

Peer Review of “Willingness-to-pay research to support PR19 - Methodology Statement v1.2”

Review by Dr Ariel Bergmann, Economist, Centre for Energy, Petroleum and Mineral Law and Policy, University of Dundee, United Kingdom.

CV at: <https://www.dundee.ac.uk/cepmlp/staff/details/bergmann-ariel.php#tab-bio>

Impact Utilities responses indicated in blue text

Assessment i. The overall proposed methodology is good and a reasonable addressing of Ofwat’s critique from the last PR. The importance of keeping the survey oriented to the consumer’s perspective and the choices as they would actually appear to the consumer is necessary to estimate monetary values with minimal hypothetical bias. The hypothetical scenarios used in stated preference analysis (also called choice analysis) must be reasonable, believable, understandable, and credible in its implications for the benefits the consumer will be paying money to gain.

Stated preference analysis scenarios will be comprehensively tested in both ECPs and pilot survey

ii. The cognitive burden of survey respondents will be reduced with the proposed seven steps as compared to the stated preference research conducted for PR14. In particular the multiple iterations of pilot testing the survey to keep it simple, clear and oriented to the consumers perspective will increase the likelihood of respondents answering the question asked by the researchers, not the questions the respondents think they have been asked.

No action needed

iii. Inclusion of a status quo option in the available choices for each choice card would allow direct measurement of benefit and the WTP for that change. Without the status quo option the respondent consumer is unlikely to know what “change” they are buying. Status quo could be a no change in bill and no change in services provided or a business as usual scenario where the service provider will be fulfilling commitments already made but not asking for additional funds to take on additional deliverables to the community. This would entail informing the respondent of the status quo or BAU scenario, i.e., average bills, currently likelihood of events occurring (as events per year or years between events).

This will be tested in the ECPs and the pilot survey, and has been referenced in the methodology statement

iv. Good practice choice analysis should include an opt-out option of “No Choice”. This will address the distortion that comes when a respondent has no choice but to select an unacceptable option. This is referred to as “forced choice bias”. Although in this context it may not be necessary, as changes in service and billing may be forced upon consumers with the price review.

This will be tested in the ECPs and the pilot survey, and has been referenced in the methodology statement

v. The above issue of forced choice may be an advantage to the research, as it creates a real world motivation for the respondents to give a considered and thoughtful answer, as the results will in actuality influence their household spending in the near future. It is recommended that the sample cohort be informed of this to motivate respondents.

This will be tested in the ECPs and the pilot survey

vi. Inclusion of a decrease in annual bill may not be necessary as it needs to pass the rationality test. Would respondents possibly believe this hypothetical scenario is possible? All scenarios must be within rational bounds (reasonably believable), i.e., neither a very large increase in service provision at £1 pa ph would not be believed, nor would a small improvement of services cost £100 pa ph.

Noted, this will be incorporated in the SP design and reference to this has been made in the methodology statement

vii. A smaller sample of 20-30 people should be included between the ECP and the piloting to 600 people. The ECP are “educated” on the issues and will no longer be representative of the general public, so a small sample of untainted respondents would be advisable before the larger rollout to six cohorts of 100 each, HH and NHH.

The pilot sample of 600 is sufficient to act as a representation of the general public (in addition depth interview with hard to reach customers and NHH will be an additional test of the survey information, conducted in parallel with ECP 2)

viii. The timeframe for both the 600 and the larger 2000 samplings seems very tight. That is a function of the resources you will be bringing to this task. This is of special concern with completing the face to face surveys/interviews.

An additional week of fieldwork has been built into the timings

ix. The proposed number of ECPs is adequate and should deliver the desired knowledge inputs and consumer perspectives.

No action needed

x. Why a dedicated ECP for millennials? Needs some justification or rationale.

Rationale added to methodology statement

xi. The inclusion of bridging exercises from the PR14 research to the new responsive work in PR19 is adequately similar and potentially valuable knowledge can be gathered to conduct retrospective comparison to data and estimated values considered in the PR14 round.

No action needed

xii. The review and sign off by key stakeholders of the developed survey instruments needs to be explicitly managed to control expectations and level of influence of the final product. The level of influence of non-expert or inexperienced persons on a highly technical choice analysis and WTP survey must be limited to those issues for which they have competence.

Included concerns in methodology statement

xiii. The sample frame design looks to be robust and adequate to develop statistically meaningful results. The inclusion of HH and NHH which have experienced a need to contact their water company is good design element and could provide valuable information. This sample frame should be extended to cover several years', not just recent contact. This could add value to the research to investigate if the negative experience of an event dissipates over time, and therefore the WTP of the consumer.

Rationale added to methodology statement

xiv. The proposed data fusion with previous and alternative research is a practical and should provide some useful information. However, it is unlikely to provide all the desired information if the estimated WTP values are significantly different (statistically different, not by absolute value). The stated preference survey instrument being proposed for use in the PR19 review is of superior quality, and if the stakeholder feedback, peer review and technical advances in choice analysis since the PR14 review are incorporated it should be given greater weight in the current decision making cycle.

Noted

xv. The literature review is broad and inclusive of issues that relevant or likely to impact on the research propose herein. The only critique is that it is limited to a UK sources. Similar WTP studies and research has been conducted in numerous developed countries (and developing countries as well but they are not relevant). It is beyond the reviewer's experience with the UK water industry to know if the non-UK studies would be informative of this proposed methodology.

It is felt that global information, whilst interesting, has limited value in enhancing this UK focussed study

End of comments