

- Customers supportive of the proposals in the plan
- Highest support for improvements to water quality (87%) and ensuring sufficient supplies (87%)
- Lowest support for enhanced metering (75%)



VIEWS ON ACCEPTABILITY

We asked how acceptable the plan is

- 82% acceptability when the future bills are presented in real terms (excluding inflation)
- This drops to 59% with presentation of the future bills in nominal terms in 2020
- Socio-economic group(SEG) affects acceptability
- Customers in Cambridge region have higher acceptability than in the South Staffs region
- Households have slightly higher acceptability than businesses
- Reasons for acceptance are around benefiting current and future generations



VIEWS ON FURTHER IMPROVEMENTS

We asked about further changes to the plan

- Customers prefer merger savings to be passed on in the form of lower bills and not reinvested
- If reinvested customers would prefer to invest in water supply pipes over helping vulnerable customers.
- A social tariff has a large impact on acceptability reducing this by 31%.



Introduction

ICS Consulting and eftec have supported South Staffs Water's development of its investment planning for PR14 through the undertaking of a series of customer research studies.

This has included stated preference studies to estimate customer preferences for different service improvements in both regions.

We have also supported South Staffs Water in the acceptability testing of their proposed plan.

The purpose of this study is to test whether South Staffs Water's business plan represents an acceptable and affordable overall plan to customers.

The study was conducted in both regions of the company with household and business customers.

The study gained views on acceptability as well as the components of the plan and further potential additions to the plan, allowing South Staffs Water to understand the business plan that best aligns with customer views.

A new requirement for 2014 is the Customer Acceptability Testing of the proposed plan

Customer Acceptability complements other forms of customer research, including willingness to pay research:

- It allows companies to understand combinations of bills and service levels that are most acceptable to customers.
- It recognises that there is a constraint on what customers can afford and therefore what is an acceptable change in their bill.
- It recognises that there are mandatory investments (e.g. quality) and other cost pressures on bills – and sees the impact that has on acceptability

It also provides an opportunity to test with customers the acceptability of specific investments, attitudes to risk, the speed at which changes in service levels should be delivered, and the profile of bill increases.

Approach to this study

Our study method follows best practice for undertaking acceptability research. We have used the Ofwat PR09 as a benchmark approach. The language and style of the surveys was tested thoroughly with customers, including taking into account previous customer research.

The survey presents customers with estimates of their bill over 2015-20, based on their current bill. The future bill is first shown in **Real** terms – i.e. today's prices and customers express their view on the acceptability of the plan. The future bill is then presented in **Nominal** terms - i.e. future prices whereby six years of inflation is added to the bill, and customers express again their view on the acceptability of the plan.

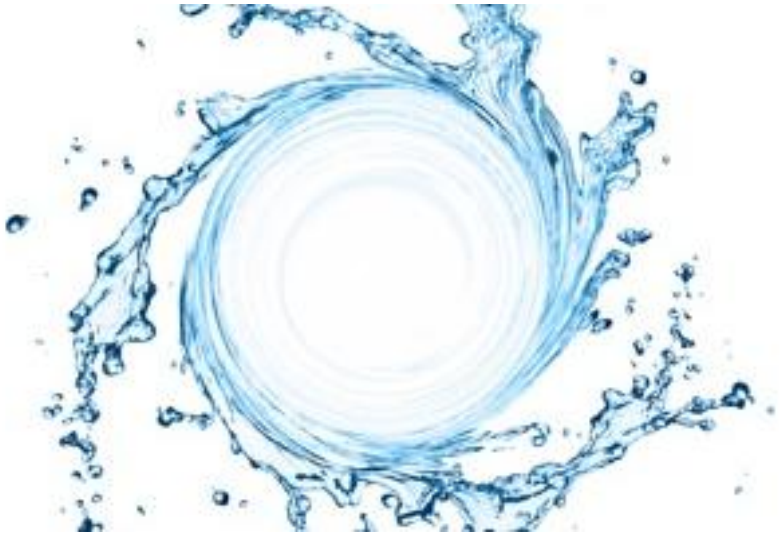
The survey was thoroughly tested with customers using a pilot study and also discussed with representatives from the Customer Challenge Group.

The survey was refined at this stage before conducting the main study fieldwork. The fieldwork was conducted with household customers using face to face interviews and an online survey; the survey was conducted with businesses using telephone recruitment to an online survey.

The analysis of the survey data is used to show overall acceptability and acceptability for the individual proposals in the plan.



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The sample

In sample of over 1000 customers were recruited to review the proposed business plan. The sample consisted of over 800 households and 200 businesses.

The sample covered both operating regions. 400 respondents were sampled from the Cambridge region; and 600 from the South Staffs region.

The household sample was representative of the population, with quotas on age, gender, metering and SEG. Households were surveyed using a mix of face to face CAPI interviews (500 customers) and an online survey (300 customers). Watersure household customers were also included in the face to face recruitment process.

200 businesses were surveyed using telephone to online survey methods, with quotas set on the basis of (aggregated) industry classifications. Businesses were drawn at random from databases provided by South Staffs Water

The results from the survey modes were combined into one overall measure of acceptability. Household online and face to face CAPI are equally weighted and averaged to provide an aggregate view for households. The household and business results were weighted by the proportions of each to give acceptability for the full customer base.

In the survey we asked respondents their views on current bills

Respondents were asked to provide information on their current bill.

- High proportion of customers (85%) were fairly or very certain about their bill
- Business customers were more aware of their current bill level

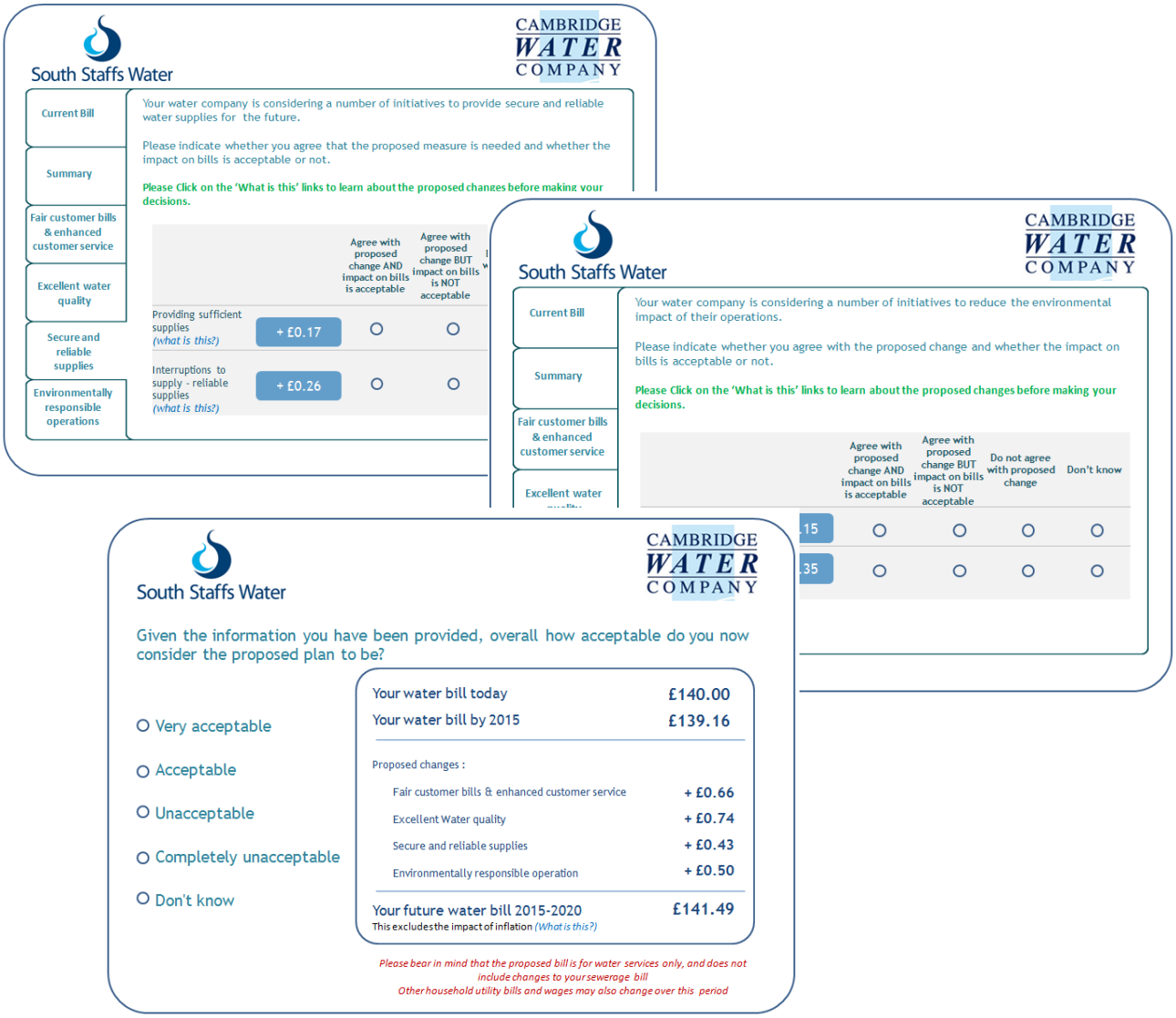
Respondents were asked if they struggled to pay their bill:

- 80% of customers said they did not struggle to pay their bill
- 18% said paying the water bill was a struggle and 2% said they ***always*** paid late

Respondents were asked if they thought the current bill was too high or not:

- Two-thirds said the bill was about right
- 10% said the bill was far too much
- Cambridge customers were more likely to think that their bill is about right than in South Staffs region

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The survey presents the proposals to respondents for their views

The survey introduction is similar to other forms of customer research – asking views about service, bills and priorities.

The main part of the survey is where respondents saw the proposals and selected whether they agreed with each proposal or not. They could also indicate if the cost of each proposal in terms of the bill was acceptable or not.

The proposals were grouped into four areas that align with the outcomes:

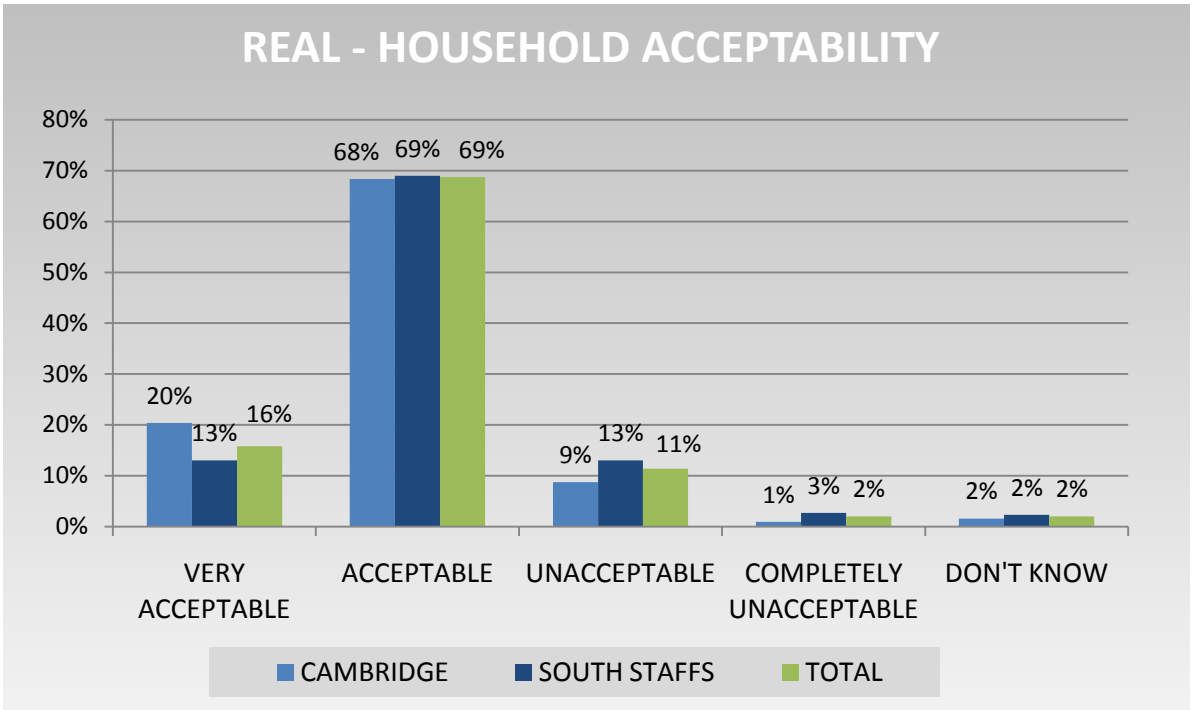
- *Fair customer bills & enhanced customer service*
- *Excellent Water quality*
- *Secure and reliable supplies*
- *Environmentally responsible operation*

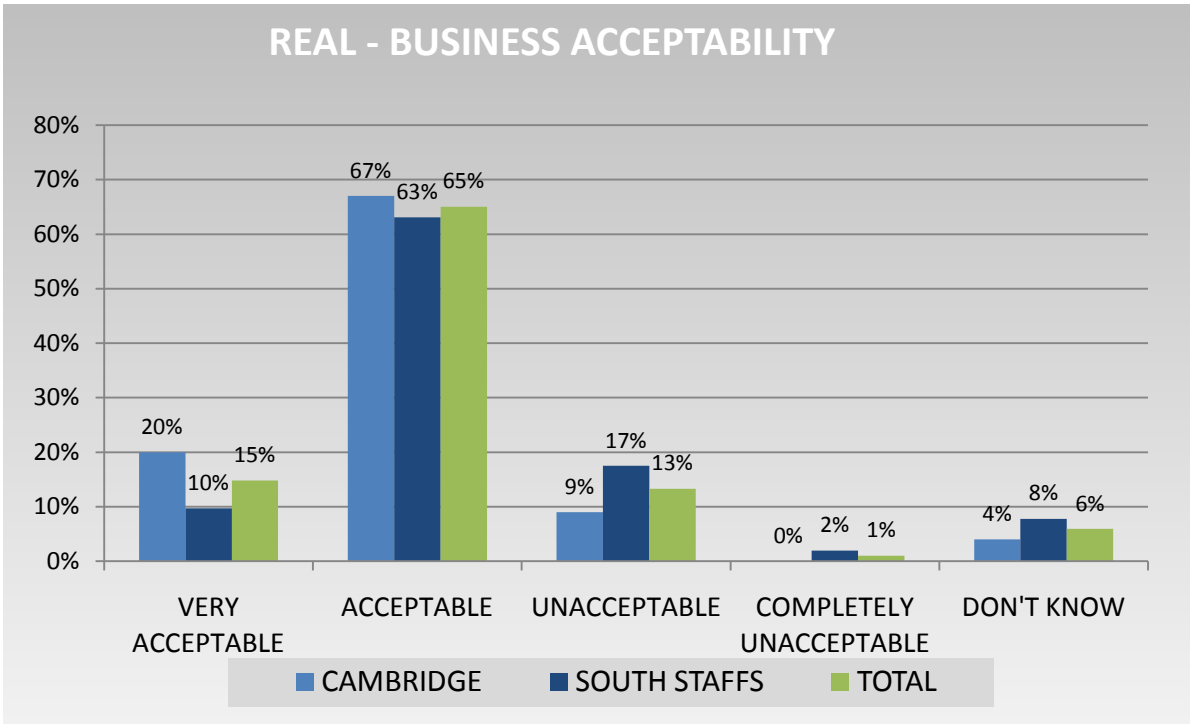
Supporting information was included to help respondents understand more about each of the proposals. This was accessed through roll over links.

The respondents accessed the different sections of the plan through the links on the left of the survey. This allowed respondents to change their mind before submitting their final views.

In home interviewers presented the laptop screen to household respondents so they could see the survey at all times.

The respondent data was collated to see the percentage of respondents that found the survey to be acceptable or not.





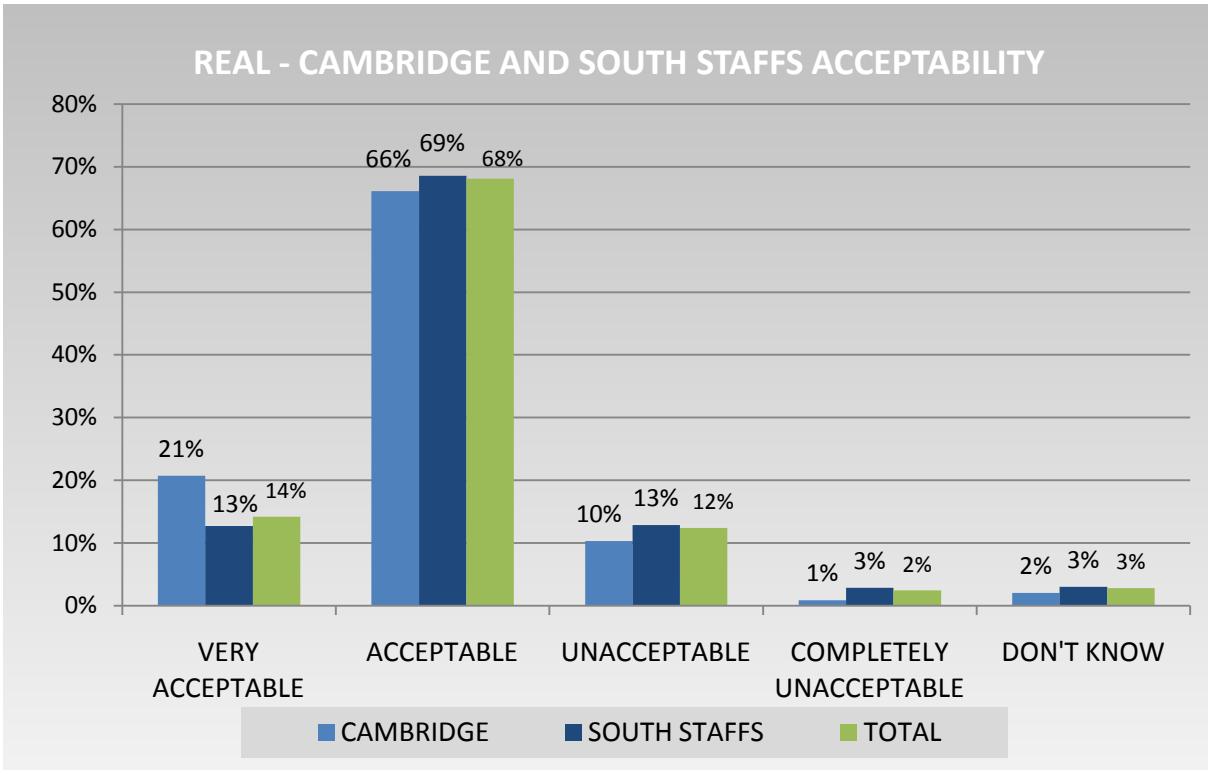
The households and businesses results show similar views

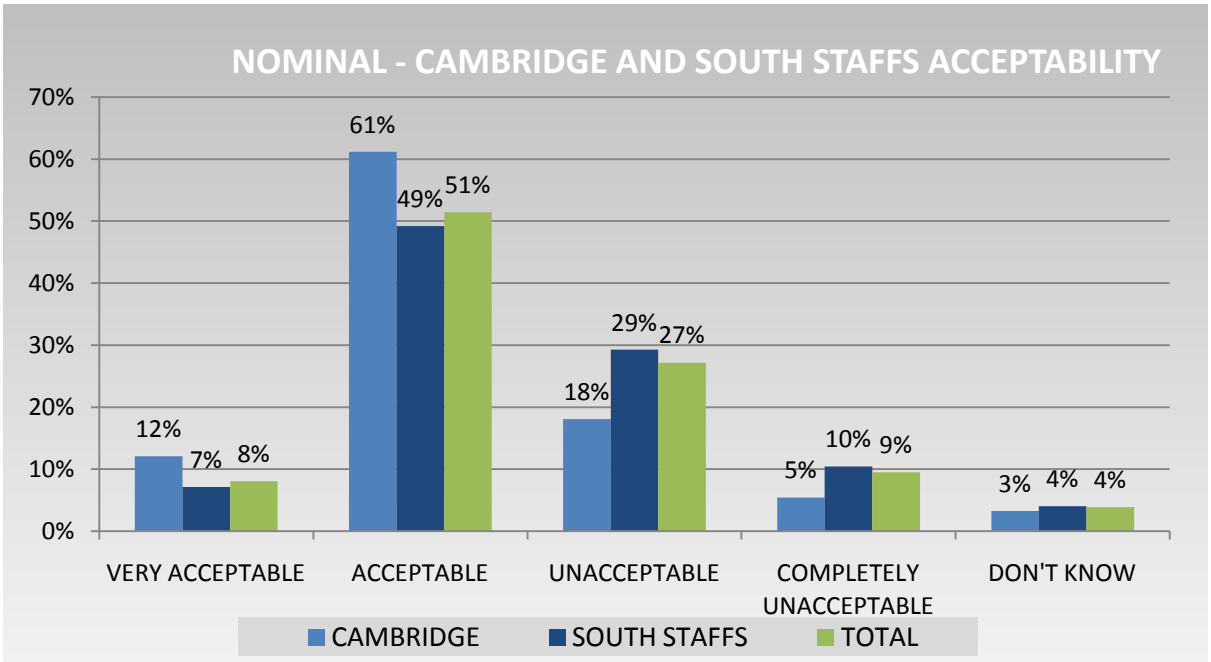
The charts above show the results for household and business customers across the dual regions in real terms.

Overall acceptability results are found by weighting by the number of household and business customers to derive the overall acceptability results for the whole customer base.

92% of customers are households in the Cambridge region, compared to 94% in the South Staffs region. 81% of customers are from the South Staffs Region and 19% from the Cambridge.

The results use these relative proportions to produce an estimate of overall acceptability in the two regions and overall.





The overall results are higher for REAL than NOMINAL

Respondents who stated the real terms bill increase was unacceptable also stated the nominal bill increase was unacceptable.

We have examined those that said the plan was acceptable in real terms, but switched to saying the plan was unacceptable in nominal terms. There is no statistical link between the switching and customer SEG or income. The reason for switching does not appear to be centred on affordability.

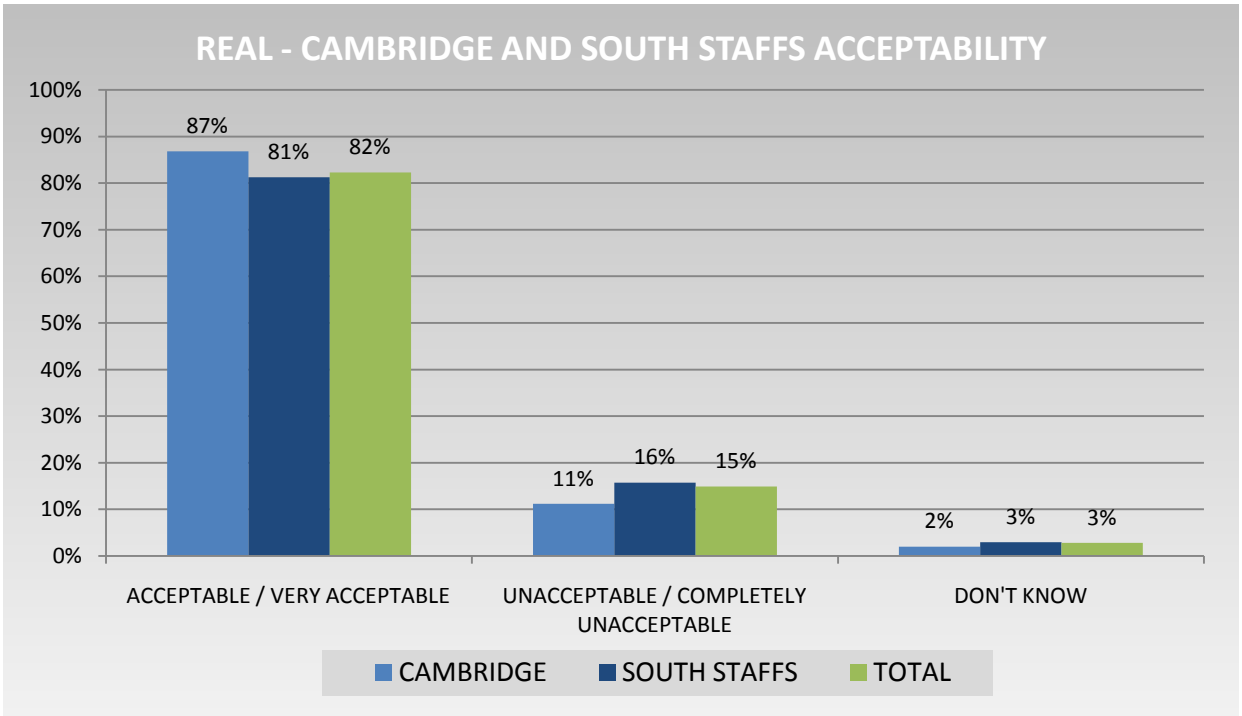
More likely reasons are that those that switch viewed the nominal increases as reductions in purchasing power; or discounted (perhaps on perceptions of recent economic circumstances) the prospects for future income growth. It is worth noting that the most recent H.M. Treasury and Office of Budget Responsibility forecasts suggest real growth in average disposable household incomes from 2014.

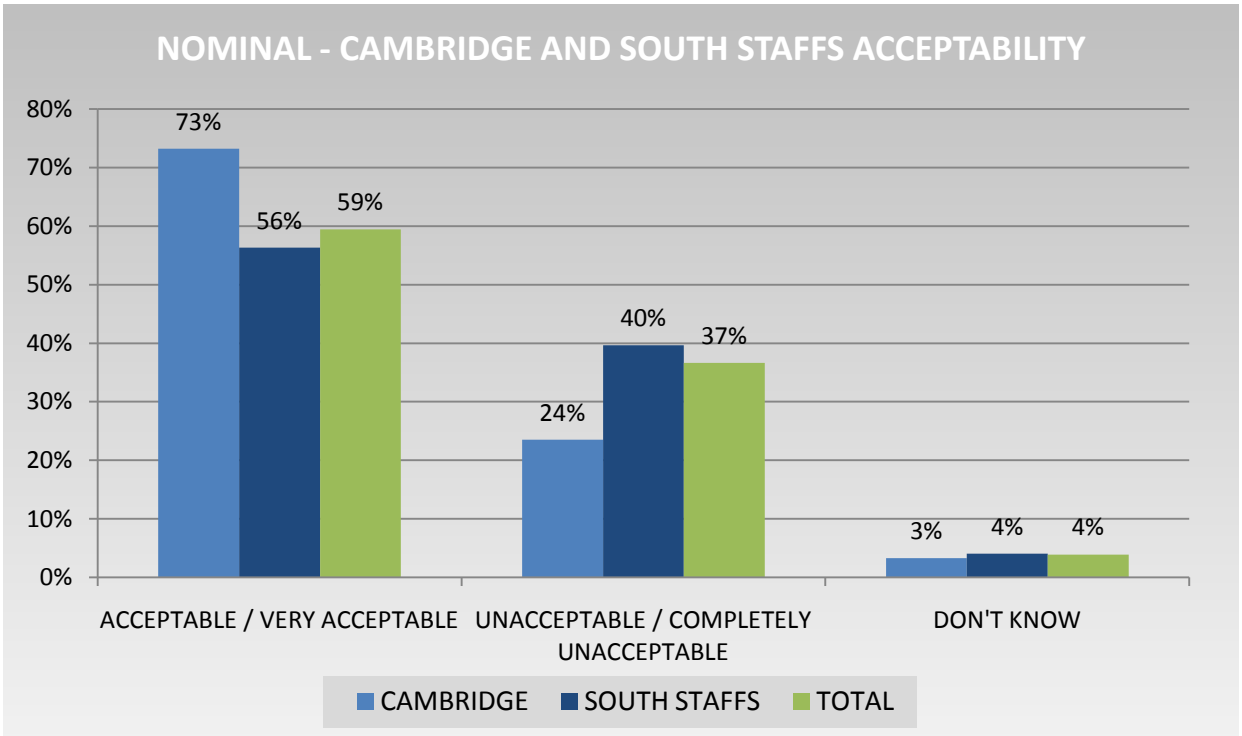
We have also presented the results grouped into acceptability and unacceptability categories

The charts below show the results of grouping the two acceptability categories together, and the two unacceptability categories together.

Grouping the results in this way makes it easier to see the overall findings.

This shows that respondents in the Cambridge region are more accepting of the business plan. The differences between real and nominal are less pronounced for respondents in the Cambridge region.







Factors that drive acceptability

As well as understanding acceptability of the business plan, it is important to understand who are the 'non-acceptors'. This may have impacts on how the plan is delivered by South Staffs Water.

Understanding what drives acceptability and unacceptability allows South Staffs Water to consider what mitigation they can put in place to help those groups that find the plan unacceptable.

The survey data has been reviewed as to how acceptable different segments of the customer base find the business plan.

This involved segmenting the data into the different household customer types and observing differences in the levels of acceptability.

Statistical tests were used to confirm the results.

The results have been analysed to see what impacts on acceptability

The most important results are around SEG

- Socio-economic group (SEG) has an impact on the results.
- Those from lower SEG found the plan to be less acceptable than those from the higher SEG.
- In real terms, even those in the lower SEG found the plan to be acceptable.

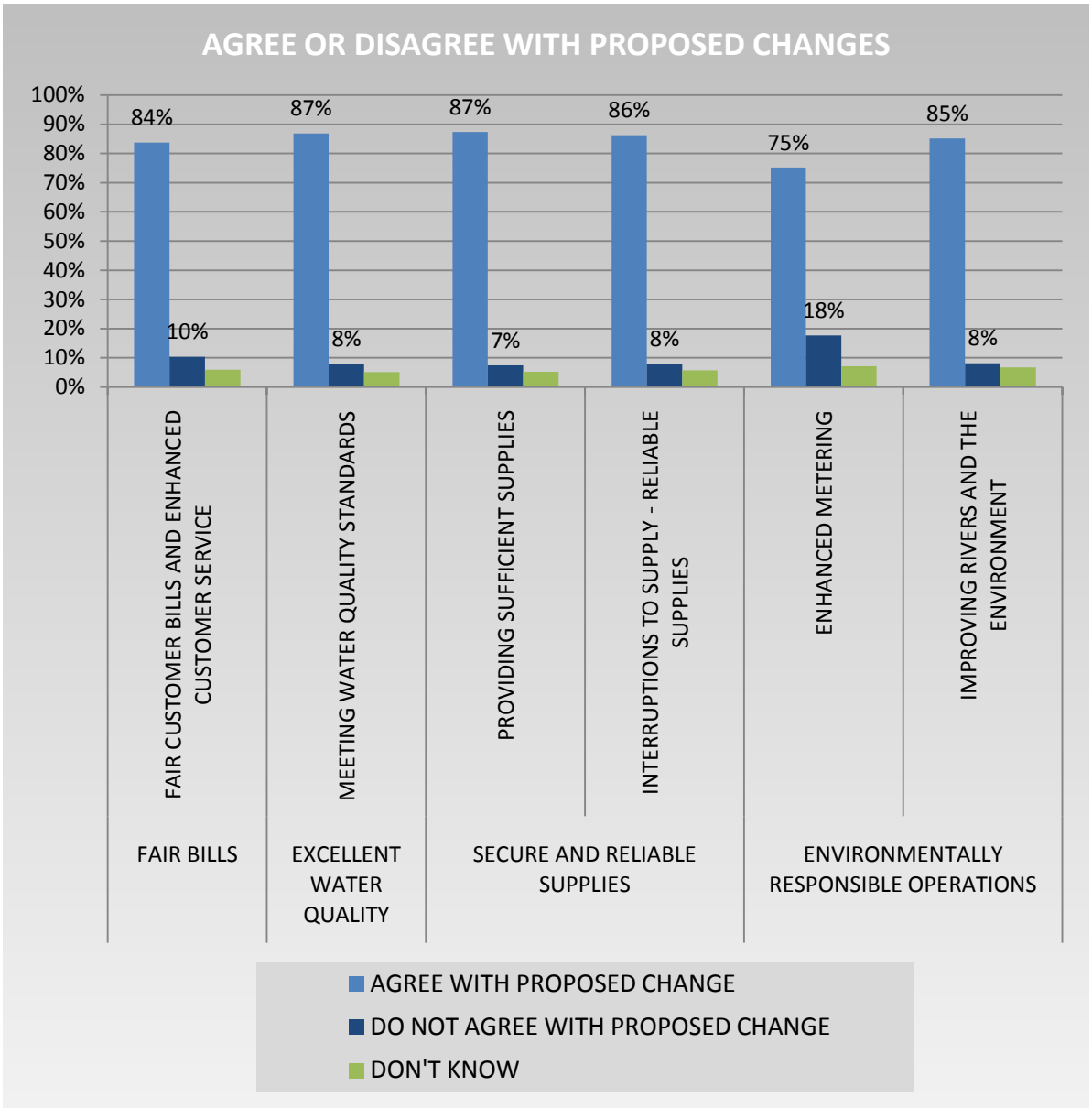
Impact on SEG on 'Switching'

- No statistical evidence that SEG or income causes customers that said the plan was acceptable in real terms to switch to saying it was not unacceptable in nominal terms.

Other factors

- Region has a significant impact on acceptability, with Cambridge customers more accepting than those from South Staffs
- There is no evidence that gender, age or metering has any impact on acceptability levels

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We asked customers their views on the individual proposals in the business plan. This shows high levels of support for the business plan proposals.

The key proposals were outlined to the survey respondents. Each proposal was presented as part of an outcome. The proposals were fully explained – namely the current position with regard to performance, and how the proposed investment would improve performance. The specific bill impact of each proposal was provided.

All of the proposals have high levels of support, with similar levels of support for all the proposals.

Meeting water quality standards and providing sufficient supplies were the proposals with the highest support. The lowest support is for enhanced metering, which would see 37% meter penetration rise to 50%.



The sewerage bill

A section of the survey asked customers their views on acceptability under different scenarios around sewerage bills.

The range of sewerage bill increases was based on the range of shown to customers in the 2013 business plan consultations of the sewerage companies.

The range was from -£5 to +£5 for households (for businesses this was -4% to +4%) – excluding the impact of inflation.

The results for both households and businesses showed that sewerage bill increases do impact on acceptability. The three lowest bill categories shown to households did not appear to affect acceptability, but acceptability was affected with the highest sewerage bill amount: An increase of £5 on the household bill reduced acceptability by 9%. For businesses any change in the sewerage bill impacts on acceptability: the highest increase of 4% reduces acceptability by 24%.

Anglian Water and Severn Trent business plan consultations indicate inflation only rises. Assuming this remains unchanged in these regions the combined water and sewerage bill for 2015-2020 would remain largely unchanged from the results for South Staffs.

Customers were asked whether further proposals should be put into the plan.

A key area was to ask customers their views on what should happen to the savings from the merger of the two companies:

- Customers prefer the merger savings to be passed on as lower bills rather than reinvested
- If the savings are reinvested customers would prefer to invest in repairs to water supply pipes over helping vulnerable customers
- Investing the merger savings has an overall impact of 8% on acceptability

Customers were asked their view on whether a social tariff should be included in the plan:

- 60% agree in principle with social tariffs, but expressed concern over the bill impact
- Introducing a social tariff reduces acceptability by 31%







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