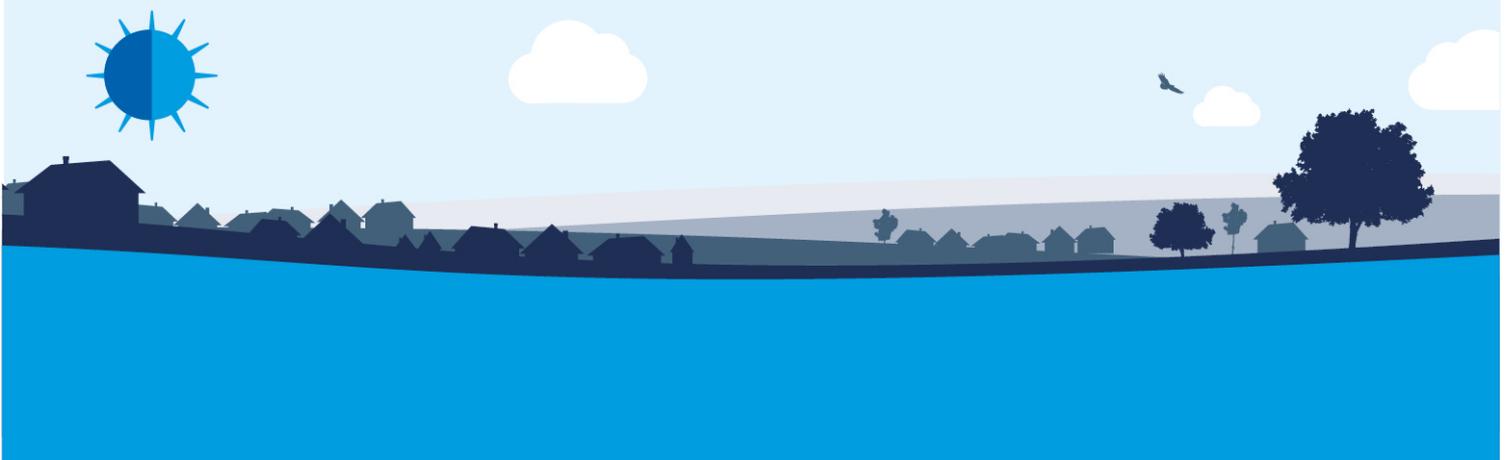


Appendix A06

Validating the business plan – updated
from original plan

1 April 2019



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Please note that this appendix has been updated since the original PR19 business plan submission in September 2018. Sections highlighted in the colour of this paragraph are amended for the 1st April plan re-submission.

1. A new approach to customer engagement

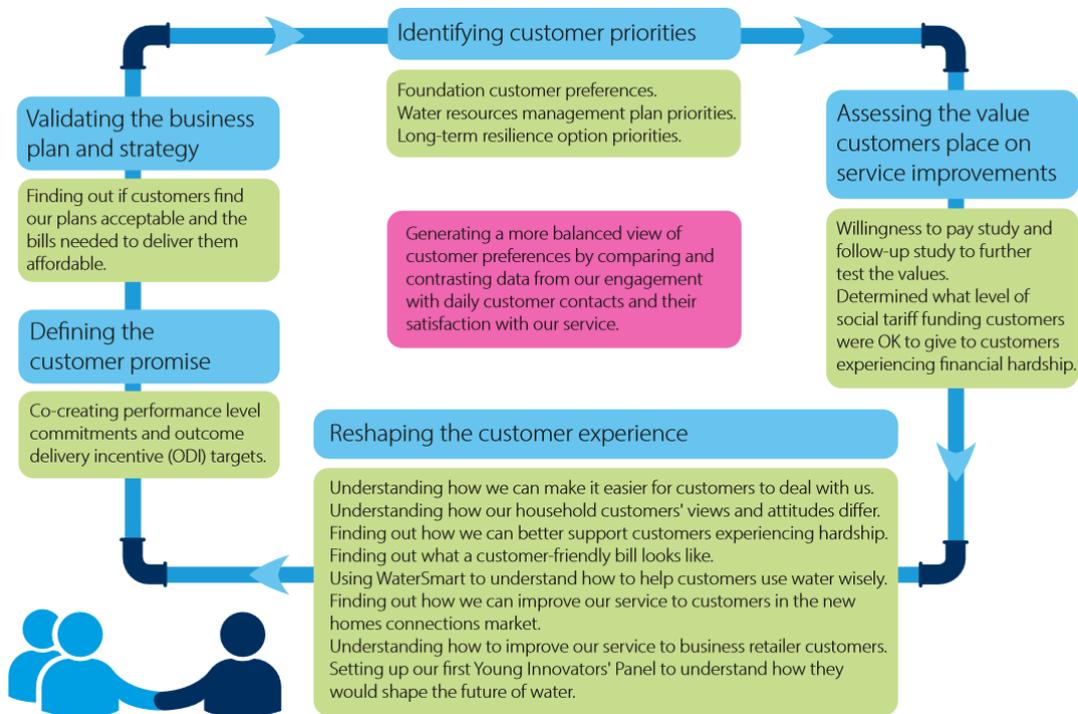
Over the last two years we have fully reviewed how we approach customer engagement to ensure that our customers’ priorities are placed at the heart of our business plans. This cultural shift comes from our executive team’s view that the customer voice should drive all the key decisions we make, now and in the future.

Our comprehensive customer engagement journey which supports our price review (PR19) business plan has five key elements, which are set out in figure 1.

We are also committed to continuing with this approach throughout 2020 to 2025 so that we can ensure our customers’ views are continually at the heart of our plans.

This report sets out the key customer insights from the fifth step of our journey, “validating the business plan and strategy”.

Figure 1: Our approach to customer engagement.



An important part of our PR19 customer engagement programme and beyond focuses on reviewing, comparing and contrasting (or ‘triangulating’) customer evidence from a wide range of sources. This is central to our journey and ties it all together. Our customer promises for 2020 - 2025 are the end result of an extensive process of reviewing all the customer insight data relevant to our plans, to develop a set of promises that reflect their priorities and those of other stakeholders such as Ofwat, the Environment Agency and CCWater.

Our engagement approach developed for PR19 and beyond, has made sure that we really understand who our customers are and what they want us to deliver. In particular it has also helped us to deliver a business plan that flows directly from our initial foundation priorities research which completed in June 2017.

Making water count – business plan 2020/25
South Staffs Water (incorporating Cambridge Water)

<p>Testing customer acceptability of our business plan and affordability of associated bills for 2020-2025 and AMP8*</p>	<p>Stage 1: Qualitative study of ten facilitated focus groups with 78 customers (covering household and non-household by key demographic split.) Stage 2: Quantitative survey with 1,000 household customers and 200 business customers (covering all key demographic splits and weighted to regional demographics.)</p>	<p>May – Aug 2018</p>	<p>A23 (and supporting documents)</p>
<p>Follow up testing of customer acceptability of our business plan and affordability of associated bills for 2020-2025 and selected Outcome Delivery Incentive reward and penalty levels</p>	<p>On-line survey, cognitively tested with customers prior to launch. Quantitative survey with 738 household customers (covering all key demographic splits and weighted to regional demographics.)</p>	<p>March 2019</p>	<p>A26 (and supporting documents)</p>

3. An improved approach to acceptability testing

Our new approach to customer engagement centres on offering the chance for customers to actively participate in shaping our plans. It's also important that we are always testing our plans with customers and adapting to what they say. This ensures a cycle that means we are always delivering what our customers want.

Having been through the first four steps of our journey (see figure 1) it was important that we then robustly, validated our plans with customers to check we had correctly interpreted what they had told us. To do this we worked with our preferred partners Accent, to undertake an extensive business plan acceptability engagement project.

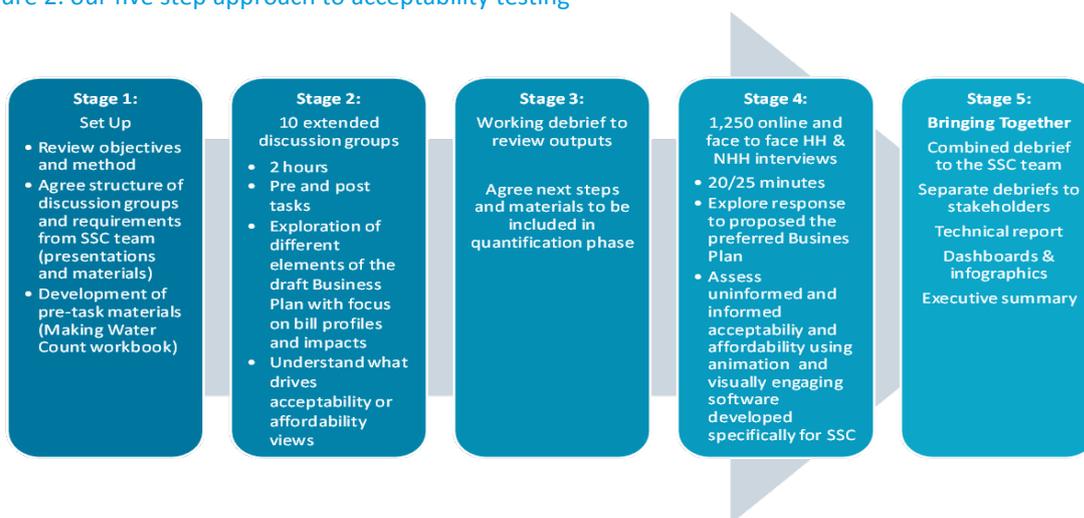
3.1 Overview of the approach

In April 2018, we held discussions with Accent where we reviewed the insights from our customer engagement over the last 2 years. Our PR19 team and our Executive Board then scoped the specific objectives we wanted to cover. We agreed with Accent that the key objectives of this study would cover:

- testing acceptability and affordability of the key elements of our plan;
- testing comprehension of our proposed Performance Commitments and the acceptability of the proposed targets;
- assessing customer views on specific investments, attitudes to risk and speed of changes in service levels;
- providing insight on setting bill levels over the next two AMPs;
- understanding how customers perceive us in terms of “trust” and “value for money” having reviewed the plan.

As with many of our engagement projects, we preferred a multi-stage project approach to allow us to learn and adapt our engagement in light of any customer feedback as we progressed. A summary of our approach is shown in figure 2.

Figure 2: our five step approach to acceptability testing



Our approach was carefully planned to follow all of CCWater’s expectations for acceptability research. These guidelines are outlined in Table 2 in full with details of how our approach met these expectations. Please see appendix A23.1 for the project’s full methodology statement.

Table 2: CCWater acceptability testing expectations and our approach to meet these.

CCWater guidelines	How our methodology met these guidelines
<p>The research sample should be big enough to support meaningful statistical analysis to draw clear and robust conclusions about customer preferences at water company level and where appropriate for key customer groups</p>	<p>Household sample of 1,000 customers allowed an analysis by our supply regions, our 5 attitudinal customer segments and key demographic profiles – such as socio-economic group.</p> <p>Non-household sample of 200 customers allows analysis by company size.</p>
<p>The research sample should be representative of the customer base</p> <p>The representative sample of the customer base should include vulnerable or hard to reach groups.</p>	<p>Household quotas set by age, social grade and gender. Analysis weighted to 2011 census population data. Business customer quotas set for size and sector.</p> <p>Mixed fieldwork method employed (on-line panels and in-home) to ensure those who are less likely to be represented in on-line panels were included.</p> <p>In-home interviews focussed on more socially deprived areas and also conducted using our Community Hub space.</p> <p>Customers targeted for this element included: digitally excluded, the very elderly/under 25s, lower social groups and those who do not have English as a first language.</p>
<p>Acceptability testing should include the views of uninformed customers</p> <p>Acceptability testing should ask uninformed customers how acceptable the overall bill impact is, including a realistic assessment of ODIs and inflation. For water only companies this would also include sewerage charges</p>	<p>Quantitative questionnaire designed to ensure that customers were first asked about the acceptability of the proposed water bill level. They were then asked about the affordability of their water bill and combined (water and sewerage) bill, including the impacts of ODI and inflation. Customers were given only a very high level of detail about the proposed service improvements to ensure that the responses would reflect the views of the average less informed ‘customer in the street’.</p> <p>Anglian Water and Severn Trent Water provided sewerage bill profiles, inflation and ODI impacts to allow the accurate testing of uninformed affordability of the combined bill.</p>
<p>The overall bill change should also be tested on informed customers who have seen the service plan, and this should include all bill impacts from all aspects of the business plan and the range of bill impacts which could accrue due to ODIs</p> <p>Reference should be made to the effect of inflation, and for water only companies, the likely increase in sewerage charges.</p>	<p>After the uninformed questions, participants were then taken through the business plan highlights, improvement and performance commitments and proposed targets.</p> <p>Questions on acceptability and affordability were then re-asked in the same way as the uninformed stage to gain informed acceptability and affordability scores for their water bill.</p> <p>We did not ask about informed acceptability of the combined (water and sewerage) bill due to the questionnaire length and added complexity making it extremely challenging to fully inform customers about the proposed sewerage plans in sufficient detail to allow an informed view.</p> <p>We are looking at carrying out a specific project with our neighbouring WASCs post PR19 submission to engage with</p>

	customers to show them combined plans and bill impacts at the same time in focus groups to gain a more rounded view of their responses.
The questions and any supporting information to help respondents answer them as the survey develops should be objective and impartial	Up-front groups allowed us to refine survey questions and supporting content, such as comparative industry data, to ensure they were customer friendly. Draft questionnaire was shared with our independent customer panel and CCWater for comment to ensure no bias.
Companies should either include a question about preferred bill profile in their research considering the potential effect of ODIs, or evidence customer preferences in other ways to CCG satisfaction.	Questions included in the quantitative questionnaire to assess customer preference for flat or variable bill levels for AMP7 with additional questions added for the AMP7/8 (2020 – 2030) period affordability. Reactions to bill profiles also explored in the qualitative work.
The research should enable companies to understand why their customers feel the Business Plan is acceptable/unacceptable, and enable them to understand the implications for affordability.	Qualitative work undertaken prior to the quantitative survey to understand customers' views. Open ended questions included to capture reasons for why elements of the plan were not acceptable or affordable to customers and areas of strength. Questions on trust and value for money were also asked at the uninformed and informed stage to assess the impact our plan had on these important measures. Analysis work undertaken to assess if specific customer found the plan less or more acceptable / affordable - using demographic and attitudinal segmentations.

To help further shape the quantitative survey we also drew on the findings of Blue Marble-GillFoxJames (2015)¹ which reviewed the approaches used at PR14 to test the acceptability of water companies' business plan. One of the important recommendations from this study was using a six point scale to allow a neutral response to be given by customers as to whether they found the plan acceptable or affordable. We supported this finding and built this into our study.

An important part of our approach involved testing customers' reactions to the following outcome areas and 27 Performance Commitments, which we were proposing at the time of the engagement. These are detailed in table 3.

Table 3: outcome areas and PCs covered with customers in our acceptability engagement.

Proposed outcome areas	Proposed performance commitment
	Delivering services that are value for money
	Making sure customers have a high level of trust in us
Our customers	Great customer service to our household customers
	Great customer service to our business market suppliers

¹ Blue Marble-GillFoxJames (2015) "Post PR14 Customer Engagement, Communications and Education", UKWIR

Proposed outcome areas	Proposed performance commitment
	(retailers)
	Great customer service to developers
Our community	Financial support for household customers struggling to pay their bills
	Extra care support for customers who need assistance
	Working with schools about the need to use water wisely
Our service	Delivering upgraded water treatment works
	Always meeting water quality standards
	Making sure water always comes through customers' taps
	Reducing the number of water production failures
	Finding and fixing visible leaks more quickly
	Reducing the number of burst mains
	Avoiding severe water supply restrictions
Our environment	Reducing leakage levels
	Reducing how much water each person uses
	Not taking too much water from environmentally sensitive sites
	Protecting wildlife, trees, plants and water sources
	Supporting water-efficient house building
	Reducing our carbon emissions
Our business	Making sure all our staff love their jobs
	Treating our suppliers fairly and paying small businesses quickly
	Reducing our bad debt so customers don't pay more than they need to
	Making sure our property records are up to date

In February 2018, following Ofwat's PR19 IAP feedback, we held further discussions with our PR19 team and our Executive Board to scope the specific objectives we wanted to cover to respond to the challenges made by the regulator about our business plan proposals. We then approached Accent and our independent customer panel to confirm the best approach. We agreed that the key objectives of this study would cover:

- further exploring how we can best protect customers against any bill shock at the transition between AMP7 and AMP8 given that they have consistently expressed a high level of support for a nominal flat bill in AMP7;
- gaining more evidence that the:
 - use of over-performance payments were supported by customers for our asset health measures – mains bursts and supply interruptions
 - the level of our penalty collars for our asset health measures (mains bursts and supply interruptions) were supported by customers

- use of over-performance payments were supported by customers for our Per Capita Consumption (PCC) and environmental protection PCs; and
- gaining more evidence to support our proposal to have out of period ODI payments.

This study also followed, where possible in the time constraints, the same best practice research principals detailed in Table 2 above to ensure consistency and confidence in the findings to support our business plan. See **Appendix RA09** for the full findings from this study.

3.2 Initial feedback to the business plan - qualitative stage

The initial stage of our main acceptability fieldwork in July 2018 involved a qualitative stage of 10 focus groups, selected to be representative of our customer base in both supply regions.

3.2.1 Methodology

During May 2018, six groups were held in our South Staffs region and four in Cambridge, with a mix of urban and rural locations included. 78 customers were recruited, across:

- six groups of current bill payers (household) recruited by socio-economic group (lower or higher) and life stage (either pre-family/family or empty nester/retired). Customers were also selected to ensure a representative regional mix by whether they were metered/unmetered and their ethnicity;
- two groups of future customers (18-25s) who were not yet paying bills. We ensured a mix of those in work and education; and
- two groups of small and medium sized business customers, recruited to cover a range of sectors. A mix of water reliant business included to assess differences in responses.

3.2.2 Focus group structure

The approach, which was commented on by our independent customer panel to ensure clear and plain English was used throughout, involved:

- a pre-task exercise was given to customers to complete before the groups, but taking care to not over inform them. This included them building a bill wheel to compare how much they were spending on their various household or business bills and also asking them to reflect on the headline commitments we were making in our plan;
- these activities were discussed at the groups, followed by discussions around their views on:
 - their current perceptions of our service, value for money and level of trust – these were recorded by the moderator for comparison with the scores at the end of the groups. Customers were also asked what their expectations were for bills in the future to set the context;
 - the headline outcome areas and promises in our proposed plan, set in the context of our current performance. This performance comparison material was added in to the stimulus material after the first group following challenge from customers and our customer panel member who observed the focus group that it was hard to make comment on the proposed plan without an overview of how we are performing against our current plan for 2015-2020. Customers in subsequent groups said they felt that as we were delivering against the majority of the targets in our current plan, they had more confidence and trust that we could achieve the proposed plan for 2020-2025;

- the detailed promises for each of our five outcome areas. We went through the detail in each area of our plan and discussed with customers their thoughts and asked them to rate how acceptable these were. If unacceptable, customers were asked to explain why they thought this. If they couldn't comment we asked them what information they needed to be able to give a considered response. We found that for areas, like water quality where customer perceive and could see we already offer a high level of service that they did not request additional information, such as our service performance compared to other companies. However, for areas like leakage where current service is less acceptable, customers often requested to see comparative data;
- the associated bill impact to deliver the plan for 2020-2025. Customers were asked to comment on whether they found our proposed bill level to deliver the plan affordable and whether they understood the visual we were using to explain the bill profile. Customers were informed that their bills would be falling and the reasons behind this. We then showed the profile with inflation included and then again with the impact of Outcome Delivery Incentive (ODI) under and over performance payments included. We spent time with customers discussing the impact of ODIs in the context of service improvements. We wanted to be sure that when we presented the bill profiles in the quantitative stage that we presented the impact of inflation and ODIs in a clear way;
- which bill profile customers preferred from two options presented over the 2020 – 2030 period. This was done in the context of how quickly we recovered the costs of the assets we were planning to invest in. We also discussed the concept of different bill profiles in relation to intergenerational fairness;
- an alternative plan where we showed customers a stretched level of service for four areas (education outreach, renewable energy, extra care support and protecting habitats). These were the areas in our engagement that had revealed that customers have shown a mixed view for us to go further in, compared with say leakage, which has attracted a high level of support as an area where customers all want service improvements. We showed customers the bill impact required to deliver greater service improvements in these areas and asked whether they wanted to accept the bill impact associated with these (£2 a year). Customers had already been informed that their bills would be likely to fall in 2020;
- on trust and value for money. Having seen the plan and proposed bill levels we wanted to understand if their views had changed or stayed the same having been taken through our plan and why; and
- to keep customers engaged throughout the groups we also asked for their acceptability scores for our main and stretched plans. Engaging showcard materials were developed to inform customers about our plans as the discussions progressed.



Example of showcard used to inform customers about our promises for the 'our service' outcome. A showcard was used for each of our outcomes.

3.2.3 Key findings from qualitative stage

This qualitative stage proved vital for us to gain detailed feedback about our customers' reaction to our plans and proposed bill level and also to make sure the questions and supporting materials for the main stage of quantitative research were customer friendly. The key insights that helped shaped the quantitative survey were discussed at a review meeting, which included representatives from our customer panel. These findings included:

- all customers (household and business) expect their bills to increase over the next five years, driven by inflation and the expectation that companies need to invest to provide long-term resilience of their service. Current trust perceptions are formed from consistent delivery of quality water with no/or minimal service interruptions. Levels of trust were strong, but we were felt to be a 'hidden' brand – reflecting again the findings throughout all our engagement;
- the household bill pre-task showed that customers find it difficult to separate clean and waste water figures in their water bills. Therefore we decided to show customers the typical household bill level in the quantitative survey, with a note to say that their own bill may be higher or lower and to have this in mind when responding. It was clear that business customers preferred seeing bill profiles presented in % change terms and not £ figures, which was preferred by household customers;
- there was an overall positive response to the business plan outcome areas and summary promises, but customers were clear they needed more comparison data and context in order to provide an informed answer. We subsequently built-in comparison charts of current service performance (vs industry performance) to the quantitative survey when asking customers to comment on our performance commitment targets;
 - future customers demonstrated strong vocal support for the plan and focused heavily on the environmental efficiencies in the plan as the key reason for finding it acceptable;
- the strong acceptability scores given by customers (mainly in the 7 to 8 out of 10 range) were driven by our:
 - commitment to improving the customer experience – more customer centric and progressive;
 - our big infrastructure spend looking impressive;
 - environmental promises and targets, which are felt to be of increasingly important to customers – the commitment to protect habitats/wildlife is key; and
 - focus on community projects, particularly schools and non-financial support for vulnerable customers;
- however, customers raised challenges over the level of ambition in our plan, particularly around leakage, the number of schools to be reached as part of education outreach and water efficiency commitments. The focus was on the need for a strong set of environmental targets. This gave us vital feedback of customers' spontaneous, relatively uninformed views of our business plan;
- interestingly one group of business customers in our Cambridge region had experienced a number of service issues in the past and as a result were significantly more sceptical about our plans, even when fully informed about the challenges we face and the service improvements outlined (and at a lower bill level in 2020). This shows the impact that poor service can have on customers' perception of their water company's plans;
- once we had informed customers in more detail about the different areas of our plan there was a sense that a number of the promises were a bit 'too safe'. Some felt that we were just maintaining the 'status quo', such as ensuring that 3% of new homes built over the period are water efficient. When further educated around our plan customers said that they

needed to understand which points in the plan were about ‘improving the basics’ and which were ‘enhancing’ the service to meet the key challenges we face. This was important feedback for how we communicate our plan to customers, which we also took forward to the quantitative materials by dividing our promises up in this way;

- the vast majority of the customers felt that the bill impact (£2 per year) to deliver the alternative stretch plan, in the context of a declining bill (without the impact of inflation), was acceptable. There was particular appetite for us to invest in renewable energy, although this was mainly driven by the jump from 10% to 50% between the two options being a lot higher than the improvements in the other areas. This insight allowed us to review specific elements of our plan again, such as how we could improve our commitment to the amount of habitat we could actively manage and the scale of our schools outreach programme, before testing the level of acceptability of our preferred plan in the quantitative study. These discussion also helpfully highlighted where we need to ensure we clearly communicate the service improvements we are making to customers in order to meet their expectations;
- the vast majority of customers were surprised (in a nice way) when we showed them that their bills would drop in 2020, with a slight rise up to 2024. However, when we discussed the profile in more detail, many customers started to see this drop as a negative. Customers gave different views, such as:
 - an unnecessary and minimal reduction - as their water bill is relatively small and they would rather have a flat bill and a better service;
 - the figures won't make much difference to them and their life - although, this view is not held among customers who are struggling financially; and
 - it creates a sense of mistrust with customers asking questions like – how and why can they do this? There must be a catch? Won't a bill decrease just lead to lack of investment, or a planned bill hike in 2026 to make up for it?; and
 - it also highlighted the need for us to consider how to best communicate how we can deliver service improvements for a lower bill level;
- when shown two options for how their water bill could look between 2020-2025 with inflation included, 95% of the customers preferred the flat bill, compared to one that dropped and then increased over the period. Customers felt it made budgeting easier and provided reassurance that bills would stay constant in an uncertain economy. A view voiced particularly strongly by business customers who said they faced increasing cost and margin pressure over the last year;
- we also asked customers about whether the ‘water cup’ visual to show the bill profile was clear. There was a positive response, but customers said that we should show the 2018 figure to provide a full view of the bill profile, which we included in the quantitative survey stimulus materials;
- mirroring our earlier feedback from our performance commitments customer engagement, the concept of ODI rewards and penalties was widely disliked by the majority of customers and generally hinders acceptability of the bill level. This was partly linked to customers preferring a flat bill, with the negativity focused more on bills rising during the year period as a company is rewarded for outperforming their targets, rather than receiving a bill refund



Example of a showcard used in our focus groups to discuss our proposed bill profiles for 2020 – 2025, customers first shown the profile without inflation included

for underperformance. Some customers were against a company earning more money for doing better than they expected, even when we informed them that there was careful scrutiny to ensure the targets set were stretching and not easy to achieve. Customers also did not like the ODI impact visualised on the water cups as it made them too complicated. They instead preferred a text to explain the ODI impact for the quantitative survey. We followed this guidance, with approval from our customer panel;

- in terms of value for money and trust perceptions, as customers moved from uninformed to being informed about our business plan we found the following:

- Value for money (VFM): having been informed about our plan reinforced the original sense of “good” VFM and the amount of investment we were proposing felt significant. However, a few customers expressed concerns about future VFM as they expected bills to rise from 2026; and
- Trust: the majority of customers said that their high level of trust remained having seen our plan.

Positively, some customers who started with lower levels of trust said that it increased having seen the plan as it looked credible and detailed and the act of sharing it showed transparency. However, some wanted to reserve judgment as to whether they trusted us more, until they see our performance against the targets proposed. This highlights the need for transparency in reporting our performance regularly to customers. A minority said they became less trusting of the whole process as they felt it was more led by Ofwat, or they did not have enough information to base their decisions. However, the main reason was their lack of confidence in our ability to reduce bills and deliver improved service. It went completely against their expectations.

“If we have a bill drop now, what impact will that have on my future bill?” – South Staffs customer

“I am not sure they can deliver this plan for that bill level.” – Cambridge customer,

- we found that exploring intergenerational fairness of spreading a bill drop over a 10 year period was very difficult for customers to understand and comment on. We tested two different profiles between 2020 and 2030 (see showcard L) in the groups where we asked customers for their preference. The relatively small differences in the bill made the question meaningless for many and customers focused more on the amount of the bill drop or increase for them personally, rather than on the concept of which generation should pay more towards meeting the costs of our investment over time. It was also hard for customers to give a considered response without the same level of detail of what the plan for 2026-2030 would look like. As a result, we developed an amended approach using a hypothetical question framed

Showcard L – The Balance between Future and Current Customers



Option A: They could use the drop in bills just for the five year period 2020-2025 – this would mean that current customers would see a decrease on their bill between 2020-2025 and when it comes to the next period 2026-2030 bills would rise. Future customers from 2025 would see bills rise.

OR

Option B: They could share the drop in bills across a ten year period 2020-2030 – this would mean that current customers would not see a decrease in their bills over the next five years then an increase in the following five years but the bill would be smoother. Future customers from 2025 would see flatter bills.

within the context of the pace at which we can recover the cost of our investments compared to the lifetime of the assets.

The qualitative stage provided us with some rich insights and helped to positively shape the quantitative on-line survey that followed.

3.3 Quantifying customer feedback on our business plan

It was important to ensure that our engagement allowed customers to give considered feedback on whether they found our business plan to be acceptable and the associated bill impact for 2020 – 2025 to be affordable. To achieve this Accent designed an engaging 20 minute on-line survey, which used visuals developed from the qualitative groups to bring the business plan to life in an engaging way.

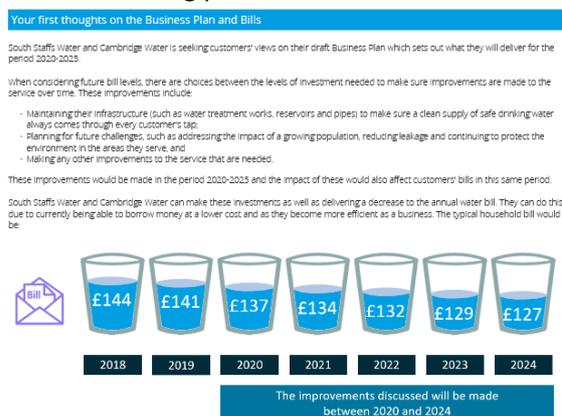
Once a first build of the survey had been developed, Accent undertook in-depth interviews with six customers to test their reactions. This involved the customers completing the survey and then a researcher going through it screen-by-screen to ask what improvements were needed to resolve anything that was unclear and to explore their responses in more detail.

Our customer panel also extensively reviewed the on-line survey to ensure it was fair, free of bias and used clear, plain English. They raised over 80 challenges (mostly minor on the wording of the questions and the supporting materials) the majority of which we actioned to further improve the survey experience for customers.

3.3.1 Survey approach

As we have one business plan, customers in both our South Staffs and Cambridge regions were shown the same survey, except for when the regional specific target for our leakage Performance Commitment was shown. There was a separate version for household and business customer to cover off differences in profiling questions and how the bill profiling questions were presented (e.g. household see £ and business % change). The survey structure was as follows:

- screening questions to:
 - confirm the respondents' eligibility to complete the survey. Those who are not South Staffs Water or Cambridge Water customers were excluded; and
 - determine the representativeness of the sample (such as age, socio-economic group for household and size and water reliance for business customers);
- understanding customers' engagement with their water services (such as bill level, current perceptions around service levels, trust and bill value for money)
- exploring high level uninformed responses to the overarching plan
 - acceptability was explored to the bill profile (excluding inflation) and separately of the proposed range for our ODI over/under performance payments – this was shown as +/- £6 for household and +/-4% for business customers;
 - affordability of water bill was then explored with the impact of inflation and ODIs included;
 - affordability of the combined water bill with figures for Severn



How acceptable do you find this level of water bill?

Question testing household customers' uninformed acceptability of our plan and bill profile for 2020-2025, before the impact inflation and RORE.

Trent Water (for South Staffs customers) and Anglian Water (for Cambridge customers) added to our water bill level - with inflation and combined ODIs included; and

- throughout the survey great care was taken to be clear if inflation and the impact of ODIs was included or excluded in the bill figures shown. Pop-ups were provided to provide customers with more information about what inflation is and what it is forecast to be in the future (2%).
- exploring detailed acceptability of various elements of our business plan:
 - views on our top strategic challenges;
 - acceptability of our five outcome themes;
 - acceptability of our 27 proposed performance commitments. In order to keep the survey length manageable these were split across the interviews with each participant seeing five. In order to ensure we built up a robust number of response for each PC we designed a rotation system where:
 - all household participants were asked about “great customer service for household customers”
 - all business participants were asked about “great customer service for business market suppliers”
 - 50% of household participants and business participants were asked about “trust” and 50% about “value for money”
 - household and business participants were also shown three performance commitments – one randomly selected from each of the following areas: environment, service, and community. Rules were put in place to ensure a participant would not see more than one leakage related commitment. This approach ensured that participants were exposed to a diverse range of our Commitments. Our current and industry performance was also shown where available;
 - participants were asked whether they understood each Performance Commitment and, if yes, if they believed our proposed target for 2025 was sufficiently stretching. An “Ask the Expert Button” was included to inform customers about the reasons we believe a Commitment target to be stretching;
- informed acceptability of the plan and informed affordability of the associated bill impact (with inflation and ODI impacts included). Informed scores for trust and value for money were also covered;
- bill profile preferences for the AMP7 and AMP8 periods:
 - for AMP7 (2020-2025) this involved showing participants two bill profile options and exploring the reason for their preference;
 - for AMP7/8 (2020-2030) this involved showing participants three bill profile options and exploring the reason for their preference. This was followed with exploring whether they found their selecting to be fair in the context of current and future customers paying different amounts to fund the improvements to our service; and
- customer segmentation allocation and survey satisfaction questions.

There are two possible ways your bill could look for the period 2020 to 2025 taking into account the improvements outlined in the Business Plan and the impact of inflation. Whichever option you choose you won't pay any more overall through your bills over the 5 year period.

Which do you prefer?

This shows a scenario where the company spreads the impact of bill changes over the period 2020-2025 to keep bills flat. To do this they take the average bill over the 5 years and base all bills on this amount.



This shows a scenario where the typical water bill drops in 2020 and then increases over time with inflation. The company does not do anything to spread the impact of bill changes



Question testing customer preferences for 2020-2025 bill profiles, including inflation at 2% - but excluding the impact of RORE over/under performance payments.

3.3.2 Survey methodology and sample approach

Following the testing and pilot phases the survey was fully launched in July 2018 and reached:

- 200 business customers, with a representative split achieved by company size, 122 completed surveys in South Staffs and 78 in Cambridge:
 - the business customer survey was administered through on-line panel providers and with telephone recruitment to on-line (with respondents then sent a link by e-mail to complete the survey). Telephone interviews were also used when preferred by the customer, with on-line show material sent by e-mail to allow responses to be given. The main survey for the business sample ran from July to early August 2017.
- 1,000 household customers – 675 in South Staffs and 325 in Cambridge. A representative sample of customers was achieved by age, gender, socio-economic group with the data then weighted to reflect regional demographics. Within the household sample we took great care to include hard-to-reach customers who might not complete an on-line survey:
 - we completed 125 interviews face-to-face with customers experiencing a range of difficult circumstances. Across the whole household sample we found that 56% of customers fell into one or more of the vulnerable customer categories, which is in-line with the figure from an Ofwat² study. This provided reassurance that we had reached a representative sample of hard-to-reach customers;
 - we reached over 30 future customers;
 - whilst we did not quota by our five attitudinal segments, the natural fallout in the sample was broadly similar to the sizing found in our segmentation study. This again provided confidence that our sample was representative of our customer base; and
 - by including questions on whether customers had experienced a service failure we found that 9% had experienced an issue with their service in the last 12 months, which is broadly in-line with the results shown in our customer service tracker;
 - the household interviews were conducted through:
 - CAPI: using a questionnaire programmed for Android tablets in a person's home or a Community location. The main survey for the household CAPI sample ran during July 2017. Respondents were offered a £5 voucher for taking part; and
 - on-line surveys: for the household survey a questionnaire that was identical to the CAPI version was used. The main survey also ran during July 2017. The sample was selected from a series of on-line panel providers. Although participants did not receive a direct incentive payment the provider used a credit based system that can be converted to rewards once enough points are accumulated.

Our March 2019 acceptability study was conducted over a nine day fieldwork period. In advance of this, six cognitive interviews were undertaken to test understanding of the questionnaire, which led to a number of changes to stimulus materials and question phrasing to ensure comprehension for customers - **see Appendix RA10**. The survey was also piloted prior to starting the main fieldwork commencing. The study involved:

- 738 household customers – 583 in South Staffs and 155 in the Cambridge region. A representative sample of customers was achieved by age, gender, socio-economic group with the data then weighted to reflect regional demographics (and consistent with the July

² Source: Customer Response to Competition in the Domestic Water Market, Accent June 2016

study). Within the household sample we took great care to include hard-to-reach customers who might not complete an on-line survey:

- we completed 100 interviews face-to-face with customers experiencing a range of difficult circumstances.;
- we reached 20 future customers;
- by including questions on whether customers had experienced a service failure we found that 7% had experienced an issue with their service in the last 12 months, which is broadly in-line with the results shown in our customer service tracker;
- whilst we did not quota by our five attitudinal segments, the natural fallout in the sample was broadly similar to the sizing found in our segmentation study and our July 2018 acceptability study. This provides confidence that our sample was representative of our customer base;
- we also included a question about our AMP7 bill acceptability (flat nominal bill vs a variable bill) in the survey that mirrored exactly the July 2018 approach as a checkpoint to ensure customers were answering the key bill questions in a similar way; and
- the household interviews were conducted through:
 - CAPI: using a questionnaire programmed for Android tablets in a person's home or a Community location. The main survey for the household CAPI sample ran during July 2017. Respondents were offered a £5 voucher for taking part; and
 - on-line surveys: for the household survey a questionnaire that was identical to the CAPI version was used. The sample was selected from a series of on-line panel providers. Although participants did not receive a direct incentive payment the provider used a credit based system that can be converted to rewards once enough points are accumulated.

We did not include business customers (NHH) in our March 2019 acceptability study for two reasons:

- Firstly as the time constraints of the post IAP work meant only small number of NHH customers could have been included in the fieldwork period, which would have provided indicative rather than robust responses. The cost of undertaking a business customer sample at that level was also an ineffective use of our customers' money; and
- The July 2018 results were so consistent between HH and NHH customers in terms of their responses to our business plan acceptability, affordability and bill profiles that we can have confidence that the HH results in the follow up study can also be applied to our NHH customer.

3.4 Key findings and conclusions

Our results to our July 2018 study show a very positive response to our business plan, Performance Commitments and associated bill level for 2020-2025. We explore these findings in more detail below - see Appendix A23 provides for the detailed findings.

3.4.1 Perceptions of service, trust and value for money

We asked customers to rate us on a 1 to 10 scale (where 10 is strong agreement) for overall customer service, trust and value for money (VFM). These questions were asked before participants were informed about our business plan and then trust and VFM were asked again, after having been informed about the details of our plan and proposed bill levels. We found that:

- satisfaction with our overall service is high in both supply regions:

- over two thirds (69%) of household customers give a score of 8 or more out of ten. The figure was lower among business customers at 57%. However, less than 10% of all customers were dissatisfied with our overall service;
- agreement that we offer a value for money service is high overall and the scores remained similar when asked for their views again having been informed:
 - household customers rated us at 7.6 out of 10 for VFM, the figure was 7.1 among business customers;
- agreement that we are a trusted business is strong overall and the scores remained constant having been informed about our plan. At the informed stage customers were asked for the level of trust they have in us delivering the plan:
 - household customers rated us at 7.8 out of 10 for trust on both. The figure was 7.5 among business customers, dropping to 7.3 once informed.

We had found from the qualitative groups that there were a noticeable proportion of customers who said their trust perceptions would not alter until they had seen evidence that we were delivering the plan and some even said they distrusted us as they could not believe we could offer them a better service for the bill level reduction (in real terms) that we were proposing. The quantitative insights for trust ratings reflect these findings.

From the group insights we also found that due to increased pressures from a variety of challenges (e.g. squeezed margins, increasing costs, political/Brexit uncertainty) that business customers are unlikely to see anything but a large decrease in their bills as value for money. We find this reflected in the quantitative survey as VFM surveys remained constant before and after seeing the plan.

These insights reinforce the need for us to be open and transparent about our performance and deliver against the promises laid out in our plan. It also highlights the need to communicate with customers about the value we are providing them through our services and to continue to better signpost the financial and other support we offer to household customers.

In our March 2019 follow up survey we found the same high level of trust and value for money perceptions. The scores were slightly lower than our main 2018 study, but not significant enough to show that the customer response to our business plan has changed.

3.4.2 Business plan acceptability

Figure 3 details the results from our July 2018 acceptability testing. This shows that:

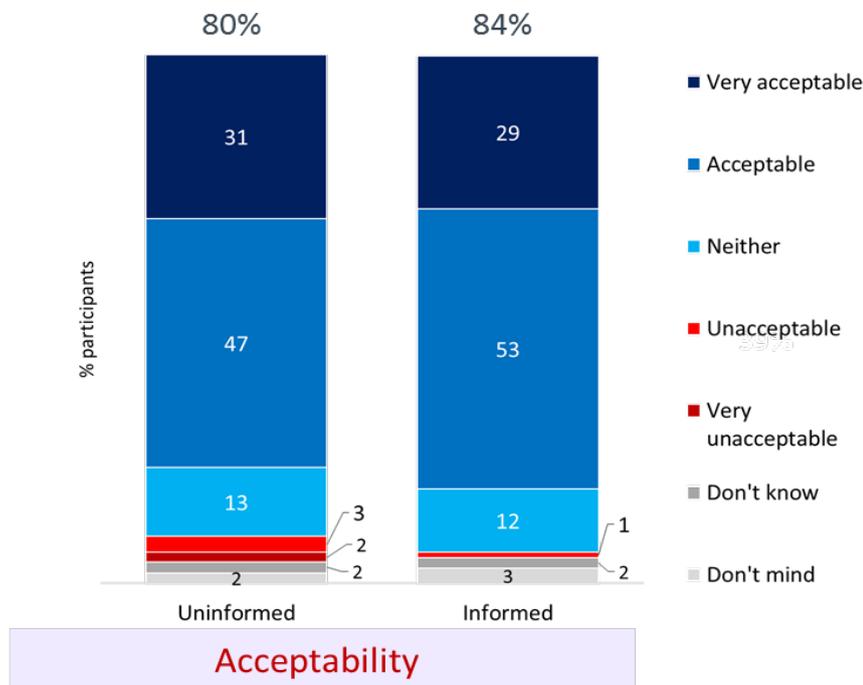
- when shown the bill profile (excluding inflation and the impact of ODIs) and a short summary of the improvements we are planning to make, 80% of customers found our plan and bill levels acceptable. This is what we call the ‘uninformed’ figure. The figure was 82% among household customers and 69% among business customers. Overall, only 5% of all customers found our plan to be unacceptable;
- after being shown the full details of our plans, customer promises and performance commitments, this figure rose to 84%. This included showing customers the bill profile including the impact of inflation and the maximum impact of our ODI incentives. This is what we call the ‘informed’ figure. The figure was 84% among household and business customers, highlighting a significant jump between the views of businesses when they are exposed to the details of our plan. The number of customers who found the plan unacceptable fell to just 1%, with 12% saying they found it neither acceptable or unacceptable;
- among household customers not finding our plan acceptable the main reason for this was the ‘disbelief’ that we could deliver the service improvements detailed for no increase in the

bill over the 2020-2025 period. Our qualitative feedback showed that all customers expect bills to rise over time, so a minority did not trust us to deliver a plan that was perceived as ‘too good to be true’. This view was found to be held more among one segment of our customers, identified in our earlier segmentation engagement, who have demonstrated a tendency to be sceptical about our plans and do not express any real desire to engage with their water services. We believe the best way to start building trust over time with these customers is to be open and transparent in how we are delivering against our plan (such as our customer dashboard) and to find a way to provide them with the information that allows them to engage with us on their terms;

“I don’t believe they can deliver this plan and reduce bills.” – Household customer

- among business customers there was no specific type who found our plans and bills unacceptable, compared to others. The main reasons cited related to the current pressures being faced on costs and margins and the impact of inflation on their water bill;
- when asked if they found our proposed ODI reward and penalty rate (+/- £6 for household and +/- 4% for business customers) acceptable, 66% agreed after being informed in detail about our plan and performance commitments. Only 10% did not find the proposed level acceptable, with the main negativity from household customers not focused on the level, but on dislike of the whole concept of under and over performance payments. This view has been reflected consistently throughout all our engagement with customers on ODIs. Non-household customers who found the level unacceptable focused on the impact that increases in their bills would have on their business’ finances. This was a view mainly held among smaller size businesses with less than 4 employees.

Figure 3: Uninformed and informed acceptability figures for our PR19 business plan – July 2018 study.



Neither: this response code was shown to customers as ‘neither acceptable nor unacceptable’.
 Don’t mind: responses count as the customer finding the plan acceptable (and they were informed of this in the wording).
 Acceptability figures calculated from the % of participants who found our plan very acceptable/acceptable or Don’t Mind
 Please note rounding errors.

In our March 2019 follow-up engagement, after being shown the full details of our plans, customer promises and performance commitments, the level of acceptability of the bill profile to deliver the plan stood at 76% among household customers. Whilst lower than the main 2018 survey, it is not significantly different. The main difference was that less customers found the plan to be very acceptable and more giving a neutral response.

There remained a very low level of customers saying the bill impact to deliver the plan was unacceptable (4%). The open comments from customers saying our plan was unacceptable revealed that in this study there was a slight increase in the number of customers saying they had concern about their household bills, likely linked to the current uncertainties around the future of the UK.

When looking across our customer segments, we can see that the largest fall in the acceptability scores is among our segment who have a high proportion of customers from lower socio-economic grades living in social housing. This highlights the importance of identifying and offering these customers tailored payment plans and the relevant social tariff option when they need it most.

Across the 1,738 customers engaged with over the two studies the total informed acceptability of our business plan stood at **81%**. This is above the expected acceptability threshold set by CCWater.

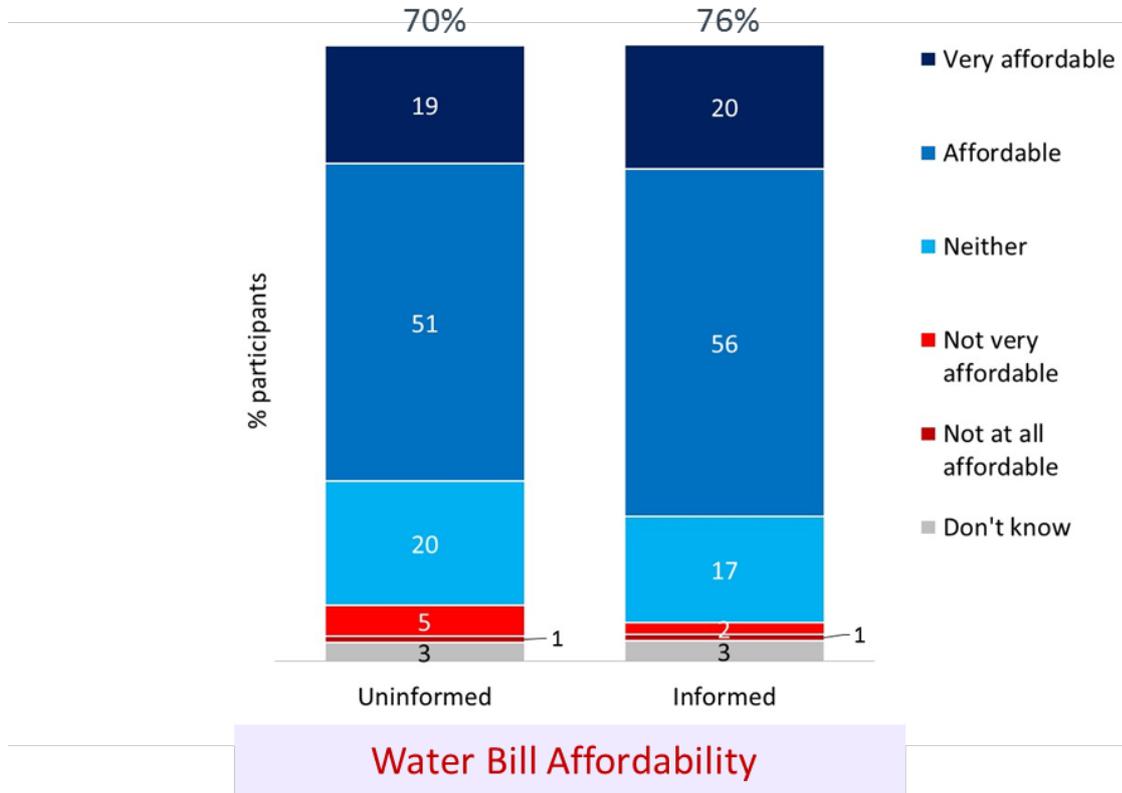
3.4.3 Water bill affordability

Figure 4 details the results from our July 2018 acceptability testing. This shows that:

- 70% of customers found our bill levels affordable. The figure was 73% among household customers and 63% for business customers. Overall, only 6% found the bill impact unaffordable. There were no groups of customers who said they found the proposed bill more unaffordable than others; and
- after being shown the full details of our plans, customer promises and performance commitments, the affordability score rose to 76%. The figure was just over 78% among household customers and just under 70% for business customers. The number of customers who found the plan unaffordable fell to just 3%, with 17% saying they found it neither affordable nor unaffordable.

“Considering that water is very essential in our lives, the inflation can make it unaffordable for those who are struggling to make ends meet.” – Household customer

Figure 4: Uninformed and informed affordability figures for the bill impact to deliver our PR19 business plan – July 2018 study.



Neither: this was shown to customers as ‘neither unaffordable nor affordable’.
 Acceptability figures are calculated from the % of participants who found our plan very acceptable/acceptable.

Following our acceptability testing in March 2019 and changes to our business plan around AMP7 and AMP8 bills we have opted to provide a flat nominal bill profile of £147 for the period 2020 up to 2025 for our business plan. Both waves of our acceptability study were tested at the £147 level.

Figure 5: bill impact (including inflation) stimulus material shown to customers.



Across the 1,738 customers engaged with over our two acceptability studies the total informed affordability of our business plan bill proposal for AMP7 stood at **73%**, with only **5.5%** of customers finding the bill unaffordable.

In our March 2019 study the affordability score was 67%, with 9% saying the bill profile was unaffordable. The qualitative comments from customers saying our plan was unacceptable pointed to an increased number of customers commenting that they were struggling more with their household bills. This is the main driver behind the increase in those customers saying the proposed bill profile is unaffordable. There was no particular segment that stood out significantly from the others in terms of any changes in the affordability score between 2018 and 2019 studies, although the largest increase in customers saying our bill were unaffordable was among our segment who is most likely to find our overall plan unacceptable.

3.4.4 Combined bill affordability

On showing uninformed customers their combined water bill (clean water and sewerage) level for 2020-2025 (in our main acceptability July 2018 study) the number of customers saying they found it unaffordable increased to:

- 20% among household customers. Middle aged customers in lower paid unskilled jobs and those living in social accommodation and/or who are unemployed were significantly more likely to find their combined water bill unaffordable; and
- 15% among business customers. Micro/small businesses of less than four employees are significantly more likely to say their combined water bills are unaffordable.

These insights show that it is important that we continue to support customers who say they find their bills unaffordable, as the combined bill has a noticeable impact. We will continue to focus our efforts on raising awareness of the financial support we offer through our social tariff and other financial support schemes, alongside giving customers more flexibility around when and how much of their water bill they need to pay. It also raises the need to continue to work closely with Severn Trent Water and Anglian Water to support those customers who need help with their bills.

We now know that customers who are more likely to find their combined bills unaffordable fall into one of our recently identified customer segments, who are more likely to be in lower socio-economic groups and living in housing association accommodation. This will help us to identify them, work with partners who provide wider support to them (e.g. charity groups) and understand how we can best communicate with and better support them over time.

3.4.5 Acceptability of our outcomes and promises and performance commitment targets

Key findings include:

- when we asked customers to select the top priority from a list of our top challenges, reducing leakage received the highest number of responses among household (34%) and business (46%) customers. Maintaining affordable bills attracted the second highest number of votes – 29% among household and 26% business customers;
- 68% of household customers said that our high level outcomes and promises closely reflected their views of what we should be delivering. The figure was 64% among business customers. Overall, less than 1 in 5 customers said that the high level promises did not closely meet their expectations. This level of positive feedback was repeated again in our March 2019 follow-up study; and
- when we showed the more detailed promises to customers, these were found to be acceptable to over three quarters of household customers - 82% found the environmental promises acceptable, with the figure 76% for the community and customers/business promises. Among business customers, all the promises were acceptable to more than 70%.

Service promises were considered most acceptable at 83%, with customers/business promises lower at 71%.

It was encouraging to see that the high level of acceptability of our business plan promises was maintained in this study, following the positive feedback from customers in our Performance Commitment engagement from earlier in 2018 – where they had helped us shape our PCs.

3.4.6 Acceptability of our performance commitment targets

Customers were shown the details of five of our proposed Performance Commitment (PC) definitions and their associated targets. As described in section 3.3.1 we rotated the 27 PCs across the 1,200 customers who took part to keep the survey length manageable, whilst ensuring a robust number of responses for each).

We found a high level of comprehension of the definitions and nearly two thirds of all participants found all of the proposed targets sufficiently stretching. Key findings include:

- for the vast majority of our performance commitments, over 90% of household and business customers said they understood the description. This reflects the amount of effort we have put into consulting with customers in our earlier engagement to ensure the definitions were clear and concise and that any jargon was removed. The challenge of our customer panel around this area has also led to positive improvements to the definition wordings;
 - the only PC where less than 80% agreed that they understood the definition was for ‘reducing how much water each person uses’ (or Per Capita Consumption). The figure was 79% among household customers. We had found in our previous engagement that customers often struggled to understand why they were being asked to reduce the amount of water they use, which often led to confusion;
- there was strong support among our household customers for the targets we had set being sufficiently stretching. For the majority of our PCs, between 70% – 80% agreed that our targets were stretching. Only three PCs received less than 70% support – making sure staff love their jobs, mains bursts and leakage. However, we still have majority customer support for these three areas. The highest number of ‘No’ responses to an individual PC was 25% for reducing leakage (note that a varying proportion of customers gave a ‘don’t know response’ to each PC). We have since strengthened our PC relating to staff engagement following the completion of our engagement to include a NPS component;
- for the vast majority of PCs we found that the level of support for our targets being stretching is noticeably lower among business customers. There were three PCs where the level of support dips below 50% - reducing leakage, supporting water efficient house building and supporting financially vulnerable customers. However, when reviewing the detail of the responses we find that this is not due to a higher proportion of customers saying ‘No’ it is because more business customers gave a ‘Don’t know’ response. For example, 33% of business customers did not find our target for reducing leakage sufficiently stretching, with 22% saying don’t know; and
- these findings continue the theme uncovered throughout our engagement, in that business customers often require more detailed information before they can provide an informed response and are more challenging in their views of our performance. This is particularly evidenced in the three areas where there were a significantly higher number of business customers giving a ‘No’ response to our targets being sufficiently stretching, compared to household customers – reducing leakage, mains bursts and water production failures. These all focus on ensuring good asset health and avoiding wastage of precious resources, which mirrors business customers’ mind-set when evaluating our plans.

Table 4 shows the percentage figures for comprehension and support of our targets among household and business customers for each PC. Due to the volume of information not being user-friendly in a table format, please refer to the appendix A23.1 for the on-line questionnaire and details of the descriptions and targets shown to customers for each PC measure. For the majority of PCs the stretching targets shown to customers are the ones used in our main business plan. The notes under the table explain where there are differences between the targets tested and those detailed in our final plan, with a summary explanation of the change. We do not see any risk in changing the final PC targets from the ones tested for acceptability with our customers, as they provide a better outcome for our customers.

Table 4: customer acceptability scores for Performance Commitments targets for 2025.

Proposed outcome areas	Proposed performance commitment	PC 2025 target tested with customers	% customers understanding our PC*		% customers saying that 2025 target is sufficiently stretching**	
			Household	Business	Household	Business
	Delivering services that are value for money	90% agreement ¹	92%	92%	76%	69%
	Making sure customers have a high level of trust in us	85% agreement	94%	94%	77%	66%
Our customers	Great customer service to our household customers	To be in the top ⁴	85%	NA	76%	NA
	Great customer service to our business market suppliers (retailers)	95% satisfaction ²	NA	90%	NA	58%
	Great customer service to developers	To be in the top ⁴	85%	92%	89%	73%
Our community	Financial support for household customers struggling to pay their bills	40,000 customers supported	88%	93%	70%	44%
	Extra care support for customers who need assistance	2,000 customers per year ³	93%	97%	78%	63%
	Working with schools about the need to use water wisely	3,000 young people each year	97%	92%	70%	55%

Making water count – business plan 2020/25
South Staffs Water (incorporating Cambridge Water)

Proposed outcome areas	Proposed performance commitment	PC 2025 target tested with customers	% customers understanding our PC*		% customers saying that 2025 target is sufficiently stretching**	
			Household	Business	Household	Business
Our service	Delivering upgraded water treatment works	Use of On-time / In-full measure	96%	94%	90%	72%
	Always meeting water quality standards	100% test pass rate	94%	100%	75%	74%
	Reducing the number of customer contacts about the colour, taste and smell of water	0.8 contacts for every 1,000 properties	89%	97%	75%	79%
	Making sure water always comes through customers' taps	Average supply interruption - 4.30 minutes ⁴	90%	97%	77%	68%
	Reducing the number of water production failures	Unplanned loss of 1% ⁵	96%	84%	72%	54%
	Finding and fixing visible leaks more quickly	6.4 days – average time to repair visible leaks ⁶	97%	94%	77%	52%
	Reducing the number of burst mains	120 bursts per 1,000 km of pipes	94%	88%	67%	57%
	Avoiding severe water supply restrictions	Customers never run out of water	94%	92%	75%	77%
	Our environment	Reducing leakage levels	53 MI/d – SSW	88%	100%	61%
11.5 MI/d - CAM			99%	93%	69%	31%
Reducing how much water each person uses		131/p/p/d ⁷	79%	100%	71%	59%
Not taking too much water from		100% of sites protected	88%	94%	90%	80%

Making water count – business plan 2020/25
South Staffs Water (incorporating Cambridge Water)

Proposed outcome areas	Proposed performance commitment	PC 2025 target tested with customers	% customers understanding our PC*		% customers saying that 2025 target is sufficiently stretching**	
			Household	Business	Household	Business
	environmentally sensitive sites					
	Protecting wildlife, trees, plants and water sources	Actively manage 690 hectares	94%	96%	78%	59%
	Supporting water-efficient house building	Save 30.6 million litres	91%	93%	72%	42%
	Reducing our carbon emissions	61kg per customer	Not asked as proposed PC not fully developed at this point to allow testing with customers.			
Our business	Making sure all our staff love their jobs	'Investors In People' silver accreditation ⁸	94%	97%	65%	68%
	Treating our suppliers fairly and paying small businesses quickly	100% of smaller suppliers in full within 30 days	90%	91%	74%	57%
	Reducing our bad debt so customers don't pay more than they need to	2.95% bad debt	96%	94%	70%	52%
	Making sure our property records are up to date	Check 100% of properties for gaps/voids	93%	85%	72%	77%

1: Final PC changed to 8.3 out of 10 score to mirror industry benchmark approach. This will provide a better measure for customers and stakeholders.

2: Final PC target of 93%, based on feedback on R-MeX measure by retailers on the target.

3: Final PC target is 5% of our PSR database, which equates to around 2,000 customers a year based on our projections.

4: Target of 4.50 agreed for final plan following discussions with our customer panel and further review of a realistic upper quartile performance target.

5: Unplanned loss target of 1.7% agreed for final plan following discussions with our customer panel and further review of a realistic upper quartile performance target.

6: Final PC target time improved to by 90% within 4 days to reflect that some repairs will need permission to be granted by authorities.

7: We have separated the targets by region in final plan following discussions with our customer panel. The scale of the targets has not changed materially from the combined target tested with customers.

8: Enhanced the final PC to add in a Net Promoter Score target alongside IIP accreditation.

*Do you understand this measure?

**Do you believe the target they are suggesting is sufficiently stretching?

3.4.7 Bill profile preferences for 2020 up to 2025

In our July 2018 main study we asked customers about their preferences for different bill profiles from 2020 up to 2025 as it's very important to us that our bill levels reflect their needs.

Similar to the qualitative stage, when shown two proposed bill profiles, there was strong support for the option to spread the impact of paying for the investments and inflation evenly over the five year period. 80% of household and 85% of business customers said they would prefer Option A in Figure 6, compared to the profile where bills decreased in 2020 and then steadily rose up to 2025.

This shows that we have significant majority support from our customers to have a typical bill profile of £147 for the period 2020 up to 2025.

It is important to note:

- that the two options shown to customers did not include the impact of any ODI over/under payments during the period in the figures. Our customers have told us throughout our engagement into ODIs (in this study and our specific engagement into Performance Commitments) that they want us to minimise any changes to their bill each year, whether this means in-period payments, or a reconciliation at 2025. All our engagement provides strong evidence that customers do not want us to apply ODI performance payments in-period and that they want a flat, stable bill over a variable one; and
- that customers are mainly focused on the impact of any increases affecting their bill, but they have also told us that any volatility in the price they pay does not help them manage their household finances. For example, if they received an underperformance payment through their bill one year, their assumption would be that they would then pay this lower level the next year.

The minority of customers who preferred the variable bill option with a bill decrease said that this was due to the attraction of gaining a short-term bill drop in 2020, even if it meant they had to pay a bit more at a later date. There were no specific groups of customers who expressed a stronger desire for this option.

Throughout our engagement, we have also had a clear message from our customers that they want water bills that are fair, affordable and, more importantly, stable over time. Customers want certainty that their bills will not change noticeably from year to year as this helps them to better manage their household or business finances and gives them peace of mind, particularly in uncertain economic times. Customers who are struggling financially also said that even a small jump in their bills could lead to hardship. This is another important reason behind our commitment to keep the price that a customer pays for each unit of their water flat over the period 2020 up to 2025.

There are two possible ways your bill could look for the period 2020 to 2025 taking into account the improvements outlined in the Business Plan and the impact of inflation. Whichever option you choose you won't pay any more overall through your bills over the 5 year period.

Which do you prefer?

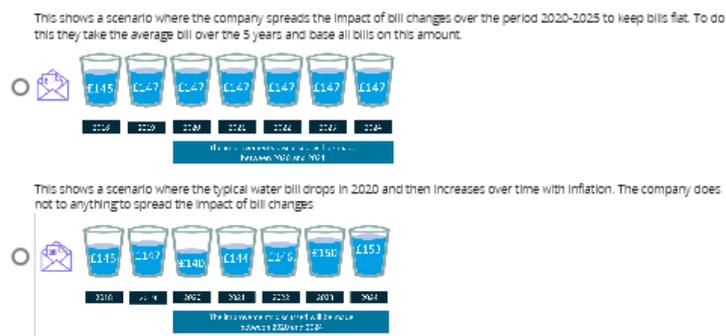


Figure 6: Question testing customer preferences for 2020-2025 bill profiles, including inflation at 2% - but excluding the impact of RORE over/under performance payments.

“It makes it easier to budget if bills don't fluctuate.” – Business customer

An anchoring question was used in our follow-up acceptability testing study in March 2019 that exactly mirrored the bill two profiles options used in the main acceptability testing in July 2018. Again, 80% of household customers preferred the flat bill (Option A in Figure 6) with no differences in this response across different groups of customers. The results from both studies gives us a high level of confidence that customers were responding in a consistent way when choosing between a flat bill vs a variable bill, whatever the macro economic climate maybe at the time.

Whilst we were unable to engage with business customers in our March 2019 study due to timing and budget constraints, we know that from our main acceptability testing in 2018 that 85% of customers supported a flat bill. Given the consistency of responses from household customers over the two studies, it is a safe assumption that business customers would have again given a clear majority support for the AMP7 flat bill option.

In our March 2019 study we also gave customers two bill level options (see Figure 7) for the period 2020 up to 2025 to test in another way how they would want us to handle the impact of inflation and any ODI over/under incentive payments. **59%** of household customers found Option A (nominal flat bill) to be more acceptable. When looking at a 5 year bill profile view there is majority support for pushing up to £4 of any inflation costs (above the assumed 2%) and ODI over performance payments into the AMP8

We took steps to make it clear to customers in the supporting stimulus material for Option B that their bills could also be subject to impacts (up and down) each year from ODI over/under performance payments, whilst also clearly outlining the **benefits of bringing these payments closer to the point where they would be earned rather than waiting until 2025.**

This evidence, triangulated with the fact that 80% highlights that the majority of our customers would prefer the bill level to remain flat, provides us with consistent support that customers want us to keep bills level flat over the period 2020 up to 2025 and to keep ODI payments out of period.

Option A: Any inflation and penalties or rewards for missing or exceeding their performance targets are applied to customers' bills at the end of the five year period (in even chunks between 2025-2029) so that the average water bill for 2020 to 2024 would look like this:



Option B: They could propose that any inflation would start to be applied to customers' bills from 2022 onwards so that the average water bill for 2020 to 2024 would look like this.



Figure 7: Question testing customer preferences for 2020-2025 bill profiles, including inflation at 2% - but excluding the impact of RORE over/under performance payments in Option A.

When triangulating customers preferences of bill profiles between the period 2020 – 2025 and the period 2025 - 2030 we believe it is right to place a higher level of confidence on the level of customer support for 2020-2025, when considering their overall acceptability and affordability of the bill. This is primarily because the 2020 up to 2025 bill impact carries a very high level of certainty of the bill amounts customers will pay, whereas the 2025 up to 2030 period (at this point in time) carries slightly less certainty as there are so many unknowns over what bill profiles will actually be over the AMP8 period – such as changes to the Weighted Average Cost of Capital, ODI RoRE range and external factors like inflation. In-line with their preferences, we are committed to ensuring that we provide the most stable bill over time as possible for our customers, whilst delivering the service levels they have said they want.

3.4.8 Bill profile preferences for 2020 up to 2030

In our July 2018 main study, we then went on to inform customers that we have to make choices about customers' longer term bills when balancing the need to make improvements to ensure they can maintain our current assets (like water treatment works) and also meet future challenges (like increasing population growth). We explained that this decision is about the pace at which we recover the cost of our investments, compared to the lifetime of the asset - e.g. we can spend approximately £60m to upgrade our Water Treatment Works in the next 5 years, but it will last for many years. We put in a lot of effort to listen to customers' feedback at the group stage to help refine the wording to introduce the question given that it is a complex area which the majority of customers struggle to understand.

“I think a smooth increase in bills is better than big jumps either in the short term or the long term. It's easier for customers to budget if there are only minor changes from year to year.” – Household customer

We then showed customers three illustrative options for how we could spread their bills between 2020 and 2030, which included the impact of inflation. Household customers saw the bill change impact in £ and business customers in % terms.

Table 5 highlights that Option A, the bill profile with the smallest jump in 2025, was seen as the most affordable option, with Option B (with the largest bill jump at 2025) the least popular. From the comments received, customers were mainly focusing on the size of the bill change at 2025, but also on the final bill figure in the year 2029 when selecting their preferred option.

However, there was no outright majority preference and a review of customers' comments for the different options highlighted that often similar reasons were being given for why they preferred the different profiles, or that they had no preference at all. Customer responses mainly focused on ensuring that their bills fluctuated the least amount over time, which provides them with more certainty around their household finances. We also learnt from the qualitative groups that customers who are not facing financial challenges with their bills often do not consider the differences in the bill profiles shown to be worth worrying about from an affordability perspective.

Note on September business plan: as there was no majority support for any of the 10 year bill profile options presented to household customers (although a slight majority of business customers preferred the smoothest bill profile, Option A) and we were committed to lowering customers' bills significantly in AMP7 whilst improving service we opted for Option C in our Business Plan submitted to Ofwat in September 2018. We believed this was the best plan for all our customers and gave more weight to the 2020-2025 element given customers' very strong preference (80%) for a flat nominal bill from our 2019-20 position. (It is important to note that the bill profile for 2020-2025 detailed in our original business plan actually corresponds to Option C in terms of the phasing of how we were proposing to spread the bill between 2020-2030).

Table 5: customer preferences for 2020-2030 bill profile options.

Bill profile options	% customer responses	
	Household	Business
Option A: they could recover the costs more quickly which would mean that current customers would have slightly higher bills between 2020-2025, with less of a rise from 2026 for smoother long term bills	42	52

Bill profile options	% customer responses	
	Household	Business
Option B: they could recover the costs more slowly which would mean that current customers would see slightly lower bill between 2020-2025 but then bills could rise more steeply from 2026	13	3
Option C: they could recover the costs at a natural rate which would mean that current customers would see the same bills between 2020-2025 as shown previously	27	19
No preference	14	18
Don't know	4	8

Figure 8: Bill profile options shown to Household customers. Customers were asked which profile was most affordable to them.



Given that customers overwhelmingly support a flat nominal bill profile for 2020 up to 2025 and had a slight majority preference for a £3 transition into AMP8, we focused our follow up acceptability study in March 2019 on testing at what tipping point in 2025 customers want us to step in and smooth the bill profile in order to protect them from any “bill shock”.

We firstly introduced the bill profile concept to customers, by testing their preference for a flat bill for the period 2020 up to 2025 with a £5 transition into the period 2025 up to 2030 vs a bill profile that smoothed the transition increase caused by inflation and any over performance payments from 2022 into the next AMP (see Figure 9). We asked customers to select their preference, taking into account how affordable the typical bill shown to them would be. This is known as a pair wise choice exercise, which is a best practice research technique for establishing the “tipping point” at which customers switch their preference between two options.

We found that **66%** of customers preferred option B and there were no significant differences in this response between groups, such as demographic groups, age or segment. This highlights that the majority of customers are not accepting of a £5 AMP transition jump at 2025 and that they would want us to step in protect us by providing the bill profile in Option B. The open comments following the choice reveal:

- Those that preferred Option A said the flat bill for 5 years made it easier to budget and plan their household expenditure. Among customers on lower incomes (or who think they might have income constraints in short-term) five years of no bill increases had a strong appeal from an affordability perspective; and
- Those that preferred Option B, mainly did so as the more gradual increase of the bill from 2022 meant there was no £5 jump at 2025. It was felt this would have less of an impact on their household expenditure.

Figure 9: Flat bill (with a £5 AMP transition v smoother bill profile shown to customers for the period 2020 up to 2029.



The insight also showed that **41%** of those customers who selected the “flat bill” in the earlier question (see Figure 7 on page 28) when looking at the levels over a 5 year period (2020 up to 2025) then switched to this smoother bill profile when answering in a ten year context.

Those that selected option B in Figure 9 were then asked a follow-up question (using a best practice 6 point scale) to determine how affordable the bill profile in Option A was to them. **61%** agreed that it was affordable. This means that across all 738 customers that **74%** of customers find Option A in Figure 9 to be affordable – this is in-line with the affordability figures for our 5 year bill profile.

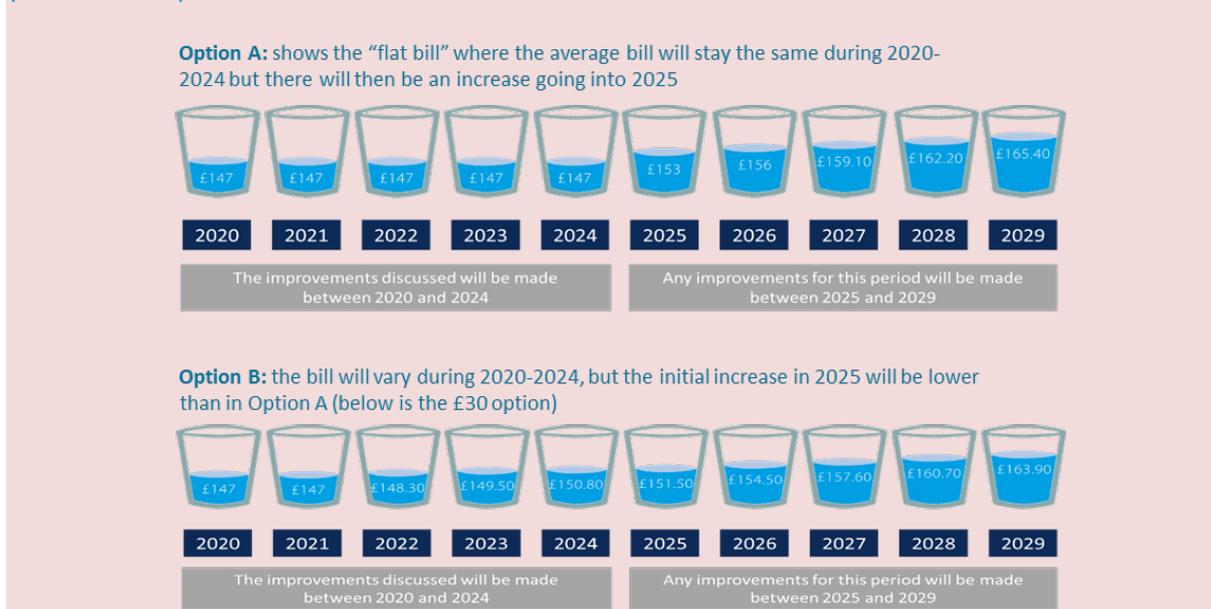
This point was further highlighted by customers who commented that the two options were both affordable for them, it was just when asked to select between the two that they would rather have one which offered less peak “bill shock” during the 10 year period.

“It was the option that appeared to be okay, albeit there is little between the two.” – Household customer

Depending on their preference choice between Option A and B, customers were then asked a similar follow up question showing two 10 year bill profiles (see Figure 10).

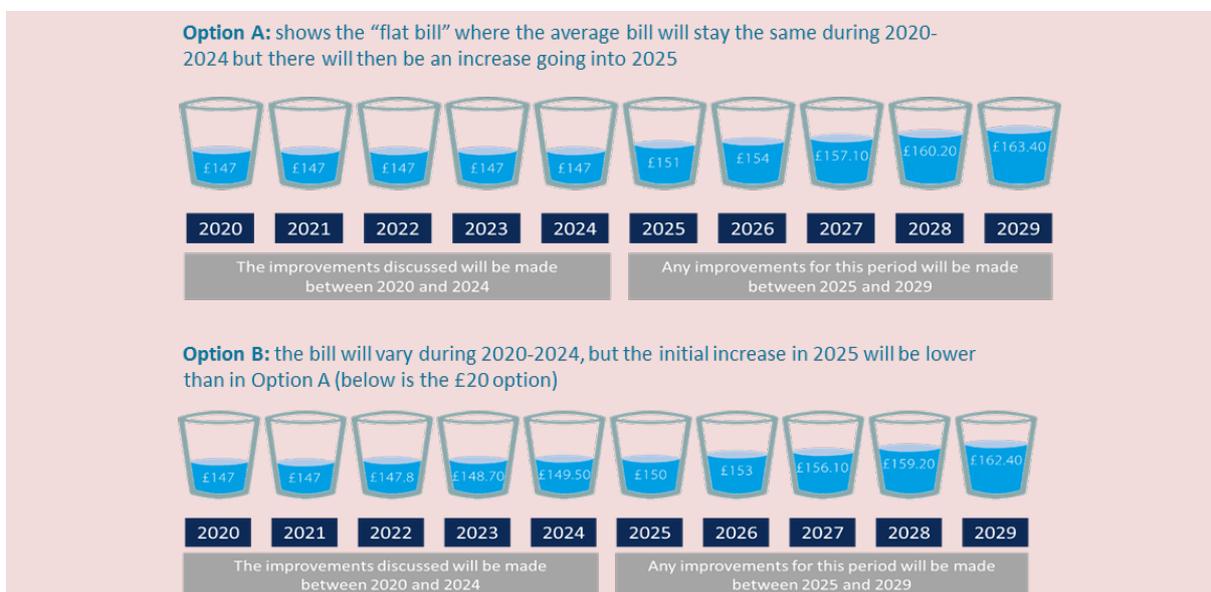
- The 34% of customers who chose Option A where shown an alternative set of paired choices. This time 73% said they would prefer Option A again, which showed a £6 bill increase in 2025.

Figure 10: Flat bill (with a £6 AMP transition v smoother bill profile shown to customers for the period 2020 up to 2029.



- The 66% of customers who chose Option B where shown an alternative set of paired choices. This time 85% said they would prefer Option B over Option B which had a £4 bill increase in 2025. See Figure 11.

Figure 11: Flat bill (with a £4 AMP transition v smoother bill profile shown to customers for the period 2020 up to 2029.



Based on asking customers this series of twin-paired choice questions we find the level of customer support for the following “tipping points” following a 5 year flat bill period from 2020 up to 2025 is:

- £4 increase in 2025: 44%
- £5 increase in 2025: 34%
- £6 increase in 2025: 25%.

This shows that the level of support increases as the AMP bill transition amount decreases.

When triangulating these insights back to our main acceptability study in 2018, where we tested three bill profile options with different AMP transition amounts, we find the like-for-like figure for support for the £3 bill increase in 2025 is **51%**. This figure is arrived at by removing all the no preference/don't know responses from the sample and it is assumed that customers are basing their responses solely on AMP transition bill increase. For reference the "no preference" or "don't know" options accounted for 18% of responses (see Figure 8).

Based on our customer engagement over our two acceptability studies we have clear evidence that the £3 bill increase at the AMP transition following a flat bill is the maximum customers will support, before we have to step in to protect them from any bill shock by gradually increasing the bill level from 2022. It is important to note that £3 is also the maximum annual bill jump shown to customers in any of the smoothed 10 year bill profiles shown to customers (Figure 9 to 11). This means that whichever option selected customers are expressing a consistent response that £3 is the maximum bill jump they support on an annual basis.

Whilst we were unable to engage with business customers in our March 2019 we know that they had an even higher preference (52%) for Option A in our July 2018 main acceptability study. We can therefore conclude with a high degree of certainty that the majority of business customers (SMEs) would also prefer a bill profile with a maximum of a £3 increase in 2025 following a flat bill from 2020 up to 2025.

In addition to the carrying out the follow-up acceptability study in 2019, we have also triangulated our evidence of customers' preferences for bill profiles against those of other water companies (where publicly available) to understand if they are consistent.

Our two neighbouring WASCs (Severn Trent Water and Anglian Water) have also found a similar pattern of responses. Their customers have also expressed a majority preference for having stable bills where customers do not experience any "bill shock". These robust insights, taken from the customer engagement carried out to support their PR19 plans, provide further evidence that our proposal to go even further and provide customer with a flat nominal flat bill for AMP7 to give them the security that they so clearly seek from their water bills is the best one.

Severn Trent Water PR19 engagement findings³

- Summary of TapChat community preferences around bill profiles: Respondents were asked to choose between two bill profile scenarios. 88% of respondents chose the scenario with a smaller bill reduction in the short term, but a more stable profile over time.
- Intergenerational fairness preferences tested with customers: We find that customers want bills which are stable, and charges to be set in a way which means each generation pays their fair share. Our proposed approach to longer term bill profiles receives considerable support from customers, with 87% of those surveyed preferring a smaller bill reduction over the next five years, but a more stable profile over time.

Anglian Water PR19 engagement findings⁴

- Results of Willingness to Pay study: Customers generally prefer bills to change steadily, and to avoid sudden increases.

3

Severn Trent Water's September 2018 Business Plan Submission, Appendix A1: Engaging Customers

⁴ Anglian Water's September 2018 Business Plan Submission, Appendix 12C. Customer research and engagement synthesis

- Acceptability research findings: The Acceptability research indicates that three quarters of water and wastewater customers (76%) would prefer bills to change steadily throughout the period from 2015-2020 (rather than change every year in response to the amount of work conducted, or 'front-loaded' with a big step-change in year one).
- Triangulation of customer evidence: several pieces of research suggest that customers generally prefer to avoid sudden increases in their bill.

South East Water⁵, a WOC, has also found a similar response among its customers in its PR19 bill acceptability testing in 2018:

- When showing customers different bill profile options over 5 and 20 years. The research clearly shows that the vast majority of customers prefer stable bills – whether that's over a five-year period (92 per cent) or a 20-year period (88 per cent).

3.4.9 Intergenerational fairness

Following customers selecting their preferred 10 year bill profile in the main acceptability study (July 2018) we then asked them if they felt their decision was the fairest one given the differences it would bring to the bills people would pay from different generations.

Customers who selected Option A (in table 5) the smoothest bill profile, were then asked:

“South Staffs Water and Cambridge Water can recover the costs of their investments more quickly. This means that people who are customers between 2020-2025 would have higher bills during this period. However, it means that customers who become bill payers from 2026 onwards would not need to pay as much for the investments to improve service levels that all customers will benefit from. Do you think this is fair?”

The results showed a very mixed response with 42% of household customers saying 'Yes' and 40% saying 'No', with the remainder saying 'Don't know'. There were a wide variety of reasons given and got a noticeable number of customers thinking about the concept of spreading bills between current and future customers.

Those who said 'No' mainly cited the unfairness that they were paying a bit more during 2025-2030 for improved service that people who became bill payers in 2026 would then experience. Some customers said they wanted to be rewarded for their loyalty as a current customer, if they could not switch supplier.

Customers who selected Options B or C (see Table 5) were then asked:

“South Staffs Water and Cambridge Water can recover the costs of their investments more slowly. People who are customers now would have lower bills during 2020 - 2025. However, customers who

“We have to invest in the future and it has to start somewhere. When my children become bill payers, I will be proud to know I helped to upgrade their water and save them any steep hikes.”
– Household customer voting Yes

“They (future customers) will also benefit, plus if the investment is not made now then more may have to be spent at a later date making their bills correspondingly higher.” –
Household customer voting Yes

5 South East Water's 2018 Business Plan Submission, Appendix 1: Engagement

become bill payers from 2026 onwards would pay more for the investments to improve service levels that all customers will benefit from. Do you think this is fair?”

Again the results showed a very mixed response with 55% of household saying ‘Yes’ and 22% saying ‘No’, with the remainder (23%) saying ‘Don’t know’.

However there were a higher number of people saying that their choice was the fairest one. From reviewing all the comments there was again a noticeable number of customers, particularly ones who have been customers in their area for 20 years or more, that feel they should be rewarded for their loyalty and not have to pay the same as new customers, regardless of their age.

Interestingly, we also observed in the up-front groups comments from some customers with families that their children would be benefiting massively from them buying them cars and helping them onto the property ladder. So, why should they also have to pay a few pounds more through their water bills for 2020-2025 to fund service improvements for their children, which could be spread more evenly over time? The range of views we encountered was very mixed making it hard to determine a clear preferences for medium-term bill fairness among customers of all ages.

We have learnt in our wider engagement with future customers that:

- in our Water Resource Management Plan workshops the 16 future customers expressed a strong preference that investments should be made now to tackle areas like reducing leakage, to ensure that precious resources are not wasted. They felt that not tackling these issues now would store up long-term issues given the challenges we face around population growth and climate change. They did not want to be left facing a situation where water supplies run low and them shouldering more of the cost of resolving it; and
- there was a consistent, strong message from the 19 school students in our Young Innovators discussion groups that they believe that today’s customers should be contributing towards the investment of future services - but not to the detriment of lower income households struggling to pay bills. This points to these customers also wanting fair and affordable bills for all.

“I think they should pay for the future and I think we should pay for the future. I think it should carry on.” – Young Innovator

The key finding from all our engagement over the last two years is that customers want to have fair, affordable, stable bills over time (driven mainly by the need to have certainty) and that there is a widely recognised need to ensure that investments are not delayed to avoid storing up problems for the future and risk deteriorations in the service provided.

The evidence from this study suggests that there is no clear cut view in terms of how much each generation should pay for the service improvements. This highlights that our focus must be on working out the best way to provide stable bills over time by making the right investment choices to meet the challenges we face. By doing this the costs are more likely to be spread evenly between current and future customers to avoid any potential unfairness.

We will continue to engage with our customers over time to explore this very complex area to ensure that we are able to pick up any changes in customers’ preferences and adapt our plans accordingly.

4. Customer support for our ODI under/overpayments

Our engagement with customers on the acceptability our ODI under/overpayment range has shown that we have majority support from our customers at two RORE levels, as evidenced in table 6. The insights show that the level of support among our customers does not shift significantly as the range gets smaller.

Our final RORE position in our business plan for 2020-2025, which was agreed after the customer engagement was completed, results in a lower range which is in-line with the majority of our customers' preferences.

Table 6: household and business customer informed acceptability scores for ODI levels.

Customer engagement on RORE range levels	RORE level tested	% of informed customers supporting the level	% of informed customers against the level
Performance Commitment engagement – April 2018*	+/- 3% or +/- £4 (hh)	85% (includes 24% with no strong opinion)	10%
Business plan acceptability engagement – July 2018	+/- 4% or +/- £6 (hh)	71% (includes 2% don't minds)	10%
Business plan acceptability engagement – March 2019**	+/- 3% or +/- £4 (hh)	72% (includes 2% don't minds)	8%

* Note that the response scales used in the on-line performance commitment survey was different. Our business plan acceptability engagement used a 6 point scale and a 'don't know' option with our Performance Commitment engagement using a 3 point scale with an 'unsure' option.

** Household customer response only

We also have strong evidence that only 27% of customers support the full ODI principle of over/under payments and that a clear majority prefer a stable bill. In responding to the majority of our customers' preferences to not be subjected to under/over performance payments, the evidence points to the fact that a lower RORE level would be more acceptable to the majority of our customers.

4.1 Customer support for our ODI underpayment penalty collars and overpayment rewards caps

In our follow up acceptability study in March 2019 we covered an additional topic for the first time in detail with our household customers. The focus of this section was to gain more evidence that the:

- use of over-performance payments were supported by customers for our asset health measures - mains bursts and supply interruptions; ; and
- the level of our penalty collars for our asset health measures (mains bursts and supply interruptions) were supported by customers
- use of over-performance payments were supported by customers for our Per Capita Consumption (PCC) and environmental protection PCs.

To do this we:

- informed customers about each of the performance commitments detailed in Table 7 and the target we were proposing to set ourselves to hit by 2025. We also provided industry comparative data to allow customers to see how our current performance ranked against the best and worst and average performance across all water companies. This wording was kept consistent with our main study in 2018 to ensure consistency;
- then informed them about the cap or collar level we were proposing to set and why we believed it was necessary in order to protect customers from bill shock, or protect the company for potentially unlimited penalties; and
- then asked how acceptable the individual annual bill impact of the cap or collar level would be to them.

Due to the timings needed to complete the customer engagement ahead of the business plan resubmission date, we used the scaled triangulated cap and collar levels from our business plan submission in September 2018.

Our qualitative PR19 engagement insights have shown us that this a very complex area for customers to understand. To ensure comprehension, as far as practical, in our March 2019 quantitative survey, we cognitively tested the question text and lead-in stimulus material for each performance commitment being covered with six customers. The main feedback received was the need to make clearer the difference between the concept of the ODI mechanism itself and then the cap/collar mechanism to avoid any confusion. We made a number of changes to the final version of the survey before full launch, which was also challenged by our independent customer panel. However, as we have found in all our engagement around PC/ODIs, some customers tend to default their responses on their dislike of the ODI mechanism itself, even if you spend time informing them about the benefits of why the mechanism exists in focus groups.

Due to the limited time given to conduct follow up engagement we only had the opportunity to run one quantitative survey which was covering our plan, bills and ODI cap/collars. To keep the survey length manageable for customers and maintain the quality of responses, we only asked customers for their level of support for the cap or collar for key performance commitments where we have been challenged to provide further evidence of customer support. Each customer only also answered two or three of the performance commitments being tested and these were rotated across the 738 customers to ensure a representative response.

The level of customer support for the selected ODIs is shown in Table 7. We achieved **60% or more** support for half of our proposed penalty collars and reward caps, which also acts as a valid proxy for customers supporting the existence of a reward or penalty incentive. There were also relatively low levels of customers saying that our proposals were unacceptable, with a noticeable number giving a neutral response – a common trend seen in all our ODI engagement with customers. For example, only 9% thought our plans to set a penalty collar for our mains burst to be unacceptable, with this rising to a maximum of 18% for the level at which we were planning to set our rewards cap for unplanned asset outages.

When also considering how stretching our targets are and the strong level of support we have received from customers for these targets, we strongly believe this insight provides us with sufficient evidence of customer support for the challenges raised by Ofwat against our proposals.

Again, for the majority of the ODIs, we found that one segment of our customers was noticeably more negative about our proposals than the others. This has again flagged the need to clearly explain to our customers any incentive rewards we have earned in a transparent way and to explain the service benefits they will receive for this.

We do have under 60% majority support from customers for the following areas, although more than 50% of customers did still support all our specific proposed plans:

- Having a cap on any incentives earned for exceeding our mains bursts performance commitment target (customers were told the incentive cap was £1.44 per customer per year)
- Having a cap on any incentives earned for exceeding our unplanned assets failure commitment target (customers were told the incentive cap was £2.55 per customer per year)
- Having a cap on any incentives earned for exceeding our PCC performance commitment target (customers were told the incentive cap was £0.09 per customer per year)

The insights also show that there is little link between the amount of the cap or collar and the level of customer support. We know that from our qualitative engagement that many customers find the amounts being discussed to be affordable – such as they are the same as “a price of a coffee”.

Table 7: household and business customer informed acceptability scores for ODI levels.

Customer engagement on ODI caps and collars	% of informed customers supporting the proposal	% of informed customers against the proposal
Mains burst – penalty collar level	60%	9%
Mains burst – reward cap level	55%	16%
Supply interruptions – penalty collar level	64%	11%
Supply interruptions – reward cap level (level tested equates to having no unplanned interruptions)	60%	16%
Unplanned asset outages – reward cap level (level tested equates to having no outages)	55%	18%
Per Capita Consumption – reward cap level	58%	10%
Environmental protection - reward cap level	71%	10%

Sample base sizes range from 346 to 471.

Please Note that the caps and collar levels tested are the scaled triangulated figures used in the September business plan submission and not the final position in our business plan.

From analysing the open ended responses amongst customers who found our proposal to be unacceptable we found that:

- The most frequently stated reason for the 16% of customers finding the proposed cap to be unacceptable for our mains bursts PC was that the reward was higher than the proposed penalty collar;

“Because they are capping their profit at a higher level than possible loss to them. They should be the same figure.” - household customer

- The 18% of customers finding our proposed reward cap to be unacceptable for our unplanned asset outages PC mainly do so on the grounds of the principle of ODI rewards and not the level of the cap itself; and
- The 10% of customers who find our proposed cap on the level of reward for PCC to be unacceptable mainly found the concept of charging customers more for using less water counter intuitive – despite informing them of all the activities we were planning to deliver to support them to save water.

“Customers should not have to pay for them being efficient, the savings they make is enough of a reward.” - household customer

“It appears you are penalising customers with higher bills for doing what you want them to do - i.e. use less water.” - household customer

As a result of our additional engagement, the key conclusions are that:

- There is no evidence that the majority of our customers are against the proposed penalty collars and reward caps for the PCs listed above,
- there is no evidence that the majority of our customers are against us taking over performance payments for asset health measures, PCC and environmental protection performance commitments; and
- we have taken on board our customers’ indicative feedback that they are against having reward caps that are larger than penalty collars and have altered our plan to ensure this is not the case for our asset health measures.