

# Hafren Dyfrdwy PR19 Customer Engagement Peer Review

## Table of Contents

BACKGROUND & OBJECTIVES	2
EXECUTIVE SUMMARY	2
PROJECT 1. WILLINGNESS TO PAY RESEARCH	4
PROJECT 2. SOCIAL TARIFF CROSS SUBSIDY RESEARCH	10
PROJECT 3 ACCEPTABILITY RESEARCH WAVES 2 & 3	15
PROJECT 4 FAIR BALANCE OF CHARGES RESEARCH	19
PROJECT 5. ODI CHOICES RESEARCH (QUANTITATIVE)	21

# Background & Objectives

In its initial assessment of Hafren Dyfrdwy's PR19 (2020 – 2025) business plan, Ofwat identified some shortcomings in the customer research it had conducted, specifically:

Firstly, issues with the research design and reporting of three projects:

- Willingness to Pay
- Social Tariff Cross Subsidy
- Acceptability

These issues were:

- Insufficient customer evidence
- Narrow range of techniques employed
- Insufficient research conducted with customers in vulnerable circumstances, especially those with a non-financial vulnerability
- Failure to adopt *Tapped In* principles

Secondly, significant insight gaps which needed to be filled with further research, around customer views on:

- Longer term bill projections
- Outcome delivery incentives (ODIs)

This peer review addresses both of these points. The three existing projects have been peer reviewed in addition to the two new projects, which are:

- Fair Balance of Charges
- ODI Choices (quantitative)

## Executive Summary

The company has satisfactorily addressed all of Ofwat's challenges regarding the above shortcomings in its original PR19 plan. In summary this is because:

- Acceptability research had not been conducted in both its regions prior to submission of its original plan. This has now been completed.
- The two new projects deliver the missing customer insight which Ofwat requires.
- A wide variety of research techniques has been deployed, including deliberative workshops, large scale surveys and sophisticated price modelling.
- All five projects have been well designed and carried out to a high standard and in line with market research best practice.
- Sample sizes on surveys have been very robust, particularly considering the relatively small population served by Hafren Dyfrdwy, and the fact that online research is not feasible in this part of Wales. All projects have included a suitable sample of customers in both Wrexham and Powys.
- The company has conducted research with customers in vulnerable circumstances, including the health and wellbeing vulnerable; this is now documented in the research reports.

- Ofwat's *Tapped In* principles have been adopted where appropriate.

Project 1 (*Willingness to Pay*) is of high quality and follows best practices in number of interviews conducted, sampling, survey design and analysis. The survey design process in particular shows a level of diligence rarely seen in commercial market research and other similar engagement exercises.

Project 2 (*Social Tariff Cross Subsidy*) has been well designed, with a questionnaire and sample frame appropriate for setting the social tariff level. Shortfalls in some sample quotas required weighting of data (as per market research best practice), but this does not appear to have had any material impact on the conclusions drawn. Based on the findings of the research, the company selected an appropriate level of cross subsidy for its business plan.

Project 3 (*Acceptability*) reflects best practices for engaging customers in complex topics, with a representative sample frame across both Wrexham and Powys and robust sub-groups of vulnerable customers included in the analysis.

Project 4 (*Fair Balance of Charges*) reflects best practices for deliberative engagement with customers on complex and future topics. The sample frame is a representative spread of customer groups across both Wrexham and Powys, and the conclusions drawn in the report are clear.

Project 5 (*ODI Choices*) achieved a robust sample of customers under challenging timescales and circumstances. It provides a clear indication of customers' attitudes to performance payments and reputational incentives for service area improvements.

# Project 1.

## Willingness to Pay Research

Peer Review conducted by

Mike Stevens, What Next Strategy & Planning Ltd

### Background to the Research

The purpose of this research was to

- quantify the value that Hafren Dyfrdwy customers attach to potential changes in the levels of service offered as part of the HD PR19 Business Plan
- determine the overall maximum bill increase within which customers might be prepared to pay for an entire plan.

The research design comprised standard questions, a Stated Preference (SP) discrete choice exercise and MaxDiff questions.

Fieldwork was conducted between October 2017 and January 2018 with samples of both household and non-household customers in Wrexham and Powys.

The household interviews were carried out by in-home interviewers assisted by a computer-based (CAPI) questionnaire.

Non-household customers were interviewed by telephone and received supporting materials by email.

The services covered by the research included defined improvements to tap water appearance, taste and smell; financial support for removing lead pipes; reductions in leakage; interruptions to water supply of 3-6 hours; and properties affected by low water pressure.

For Powys respondents only, four further improvements were considered: sewer flooding inside people's homes; sewer flooding on people's land and gardens; pollution incidents; and river water quality.

This peer review has been based on the research report *Hafren Dyfrdwy WTP report FINAL.docx* by Systra.

# Sampling

## Household customers

A total sample of 505 bill paying customers was achieved, broken down as follows:

- 250 in Wrexham, drawn from 16 Output Areas (OAs)
- 255 in Powys, from 11 OAs

This is a robust sample size, given that Hafren Dyfrdwy has approximately 90,000 household bill payers.

Sample point quotas were based on gender, age and socio-economic group (SEG) to reflect census data as closely as possible.

Output Areas with a high proportion of Welsh speakers were specifically selected, following a recommendation from the Customer Challenge Group (CCG) to ensure that this group of customers was suitably represented.

Considerable effort was made to support this effort, including a Welsh version of the questionnaire, fully bi-lingual interviewers and sampling in OAs with a high proportion of Welsh speakers.

However, only two people opted to participate in Welsh, in spite of this effort. Systra speculates that this may have been a result of English language technical terminology in the survey.

Further, a robust sample of non-financially vulnerable customers was achieved in both Wrexham (n=73) and Powys (n=67).

*The sampling approach adopted for this research project is in line with best practices for stratified random sampling.*

*Extensive efforts were made to incorporate the CCG's feedback on inclusion of Welsh speaking customers. The small number of surveys completed in Welsh does not reflect the efforts to include them.*

## Non-household customers

A total of 150 non-household customers were included in the research - 75 in each of Wrexham and Powys.

This is a robust sample size, given that Hafren Dyfrdwy has approximately 30,000 non-household bill payers. A mix of size and sector was achieved.

Respondents were randomly selected for inclusion using auto-dialling software (to avoid interviewer selection bias) and a commercial database of local business, public sector and third sector organisation telephone numbers.

*The sampling approach for non-household customers is appropriate, given the lack of objective business census data to use for quota cells.*

# Survey Design

The questionnaire included the following sections:

- Screening (gender, age, SEG)
- Customers' experience of service failures
- MaxDiff scaling exercises to determine the relative importance of specific service improvement levels
- Stated Preference (SP) exercise based on packages of service improvements at specific price increases
- A validation question to identify customers' top three priority improvements from a list of all possible services improvements
- A question to determine the maximum increase customers would be willing to pay for improvements overall
- Additional profiling questions

The core Stated Preference (SP) methodology worked as follows:

- Respondents were shown 'packages' of service improvements, with services colour coded and attributes grouped
- All packages were anchored to current average bill levels so that relative price increases were in context
- Choice sets include four packages. Three of these showed potential service level improvements and associated price increases; the fourth showed current service levels at current average bill levels.
- Respondents were asked to rank the four options in order of preference, from best to worst.
- Question-framing was used to ensure respondents fully understood the context for the questions and the task they were asked to complete
- Each respondent completed the exercise twice on different choice sets, each time ranking the four options.

The MaxDiff scaling exercise was carried out to determine the relative value of the improvement to each attribute within the service categories.

Prior to the main fieldwork, cognition testing and piloting were conducted to ensure that the questionnaire would work effectively and be easily understood by respondents.

The CCG reviewed early drafts of the questionnaire, and modifications were made based on their suggestions.

*In-home research was used to ensure that vulnerable customers were not excluded.*

*The research design is in line with best practices for value and pricing research used in a variety of contexts to evaluate similarly complex 'bundled' service propositions including telecoms (e.g. mobile phone tariffs), media (e.g. Pay TV packages) and domestic services (e.g. home services care plans).*

*The specific approach to the SP exercise shows considerable effort to ensure that respondents understand what they are evaluating – through the use of packages (to simplify the number of attributes), colour codes*

*and grouped attributes (to ease identification of different service levels) and anchoring (against current service levels and typical prices).*

*The survey design process benefited from a level of rigour rarely seen in commercial market research and customer engagement exercises, including CCG consultation, cognition testing and piloting of the final draft questionnaire.*

*This resulted in fewer than 4% of household customers assessed as 'not engaged' or 'not understanding' by the interviewers. This is impressive, given the relative complexity of the topic.*

## Analysis

The analysis followed standard practice for SP discrete choice exercises by deploying a Multinomial Logit (MNL) model to derive a utility function for each respondent.

This preference coefficient for each package, when combined with the cost coefficients, provides an implied WTP for each package.

Additionally, a Rank Order Logit Model (ROLM) was used to analyse the MaxDiff responses and attach a monetary value for each specific attribute within a services package.

The analysis was conducted using Biogeme, an open source Python software package widely used for discrete choice models.

No weighting was applied as the controlled quotas were within 2% of the target and so deemed appropriately representative.

However, 7% of respondents were removed from the final SP model for one of the following reasons:

- suspicious answer patterns
- lack of understanding / engagement (as assessed by the interviewer)
- making perverse / irrational choices.

*The analysis approach used advanced statistical techniques in line with best practices for this type of research.*

*Removing poor quality respondents from the data set is also standard practice in modern commercial market research. In online panel-based survey research, between 5% and 15% of answers may be removed from the final analysis as a result of 'suspicious' answer patterns.*

# Responses to Ofwat Challenges

The customer engagement materials previously submitted to Ofwat ([https://www.hdcymru.co.uk/content/dam/hdcymru/about-us/pr19/hdd\\_appendix\\_a1\\_engaging\\_customers\\_compendium.pdf](https://www.hdcymru.co.uk/content/dam/hdcymru/about-us/pr19/hdd_appendix_a1_engaging_customers_compendium.pdf)) included only a short summary of this WTP research report.

Ofwat's initial assessment report (PR19-initial-assessment-of-plans-Hafren-Dyfrdwy-company-categorisation-FINAL.pdf), identified the following key challenges:

1. Insufficient evidence was provided to support the WTP conclusions in the PR19 plan
2. A broad range of research techniques was not demonstrated
3. Not enough customers in vulnerable circumstances were included in the research sample
4. The four principles for customer engagement laid out in the Ofwat *Tapped In* report were not adequately applied.

Systra's full report contains additional details that go some way to addressing these concerns.

## **Insufficient customer evidence**

The full report includes exhaustive documentation on the sampling approach, survey design and analysis.

*The details in the final Systra report fully support the conclusions that have been drawn.*

## **Narrow range of research techniques**

For this specific project, the following research techniques were deployed:

- Qualitative assessment of customers' understanding of questionnaire language and approach, obtained during the cognition testing phase
- Small sample piloting of the final questionnaire
- Face-to-face interviews with the main sample supported by a computer based questionnaire (CAPI). Online surveys were rejected as a methodology, because it was felt that a survey on such a complex topic would benefit from being interviewer-administered, also because there is an insufficient number of customers registered on online research panels in the Hafren Dyfrdwy region.
- Sophisticated survey instruments including a Stated Preference discrete choice model, a series of MaxDiff scaling exercises and further standard questions to frame the two elements of the WTP model (SP and MaxDiff).

*The range of research techniques deployed was entirely appropriate to the objectives of the WTP research.*

## **Not enough vulnerable customers in the sample**

Quota sampling based on census data was used, and a robust sample of non-financially vulnerable customers was achieved in both Wrexham and Powys. Analysis of this customer groups identified that their needs and willingness to pay are closely aligned to those of mainstream customers.



*Care has been taken to include sufficient vulnerable customers and separate analysis of their responses has been undertaken.*

### **Not adopting the *Tapped In* principles**

The four elements of the FACE Customer Participation model are Futures, Action, Community and Experience).

*Only the first of these is appropriate in the context of the WTP research, whose design and delivery was an appropriate approach to 'obtaining customer participation in improving the current and future sustainability of water in their lives'.*

*There were no relevant objectives in this research suitable for the other three principles: Action (customer behaviour change), Community (community ownership) or Experience (increasing customer control of water service delivery or use in the home).*

## Overall assessment

Hafren Dyfrdwy's Willingness to Pay research is of high quality and follows best practices in number of interviews conducted, sampling, survey design and analysis.

The survey design process in particular shows a level of diligence rarely seen in commercial market research and other similar engagement exercises.

Representation of non-financially vulnerable customers was robust, and the analysis of their specific responses was comprehensive.

Overall, this research project is of a high calibre with a robust design, strong analysis and appropriate conclusions.

# Project 2.

## Social Tariff Cross Subsidy Research

Peer Review conducted by

Mike Stevens, What Next Strategy & Planning Ltd

### Background to the Research

The purpose of this research was to inform the development of Hafren Dyfrdwy's social tariff scheme, Here2Help, by answering the following key questions:

- How much are customers willing to cross-subsidise other customers through a social tariff?
- What are their views on the amount of the proposed tariff, eligibility criteria and application process?

The research comprised over 400 face-to-face in-home (CAPI) interviews with customers in Wrexham and Powys.

Fieldwork was conducted throughout May 2018.

The central feature of the survey was a *Gabor Granger* series of pricing research questions.

This peer review has been based on the research report *HD Social tariff cross subsidy report FINAL.pdf* by DJS Research.

### Sampling

429 interviews were completed in total; 212 interviews were completed in Wrexham and 217 in Powys. This is a robust sample size, given that Hafren Dyfrdwy has approximately 90,000 household bill payers.

Quotas were set based on age, gender, Socio-Economic Grouping (SEG) and region using ONS regional census data. For Powys, quotas for dual and single service customers were also set.

No quotas were set for vulnerable customers, benefit claimants or metered / unmetered households; these were assumed to fall out naturally from the sample frame.

The sample achieved broadly reflected the gender and SEG target quotas.

However, the age group quotas were not achieved, with far fewer interviews completed with younger age groups:

- In Wrexham: 68% achieved vs target for under 34, 170% vs target for over 50
- In Powys: 69% achieved vs target for under 34, 150% vs target for over 50.

Weighting was therefore applied to ensure the sample was representative of the customer base.

*The stratified sample design was an appropriate framework for achieving a robust representation across the customer base. The absolute sample size of over 400 respondents is also an appropriate number given the size of the universe in the HD area.*

*The over-sampling of older customers and under-sampling of younger customers is sub-optimal. This is not uncommon and reflects the challenges in recruiting younger audiences to take part in this type of research. The small population size in Wrexham and Powys will have exacerbated this difficulty.*

*This quota imbalance, however, is unlikely to have had a material effect on the conclusions drawn. The target quota of under 35s was less than 25% of the total sample. The weighting factors applied to correct the shortfall will be within an acceptable range of weighting efficiency.*

## Survey Design

The survey design process included three features that are noteworthy:

- The agency partner, DJS Research, has extensive experience both in research with water company customers and in testing social tariff acceptability.
- Specialist support was also provided from a behavioural scientist with a background in the water industry.
- Cognitive testing of the draft questionnaire was completed with 10 customers prior to the main fieldwork.

*The use of behavioural science techniques, together with thorough cognitive testing of the survey, are aligned with industry best practice for designing research approaches to sensitive or complex pricing issues.*

In addition, Welsh Government guidelines for social tariff research were applied and further advice from CCWater was taken.

The questionnaire included the following sections:

- Screener questions: demographics, bill payer status
- Awareness of and top-line reactions to social tariffs
- Detailed reactions to social tariffs
- Willingness to pay overall and level of payments to be made to recipients.

The willingness to pay section of the survey used a contingent valuation methodology known as Gabor Granger pricing analysis. In this project, it operated as follows:

- All respondents were shown an introduction to the social tariff scheme
- They then saw a scenario which detailed a) the bill impact, b) the number of customers this would help and c) the percentage of vulnerable customers that would be helped

- Respondents were then shown a social tariff price point using a mid-range bill impact as a starting point (£3 for Wrexham customers (water-only), £5 for Powys dual service customers and £2.50 for Powys single-service customers.
- If this level was acceptable, they were then shown a higher price point; if unacceptable, they were shown a lower price point.
- These steps were repeated until respondents reached an upper or lower limit of acceptability / unacceptability, or had been shown all price points.

*The Gabor Granger pricing methodology is widely used in market research to drive 'price curves' for different products or services. It is an appropriate approach to identifying acceptable social tariff contributions.*

## Analysis

The Gabor Granger pricing analysis delivers the following conclusions:

- 83% of Wrexham customers (all single-service) would accept an increase of £0.50, from £1.25 to £1.75 on an average bill
- 82% of Powys dual-service customers would accept an increase of £0.50, from £3.00 to £3.50 on an average bill.

*The social tariff contribution of £3.50 on dual-service bills, and £1.75 on single-service bills, proposed by HD in its PR19 Business Plan, are acceptable to a large majority of customers. This is therefore an appropriate tariff level and is supported by the research results.*

The research report also provides analysis of acceptability within sub-groups of the sample, identifying that customers aged 25-34 are most accepting of the cross-subsidisation principle (page 6).

*Despite relatively low base sizes for this groups (51 respondents aged 25-34 across both Wrexham and Powys), the results are statistically significant at the 95% confidence level.*

## Responses to Ofwat Challenges

In the Actions Summary Table for the Hafren Dyfrdwy PR19 draft plan, Ofwat's HDD.AV.A4 asserts that there is insufficient evidence on the levels of cross-subsidy for social tariffs; and that there is not enough evidence for support across the customer base.

This research amply demonstrates customer support for the chosen social tariff cross-subsidy amount. It is based on robust evidence from over 400 customers using best practice market research techniques.

Further, Ofwat's initial assessment report (PR19-initial-assessment-of-plans-Hafren-Dyfrdwy-company-categorisation-FINAL.pdf), identified the following general challenges:

1. Insufficient evidence was provided to support the Social Tariff Cross Subsidy conclusions in the PR19 plan
2. A broad range of research techniques was not demonstrated

3. Not enough customers in vulnerable circumstances were included in the research sample
4. The four principles for customer engagement laid out in the Ofwat *Tapped In* report were not adequately applied.

The full report contains additional details that go some way to addressing these concerns.

### **Insufficient customer evidence**

The full report contains much more detail than was included in the initial PR19 submission, including the range of price points tested, a full breakdown of acceptability at different price levels, analysis by different customer sub groups and answers to additional attitudinal questions that help to provide context.

*The customer evidence gathered for the social tariff cross-subsidy research is robust and entirely sufficient for decision making.*

### **Narrow range of research techniques**

The research was conducted face to face in customers' homes and used a Gabor Granger pricing methodology.

*This work had a specific focus – to measure acceptability of social tariff cross-subsidy levels - and the approach adopted was appropriate for addressing this objective. In-home research was used to ensure that vulnerable customers were not excluded. It would not have been possible to conduct this research online, as there is an insufficient number of HD customers on research panels in the region.*

### **Not enough vulnerable customers in the sample**

Quotas were set on age, gender and SEG, so it is reasonable to assume that enough vulnerable customers were included. However no specific quotas were set to recruit vulnerable customers for the research.

*Just About Managing* customers were identified in the study, but no specific quotas were set.

*It can be assumed that a natural fallout of these groups would occur within a sample of over 400 respondents based on quota sampling by gender, age and SEG. All interviews were conducted in-home, ensuring that vulnerable customers were not excluded.*

*In fact, over-representation of older age groups in the research is likely to have expanded the sample of vulnerable customers.*

### **Not adopting the *Tapped In* principles**

The four elements of the FACE Customer Participation model are Futures, Action, Community and Experience).

*Two of these are appropriate to - and demonstrated by - the social tariff research project.*

*'Futures' ('obtaining customer participation in improving the current and future sustainability of water in their lives') is reflected in the objective to increase the future levels of social tariff contributions from customers' bills.*

*'Community' is also demonstrated in the effort to understand the willingness (and limits) of customers to make contributions to those less able to afford their water services.*

*There were no relevant objectives in this research suitable for Action (customer behaviour change) or Experience (increasing customer control of water service delivery or use in the home).*

## Overall assessment

Overall, the Social Tariff Cross Subsidy research project has been well designed. The questionnaire and sample framework were well suited to generating the required level of evidence to set an appropriate social tariff level.

The shortfall in some sample quotas was rectified by weighting within acceptable limits. This weighting had no appreciable impact on the conclusions drawn in the HD PR19 submission.

# Project 3

## Acceptability Research Waves 2 & 3

Peer Review conducted by

Mike Stevens, What Next Strategy & Planning Ltd

### Background to the Research

The two primary objectives of this research were:

- To determine the overall acceptability of the PR19 business plan in terms of bill impact, bill profile (2020-2025) and service improvements across different customer groups
- To understand why the business plan is acceptable or not and the implications for affordability.

The research comprised over 400 face-to-face in-home (CAPI) interviews with customers in Wrexham and Powys.

Fieldwork was conducted in Powys over two weeks in August 2018 and in Wrexham over two weeks in January 2019. Please note a previous wave (wave 1) had been completed; this tested different bill profiles.

This peer review has been based on the following research reports by DJS Research:

- *Acceptability Powys Wave 2 report 05.03.19 FINAL.pdf*
- *Acceptability Wrexham Wave 3 report 05.03.19 FINAL.pdf*

### Sampling

416 interviews were conducted in total; 216 interviews were completed in Wrexham and 200 in Powys. This is a robust sample size, given that Hafren Dyfrdwy has approximately 90,000 household bill payers. Quotas were set based on age, gender, Socio-Economic Grouping (SEG) and region using ONS regional census data.

The samples achieved in both Wrexham and Powys broadly reflected the gender, age and SEG target quotas; a minimal level of weighting was applied to the data set to ensure that results were representative of the customer base.

*The stratified sample design was an appropriate framework for achieving a robust representation across the customer base. The absolute sample size of over 400 respondents is also an appropriate number given the size of the universe in the HD area.*

In Wrexham, the following 'vulnerable' customer groups were represented in the sample:

- Low income households: those with annual household income below £20,000 – n=27 / 13% of the sample
- Just About Managing (JAMs): defined as ‘sometimes struggle but usually manage to pay household bills’ – n=59 / 27% of the sample
- ‘Health & Wellbeing vulnerable’ customers: those who either have a disability themselves or in a household with someone who has a disability – n=48 / 22% of the sample

In Powys, the ‘vulnerable’ customer groups were represented as follows:

- Low income households – n=38 / 19% of the sample
- Just About Managing (JAMs) – n=64 / 32% of the sample
- ‘Health & Wellbeing’ customers – n=54 / 27% of the sample

*The sample includes substantial representation of vulnerable customer groups.*

*However, for the base sizes achieved, the margin of error for results from each vulnerable customer group will vary between 12% and 19%. The report appropriately highlights those results where any differences to the total sample are statistically significant.*

## Survey Design

The questionnaire structure was as follows:

- Screener questions: demographics, bill payer status
- Current bill levels: establishing how much customers currently pay for water / wastewater services
- Acceptability & affordability of increases in nominal terms
- Acceptability & affordability of increases in nominal terms, with charts providing visual support
- Acceptability & affordability of increases in real / inflation-adjusted terms, with charts providing visual support
- Acceptability of ODI penalties and rewards.

*This stepwise approach to presenting complex concepts and gaining feedback at each stage is in line with best practices in market research design.*

## Analysis

The research report includes the levels of acceptability and affordability at each stage of the questionnaire, broken down for each ‘vulnerable customer’ sub-group.

The proposed increases are broadly acceptable when presented in nominal terms – to between 70% and 80% of customers in both regions. Across the both regions (because there are many more customers in Wrexham than Powys), the weighted average acceptability figure is 73%.



However, the introduction of real terms (inflation-adjusted) pricing reduces both acceptability and affordability; and the JAM segment consistently regards the proposals as less acceptable and less affordable.

## Responses to Ofwat Challenges

The customer engagement materials previously submitted to Ofwat (in document [https://www.hdcymru.co.uk/content/dam/hdcymru/about-us/pr19/hdd\\_appendix\\_a1\\_engaging\\_customers\\_compendium.pdf](https://www.hdcymru.co.uk/content/dam/hdcymru/about-us/pr19/hdd_appendix_a1_engaging_customers_compendium.pdf)) included only a short summary of this PR19 Acceptability research project.

Ofwat's initial assessment report (PR19-initial-assessment-of-plans-Hafren-Dyfrdwy-company-categorisation-FINAL.pdf), identified the following key challenges:

1. Insufficient evidence was provided to support the conclusions in the PR19 plan
2. A broad range of research techniques was not demonstrated
3. Not enough customers in vulnerable circumstances were included in the research sample
4. The four principles for customer engagement laid out in the Ofwat *Tapped In* report were not adequately applied.

The full report contains additional details that go some way to addressing these concerns.

### **Insufficient customer evidence**

The full report contains much more detail than was included in the initial PR19 submission, including acceptability and affordability levels for different customer sub-groups.

*The customer evidence gathered for the PR19 Acceptability research is robust and sufficient for decision making.*

### **Narrow range of research techniques**

The research was conducted face to face in customers' homes and used showcards to aid understanding.

*The approach adopted was suitable for addressing the objective of gauging customers' perceptions of acceptability and affordability. It ensured that customers in vulnerable circumstances were not excluded.*

### **Not enough vulnerable customers in the sample**

In both Wrexham and Powys, sub-groups of low-income households, *Just About Managing* customers and 'Health & Wellbeing' customers living with disabilities were identified in the study.

*The sample sizes achieved for these groups are a fair representation, and provide solid data on which to base conclusions if – as is the case in the reports – appropriate significance testing is applied to the results.*

## Not adopting the *Tapped In* principles

The four elements of the FACE Customer Participation model are Futures, Action, Community and Experience.

*Only the first of these is appropriate in the context of the Acceptability research, whose design and delivery was suited to 'obtaining customer participation in improving the current and future sustainability of water in their lives'.*

*There were no relevant objectives in this research suitable for the other three principles: Action (customer behaviour change), Community (community ownership) or Experience (increasing customer control of water service delivery or use in the home).*

## Overall assessment

The Acceptability project conducted by DJS Research is a well-designed survey that reflects best practices for engaging customers in complex topics.

The sample frame is representative across both Wrexham and Powys, and robust sub-groups of vulnerable customers are included in the analysis.

# Project 4

## Fair Balance of Charges Research

Peer Review conducted by

Mike Stevens, What Next Strategy & Planning Ltd

### Background to the Research

The primary objective of this research was to address Ofwat's concern that in its PR19 research Hafren Dyfrdwy had not conducted customer research on future bills. This project aimed to gather customer input to the following questions:

- What should HD's medium-term and long-term bill profiles look like?
- What should be HD's future bill setting strategy?
- How can HD achieve the fairest balance of charges over time?

The research comprised two half-day deliberative workshops, one in each of Wrexham and Powys, with the following sample characteristics:

- 14 customers per workshop
- A representative spread of customer age groups, gender, Socio-Economic Grouping, urban / rural location and metered / unmetered supply.

Fieldwork was conducted during March 2019.

This peer review has been based on the following research reports by research agency Britain Thinks:

- *Hafren Dyfrdwy\_Fair Balance of Charges\_Final Report\_14.03.19.pdf*

### Research Design

The research gathered feedback from customers on an 'uninformed' basis initially, and then gradually introduced more details to gain their more informed perspective.

The five main elements of the workshop were as follows:

- Spontaneous customer views of HD spending: open questions to establish customers' views of HD spending and infrastructure investments
- Informed customer view on HD: customers were provided with information on HD, the water cycle, the breakdown of spending and Ofwat's role in business plan development
- Customer views on HD principles: presentation of water company funding mechanisms and HD principles for deciding balance of charges
- Informed customer views on HD proposed balance of charges: presentation of the suggested bill approach, together with an alternative structure
- Overall response to HD proposals.

*Respondents were given the opportunity to provide 'gut' or instinctive responses; then gradually introduced to the more complex trade-offs in water company funding; and finally evaluating the specific bill profile proposed.*

*This workshop structure deployed is in line with best practice for deliberative research when complex and future subjects are being explored.*

## Analysis

The research showed that customers' spontaneous needs are well aligned with HD's principles for bill-setting, notably that bills should remain as stable as possible over time, investment cost should be spread out and charges should be transparent.

There was a clear customer preference for the 'stable' bill option (consistent charges year-to-year) over the 'front-loaded' bills (more expensive in the short term, reducing in subsequent years).

*The direction from the research was very clear: customers prefer stability and predictability for their bills over volatility.*

*Respondents identified a number of ways in which the data could have been presented more clearly. Any future research on bill profiles should take this into account. Suggestions included:*

- *Ensuring that chart axes start at zero (the axis on forecast bill profiles in Wrexham, for example, started at £120 for an annual range between £120 and £200)*
- *Presenting more tailored bill profiles for different household structures / consumption levels – rather than one overall average amount*
- *Presenting monthly bill values as well as annual, as most customers pay in monthly instalments and the amount is more relatable.*

*None of these factors appear to have had a material impact on the conclusions drawn from the research.*

## Overall assessment

The Fair Balance of Charges project fills the gap identified in the Ofwat Actions Summary Table reference HDD.AV.A1.

It also addresses HDD.AV.A3: bill profiles up to the period 2029-2030 (for Wrexham) and 2034-35 (for Powys) were tested with customers.

The research conducted by Britain Thinks is a well-designed qualitative research project that reflects best practices for engaging customers in complex topics.

The sample frame is a representative spread of customer groups across both Wrexham and Powys, and the conclusions drawn in the report are clear.

# Project 5.

## ODI Choices Research (quantitative)

Peer Review conducted by

Mike Stevens, What Next Strategy & Planning Ltd

### Background to the Research

The objectives of this research were to quantify customer views on the following topics related to Outcome Delivery Incentives:

- Customers' overall response to the concept of performance payments
- Their assessment of the specific way in which they have been designed
- Appropriate values for different performance rewards and penalties.

The research aimed to achieve 300 household customer interviews spread evenly across Wrexham and Powys, together with two focus groups of non-household customers (one in each area). It is not feasible to conduct online research in these parts of Wales, as there is an insufficient number of customers on online research panels. The research was conducted in-street, and at various locations such as an indoor market, cattle market and university (where a number of interviews with future customers were completed).

Unfortunately, due to the very short fieldwork period, very bad weather and low footfall, only 204 interviews with household customers could be conducted; these were fairly evenly spread across Wrexham and Powys and the results weighted.

It also proved impossible to recruit the planned focus groups with non-household customers in the time frame, so depth interviews were conducted instead; four were completed.

This peer review has been based on the following research report by the agency DJS Research:

- *5748\_HD Choices Research - Topline Report\_15.03.19\_v1*

### Sampling

93 household interviews were completed in Wrexham and 114 in Powys.

Targets were set based on age, gender, Socio-Economic Grouping (SEG) and region using ONS regional census data.

A good representation of age groups, Socio-Economic Groups and income levels was achieved.

In addition, vulnerable customer groups were relatively well represented, including:

- 23% of households including someone with long-term illness, health problems or a disability
- 13% of the total sample identified as low-income (annual household income below £20,000); this represents 45% of those actually declaring (ie excluding 'don't know' and 'prefer not to say' responses)
- 35% of households self-identifying as 'Just About Managing' ('sometimes struggle to pay household bills but usually manage to keep on top of it').

*The sample achieved provides a good cross-section of the household customer base in each region, and a total of 200 interviews is a robust total on which to base conclusions.*

*The strong representation of vulnerable customer groups is also noteworthy.*

## Research Design

The five main elements of the questionnaire were as follows:

- Introduction to the principle of performance incentives for water companies
- Customers' initial response (favourable / unfavourable) to the principle
- Maximum reward / penalty levels regarded as appropriate
- Assessment of individual service areas' performance incentives
- Testing of individual ODI penalty / reward ranges

*This framework captures customers' spontaneous / 'uninformed' views of the principle of performance incentives; and then captures the prompted / 'informed' responses at each service level area.*

## Analysis

The research results show that 30% of household customers spontaneously agree with the principle of performance payments linked to bills.

When shown the specific performance framework for individual service areas, levels of support change as follows:

- For service areas with both reward and penalty payments, support for the performance mechanism averages c. 50% (+/- 5%) across both regions
- For service areas with penalties only, support increases to c. 75%
- For service areas with reputational incentives, support is between 80% and 90%.

Note that the margin of error on this sample size is +/- 7%.

When testing specific values for ODI rewards and incentives, the 'ODI Starting Value' displayed on the show-cards appears to have been selected by a majority of respondents.

*When customers are given specific details about the penalty / reward framework for each service area, their support for the principle of*

*performance payments increases (from 30% in Q3 to c. 50% in each of the Q5 service areas).*

*However, the high levels of consistency in the response profiles for each of Q5, Q6 and Q7 suggests that respondents may have found it hard to differentiate between service areas.*

## Overall assessment

The ODI Choices research project consulted a robust sample of HD customers and provides a good indication of customers' attitudes to performance payments and reputational incentives for service area improvements.

In an ideal world, a quantitative research design for complex topics such as this would have been conducted under less time pressure and in respondents' homes. However, this was not possible under the circumstances.

The deliberative workshops to explore ODIs in more depth should provide an extra layer of insight to help contextualise the quantitative survey results.