

March 2019

Hafren Dyfrdwy: A fair balance of charges

Deliberative customer workshops

Final report

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1

Background and methodology



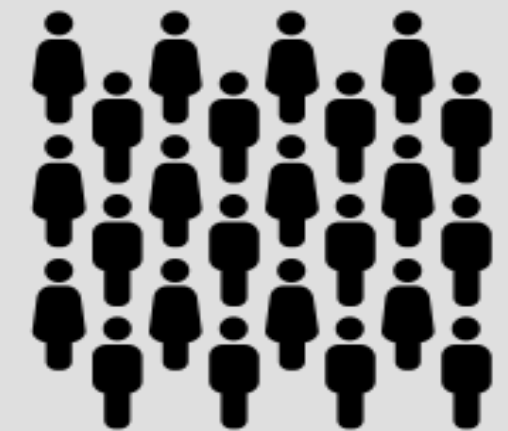
Background and objectives

- Following its launch in July 2018, Hafren Dyfrdwy, Severn Trent's Welsh business, submitted its PR19 business plan (2020-25) to Ofwat in September 2018. The plan had been shaped by customer research.
- Ofwat has assessed the company's plan as requiring 'significant scrutiny'. The company therefore needs to submit a revised plan on 1 April 2019.
- In order to inform its revised business plan, HD has decided to consult customers further, on the issues of long term bill profiles, its future bill setting strategy and how it should achieve a fair balance of charges over time.
- Hafren Dyfrdwy developed a future bill setting strategy based on the use of financial levers. This delivers a slight bill increase in 2020, with bills remaining stable over the rest of the AMP. The company wanted to test customer response to this strategy, as well as an alternate strategy which does not involve the use of levers (resulting in higher bills in the short term (next 5 years), then reducing over the longer term. It is important to note that both strategies relate to the same investment plan.

Methodology and sample

Two half-day deliberative workshops with Hafren Dyfrdwy customers

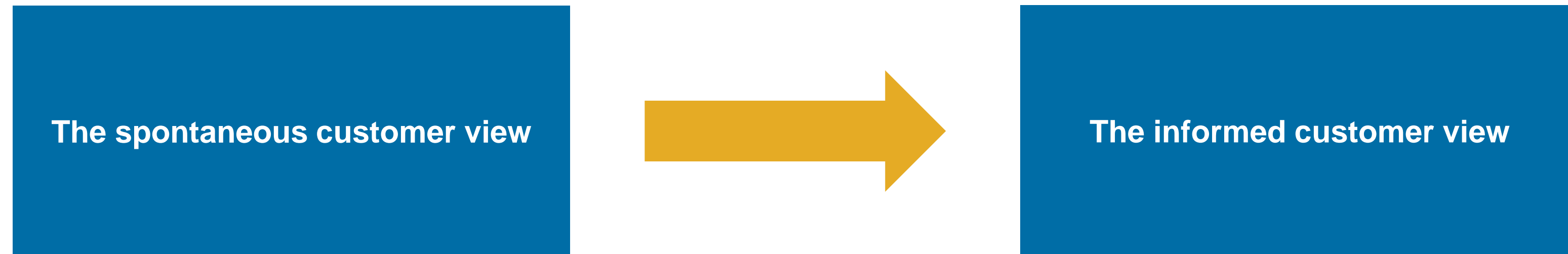
- **Locations:** Wrexham and Newtown (Powys)
- **Sample size:** 14 customers per workshop (28 overall)
- **Duration:** 3 hours
- **Demographics:**
 - Spread of customer age and gender
 - Spread of socio-economic groups, life stage, urban/rural customers and metered/unmetered
- **Relationship to HD:**
 - Mix of payment options, mix of contact with Hafren Dyfrdwy,
- **All screened on attitudes towards finance to ensure engagement with topics under discussion**





The deliberative approach

Water tends to be a low saliency issue, with customers often engaging little with their water and wastewater services and having relatively low levels of knowledge of what is involved in the provision of these. To achieve the research objectives, therefore, we used a deliberative approach



This approach enabled us to initially explore customers' spontaneous perceptions and associations around investments and how Hafren Dyfrdwy funds them, as well as understand their informed opinions on Hafren Dyfrdwy's proposed approach to a fair balance of charges over time

N.B. The qualitative approach used in the research allowed us to understand in depth the associations, assumptions, attitudes and language customers used in relation to Hafren Dyfrdwy and the issues under discussion. The focus was not on quantifying attitudes, and all findings should be interpreted in conjunction with the rest of Hafren Dyfrdwy's PR19 research programme

Deliberative workshop agenda

	Topic	Testing	Areas to be covered
1	Areas in which Hafren Dyfrdwy spends its money	<ul style="list-style-type: none">• Spontaneous customer view on Hafren Dyfrdwy's spending	<ul style="list-style-type: none">• Understand spontaneous associations with Hafren Dyfrdwy's spending and the sorts of infrastructure that it needs to invest in
2	Introduction to Hafren Dyfrdwy	<ul style="list-style-type: none">• Informed customer view on Hafren Dyfrdwy	<ul style="list-style-type: none">• Provide customers with more information about Hafren Dyfrdwy, the water cycle, where money from customers' bills is spent, and how Hafren Dyfrdwy develops its business plan with Ofwat• Challenge spontaneous customer perceptions around investments and infrastructure through an interactive quiz• Understand customers' informed perceptions of Hafren Dyfrdwy, their 2020-25 performance commitments and investments
3	Principles when deciding the balance of charges over time	<ul style="list-style-type: none">• Customer view on Hafren Dyfrdwy's principles	<ul style="list-style-type: none">• Provide customers with information on how water companies are funded and the RCV• Explore spontaneous customer views on principles for deciding the balance of charges• Understand customers' perceptions of Hafren Dyfrdwy's own principles for deciding the balance of charges
4	Hafren Dyfrdwy's proposed approach to the balance of charges over time	<ul style="list-style-type: none">• Informed customer view on Hafren Dyfrdwy's proposed approach	<ul style="list-style-type: none">• Provide customers with information on Hafren Dyfrdwy's proposed bill approach, including maintaining intergenerational fairness, keeping bill levels stable over time and approach to maintaining access to low cost borrowing• Understand customers' views and understanding of Hafren Dyfrdwy's proposed approach, how it links back to Hafren Dyfrdwy's principles and an alternative approach that could allow for lower bills short term
5	Bill profiles to visualise Hafren Dyfrdwy's approach	<ul style="list-style-type: none">• Overall response to Hafren Dyfrdwy's proposals	<ul style="list-style-type: none">• Understand customer responses overall to Hafren Dyfrdwy's proposals• Explore customers' level of trust towards Hafren Dyfrdwy regarding decisions on the balance of charges over time

2

Key findings

Key findings

1

Awareness of Hafren Dyfrdwy is low amongst customers

- Many say that they first became aware of the transition to the new company when they saw the name had changed on their bill. Of those who remember seeing a letter, few could remember any detail

2

Of Hafren Dyfrdwy's nine outcomes (we called them pledges in the workshops), customers highlight the focus on vulnerable customers, volunteering and the environment as especially important and welcome

- The outcomes which focus on core service provision tended to be seen as hygiene factors

3

Customers' unprompted principles for billing largely align with those used by Hafren Dyfrdwy

- Customers say that Hafren Dyfrdwy should focus on bills being as consistent as possible, and that the cost of investments should be spread out over time

4

As such, customers support Hafren Dyfrdwy's strategy for a fair balance of charges over time

- When customers see the detail of this plan, having stable bills across the AMP (blue bill profile) is preferred over an initial bill increase followed by reducing bill level (red bill profile)

3

Spontaneous views of Hafren Dyfrdwy

Customer awareness of Hafren Dyfrdwy is low

- Most participants are aware of the company name, but know little else about the business
- Most only first became aware of the company when they saw a different name on their water bill
- In general, customers are not concerned about the switch-over, having experienced a continuation of the good service provided by Dee Valley Water, then Severn Trent
 - Though a few in Wrexham associate the switch with a sudden increase in bills, and assumed this was as a direct result of the change
 - For these customers, this is a significant cause for concern

“We didn’t know until we had the next bill and [the name] had changed.”
(Wrexham)

“When it switched from Dee Valley Water, our bill doubled overnight.”
(Wrexham)

Worksheet 1 – Hafren Dyfrdwy

1) What areas do you think Hafren Dyfrdwy spends its money on?

PIPES & MAINTENANCE
DISTRIBUTION
RESERVOIRS
TOURISM

2) What area do you think Hafren Dyfrdwy spends **the most** money on?

DISTRIBUTION

3) What sort of infrastructure/maintenance does Hafren Dyfrdwy need to invest in?

LEAKAGE
RESERVOIRS

Worksheet 1 – Hafren Dyfrdwy

1) What areas do you think Hafren Dyfrdwy spends its money on?

Water, waste, maintenance, staff, sewerage

2) What area do you think Hafren Dyfrdwy spends **the most** money on?

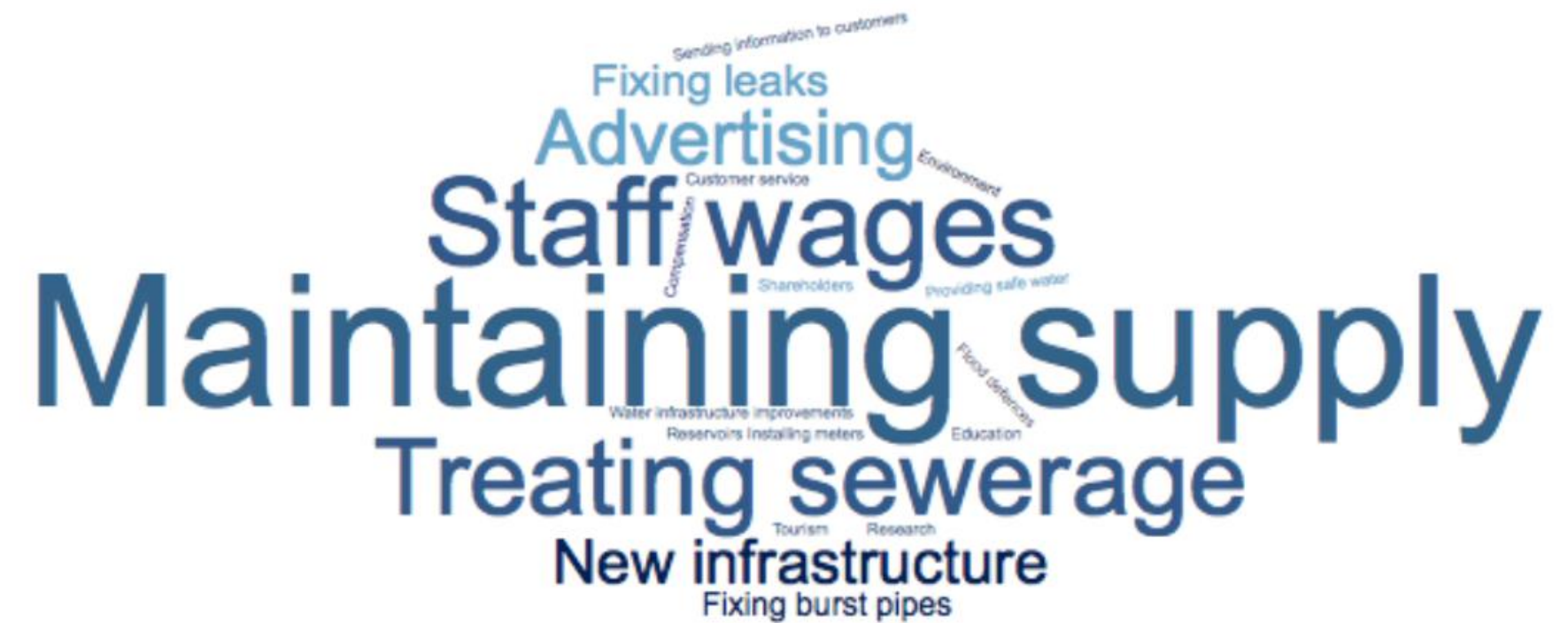
Cleaning the water

3) What sort of infrastructure/maintenance does Hafren Dyfrdwy need to invest in?

Cleaning pipes, repairs, sewerage

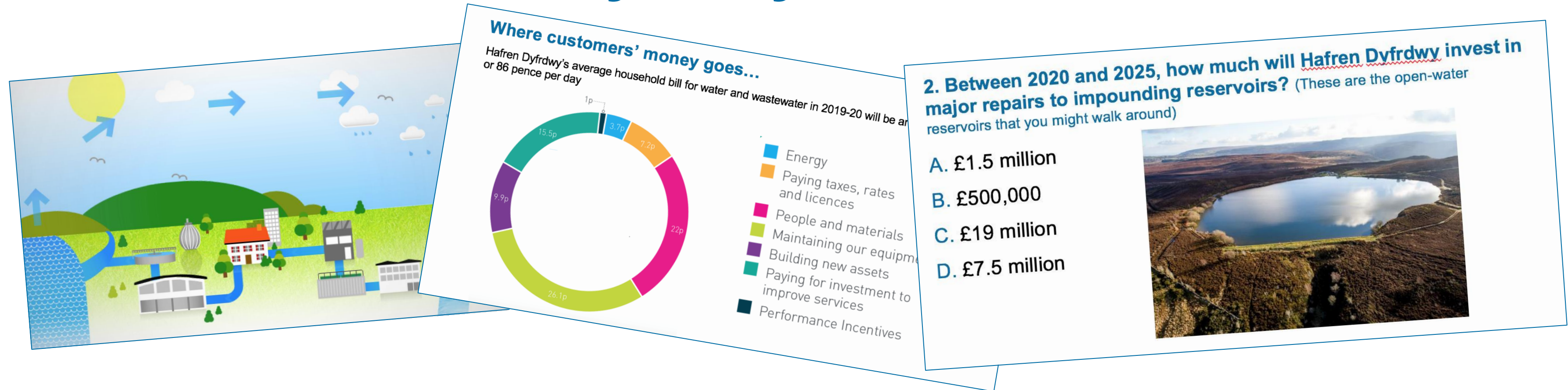
Water bills are lower than other bills customers pay, and they feel positive when they learn that their bills are the lowest in the industry

- Customers are generally happy with their water bill, and say that their water bill is lower than other household bills they pay
- Whilst there is no spontaneous awareness that their water bills are the lowest in the industry, learning this is positively received
 - However, in Wrexham, a few customers say that their bills from Hafren Dyfrdwy are higher than their previous water bills
 - And many say that their bill is higher than the average bill discussed in the workshops



- The word cloud above shows what customers spontaneously think Hafren Dyfrdwy currently spends its money on.
- Primarily, customers understand it spends its money providing a core water service to customers: maintaining the supply of fresh water, and taking wastewater away
- However, more customers think Hafren Dyfrdwy spends money on staff wages and advertising, than on new infrastructure

We presented customers with information about Hafren Dyfrdwy, including the water cycle, its core service areas, and where customers' money goes. A short interactive quiz explained the scale of Hafren Dyfrdwy's investments



Customers welcomed the opportunity to learn about Hafren Dyfrdwy, and say they are keen to know even more

- Most of the information we provided to customers via the presentation and the quiz was new to customers
 - Especially the size and scale of investments, how long reservoirs last, and how large an area Hafren Dyfrdwy covers (120,000 homes and businesses)
- Customers are particularly pleased to hear about investment in biodiversity, environmental sustainability and volunteering
 - For some with children, investment in the environment is particularly front of mind
- The most important information Hafren Dyfrdwy needs to provide customers with is if/when bills are increasing, why this is the case, and what their money is being spent on
 - Many said they wanted more information to be shared to provide the full picture
 - E.g. what volunteering Hafren Dyfrdwy staff take part in, what maintenance work Hafren Dyfrdwy is undertaking in their area, and information about visitor sites
 - They say they are most likely to read this if it was included with their bill, but behaviours indicate otherwise

"I think it's all new, because we don't know anything about the company, even though we use them... It goes back to my point about them being anonymous really."
(Wrexham)

"It's reassuring about vulnerable customers, especially with government cuts."
(Newtown)

Customers are positive about Hafren Dyfrdwy's nine pledges, but feel only time will tell if Hafren Dyfrdwy can deliver on these

Most well received

Having the lowest possible bills

Providing outstanding customer experience

Ensuring the environment is protected and thrives

Ensuring everyone can access and afford water

Making a positive difference

Providing water which is good to drink

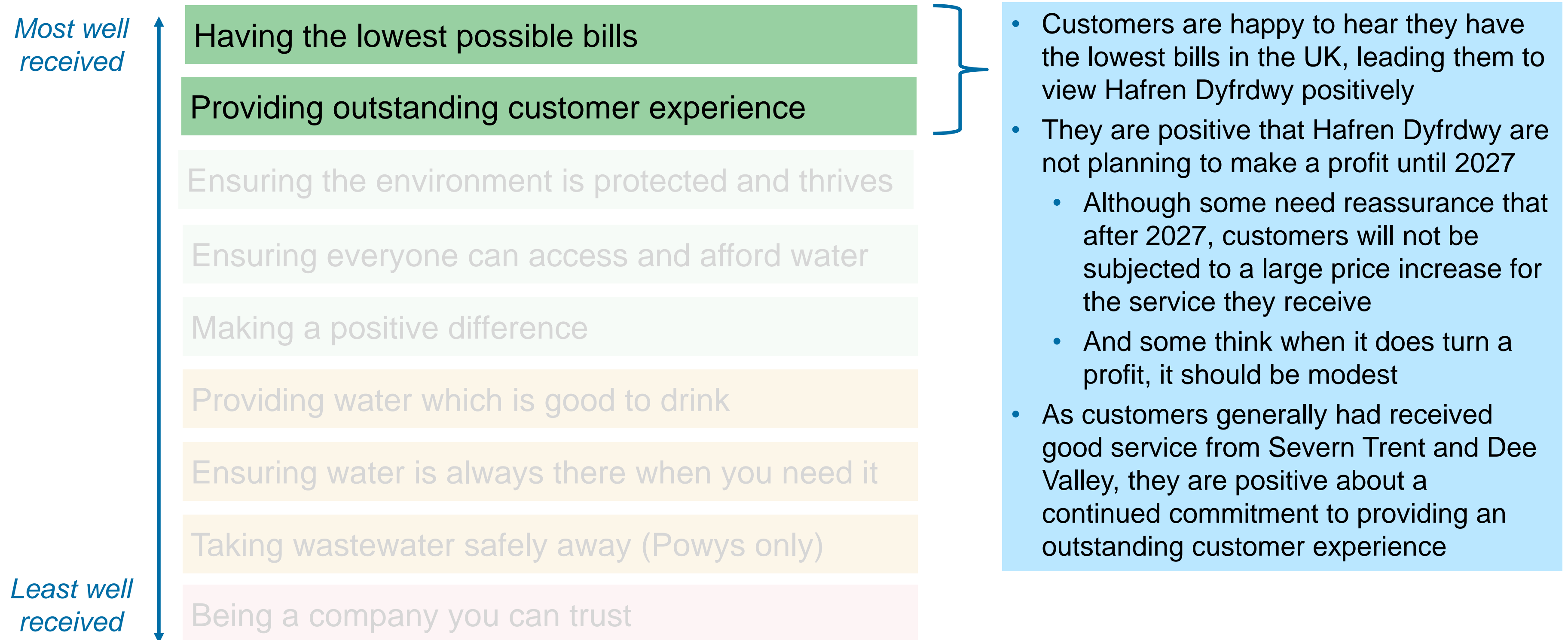
Ensuring water is always there when you need it

Taking wastewater safely away (Powys only)

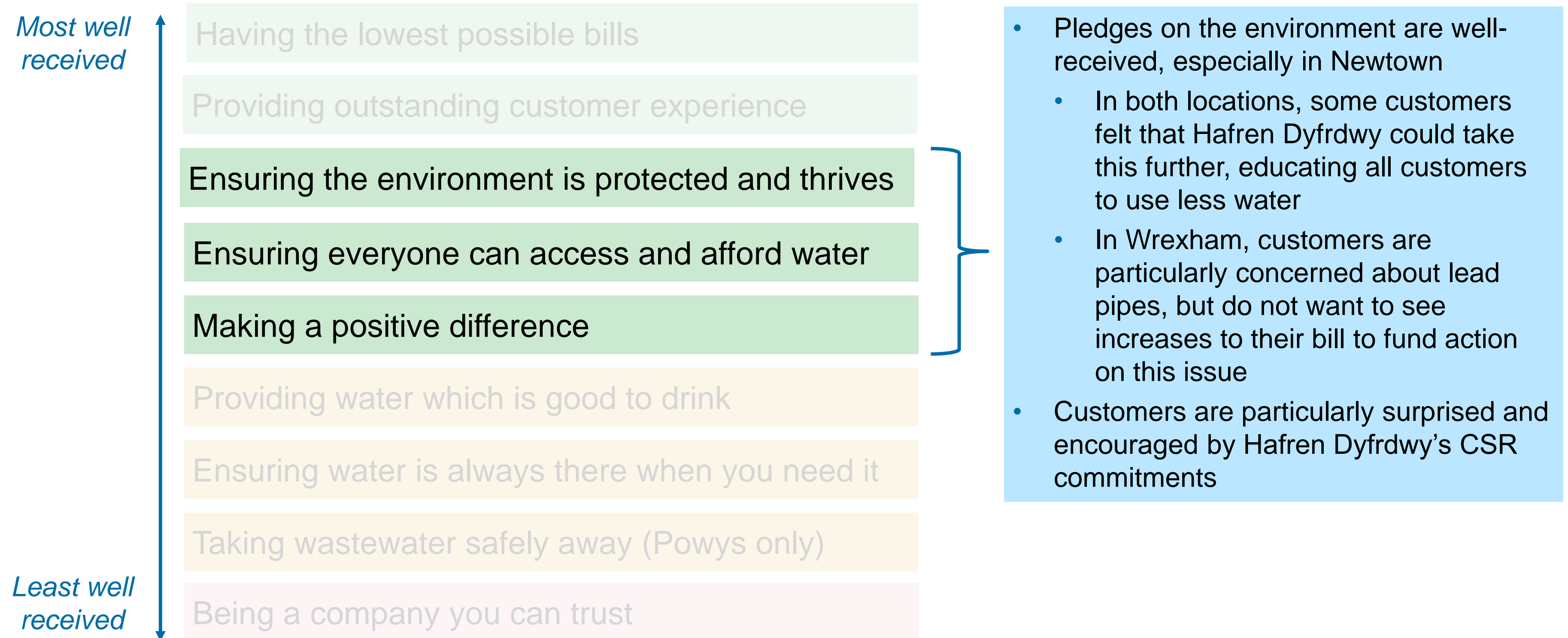
Least well received

Being a company you can trust

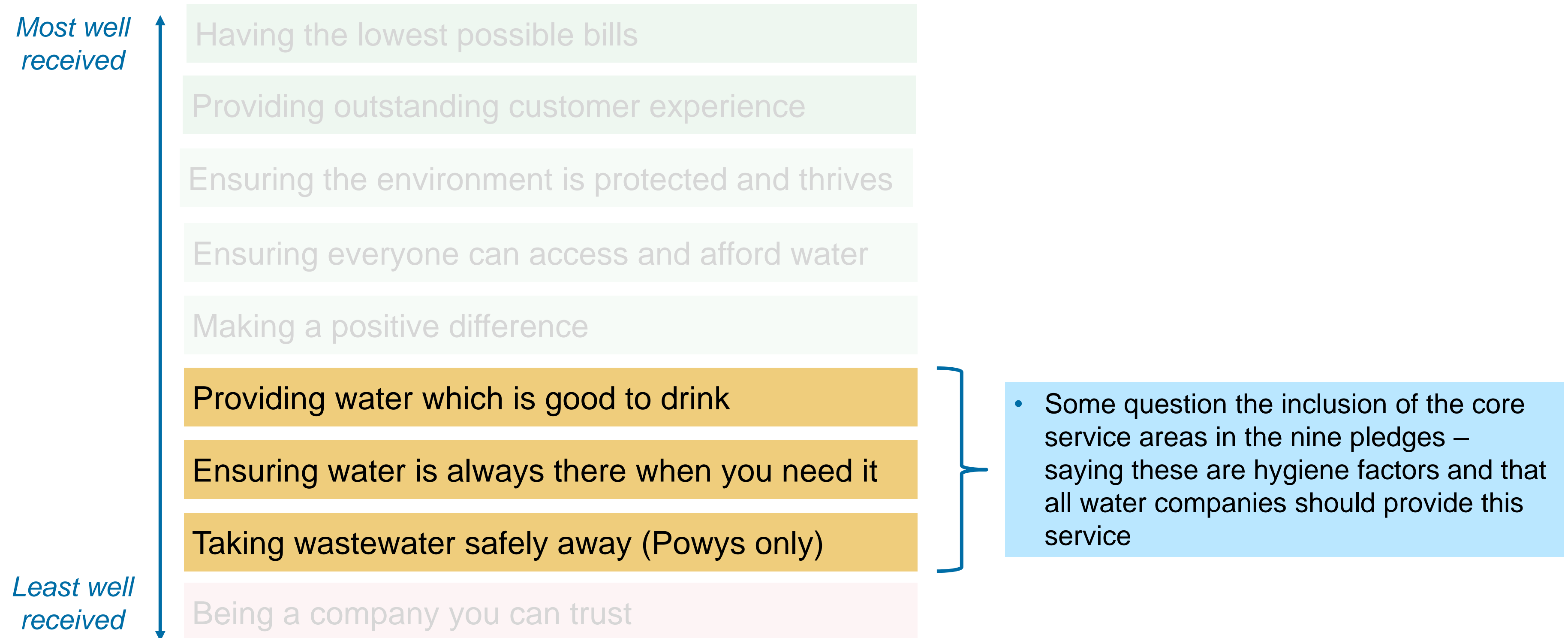
Customers are most positive about the pledges that directly affect them: relating to their bills and customer service



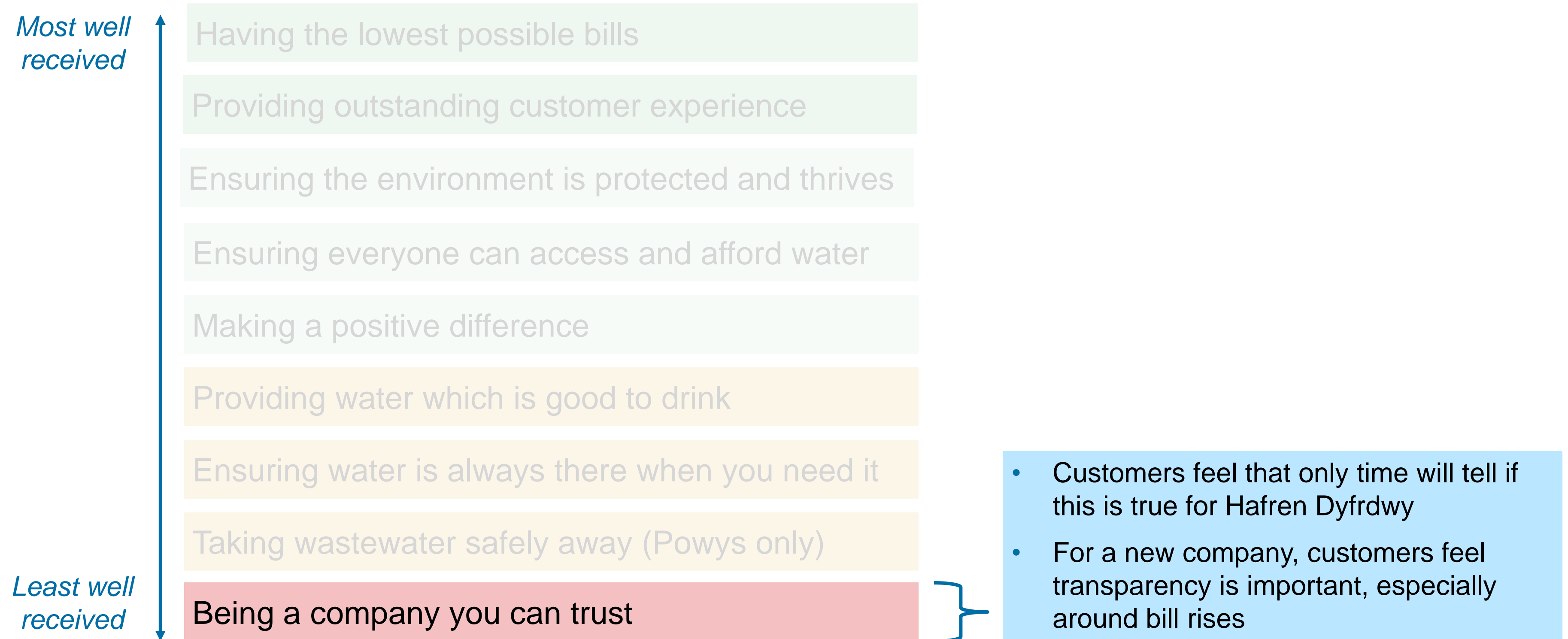
Customers are pleasantly surprised about Hafren Dyfrdwy's pledges relating to helping others and the environment



Core service are seen less as pledges, and more as ‘hygiene factors’



As Hafren Dyfrdwy is a new company, it must prove how much customers can trust it, over time




4 Principles for deciding the balance of charges over time


We presented customers with information about how Hafren Dyfrdwy funds its investments and how customer charges contribute to these over time

Hafren Dyfrdwy is a private company


It funds investment in three ways:



Investment from shareholders



Customer bills




Borrowing


Hafren Dyfrdwy does not intend to make any profit until at least 2027

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45



The costs of past and current investments



Customer bills

Money owed from past investments is partly paid off through customer bills – just like a mortgage.

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Customers accept that it is appropriate for Hafren Dyfrdwy to use customer bills to contribute to the cost of its investments

- Few had considered the investments that Hafren Dyfrdwy makes in detail before
- But upon discussion, no customer challenged the current funding arrangements

“We’re still going to be customers in the future, in all likelihood, so we will benefit from these investments.”

(Newtown)

Customers spontaneously identify some principles Hafren Dyfrdwy should be using when deciding on the balance of charges over time

1

Bills should remain stable

- All want to avoid a scenario where bills change suddenly. For many, this is their *key* concern
- This concern is primarily about sudden rises, but sharp decreases are not desirable either

2

The cost of big investments should be spread out over time

- For some, this is driven by a desire to ensure intergenerational fairness
- But most highlight the fact that they are also future customers. Spreading costs out is therefore a way of ensuring that they do not personally experience significant price increases further down the line

3

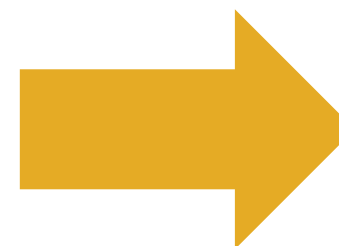
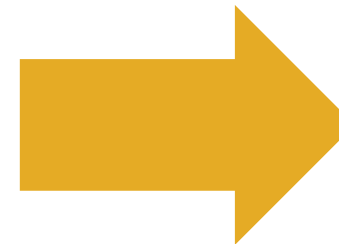
Hafren Dyfrdwy should be transparent about decisions affecting its charges

- Many customers feel they should be actively consulted on changes to bills and updated about the reasons behind any changes

There is strong correlation between customers' spontaneous principles and Hafren Dyfrdwy 's principles, when prompted

Customers' spontaneous principles:

- 1 Bills should remain stable**
- 2 The cost of investments should be spread out over time**
- 3 HD should be transparent about decisions affecting its charges**



Hafren Dyfrdwy's principles:

Bills should be stable over time, avoiding big fluctuations up or down in charges to customers

There should be a fair balance of charges over time

The balance of charges over time should support a credit rating that allows for low cost borrowing to fund future investment

There is widespread agreement that Hafren Dyfrdwy's principles are appropriate and sensible

Bills should be stable over time, avoiding big fluctuations up or down in charges to customers

There should be a fair balance of charges over time

The balance of charges over time should support a credit rating that allows for low cost borrowing to fund future investment

- This is seen as the **most relevant and important principle**
- Almost all participants spontaneously raise this as a principle they would want to see
- The importance of this principle is largely driven by a desire to be able to plan ahead
 - For many, being able to predict their monthly bills is important for balancing their finances
 - And they believe this is even more important for vulnerable customers

"Nobody likes an unexpected sharp rise in bills."
(Newtown)

Customers believe there should be a fair balance of charges over time

Bills should be stable over time, avoiding big fluctuations up or down in charges to customers

There should be a fair balance of charges over time

The balance of charges over time should support a credit rating that allows for low cost borrowing to fund future investment

- Most agree with this principle, though the rationale behind agreement is split
- A minority feel it is an important principle to ensure that each generation of bill payers fairly contributes to the investments in the services they use
 - For most, long-term affordability is not a key concern (particularly when thinking far ahead)
- For a larger number however, they see themselves as customers of Hafren Dyfrdwy long into the future. Ensuring that charges are spread over time is therefore regarded as important to avoid bill rises in future which might impact them
 - In this sense, this principle is seen to go hand in hand with the first – that bills should be stable over time

But they are less concerned about Hafren Dyfrdwy having a good credit rating

Bills should be stable over time, avoiding big fluctuations up or down in charges to customers

There should be a fair balance of charges over time

The balance of charges over time should support a credit rating that allows for low cost borrowing to fund future investment

"I can't go to HD and ask them to help with my credit rating. Why would I be expected to help out with theirs?"
(Wrexham)

- No customers raised this principle spontaneously and for most it is the least resonant
- Customers are not concerned about Hafren Dyfrdwy having a 'good' credit rating – they see this as the company's responsibility, not theirs
- Some do see how an increase to the cost of borrowing would impact their bills. There is therefore some appreciation that Hafren Dyfrdwy is taking the maintenance of a good credit rating into consideration

Awareness of these principles increases trust in the way that Hafren Dyfrdwy sets its bills

- As a set, the principles are felt to be sensible, with all of them contributing to delivering stable bills – which is customers' main concern
- Knowing that bills would be informed by these principles also speaks to customers' desire for transparency in the way Hafren Dyfrdwy sets its bills
- The role of Ofwat in regulating customer bill levels provides reassurance that the final decision is regulated and sensible
- However, most customers feel their trust in Hafren Dyfrdwy would be ultimately driven by the figure they see on their bills. If this does not *feel* fair, or seems to have fluctuated substantially, they expect this would override their faith in the principles

"At the end of the day it's about that number at the bottom of my bill. That's all I look at."
(Wrexham)

"Fairness is important. [Investment] over a longer period will mean no spikes in customer bills."
(Newtown)

"It's good to know that Ofwat is involved. It makes you feel a bit more confident someone's looking into it."
(Wrexham)

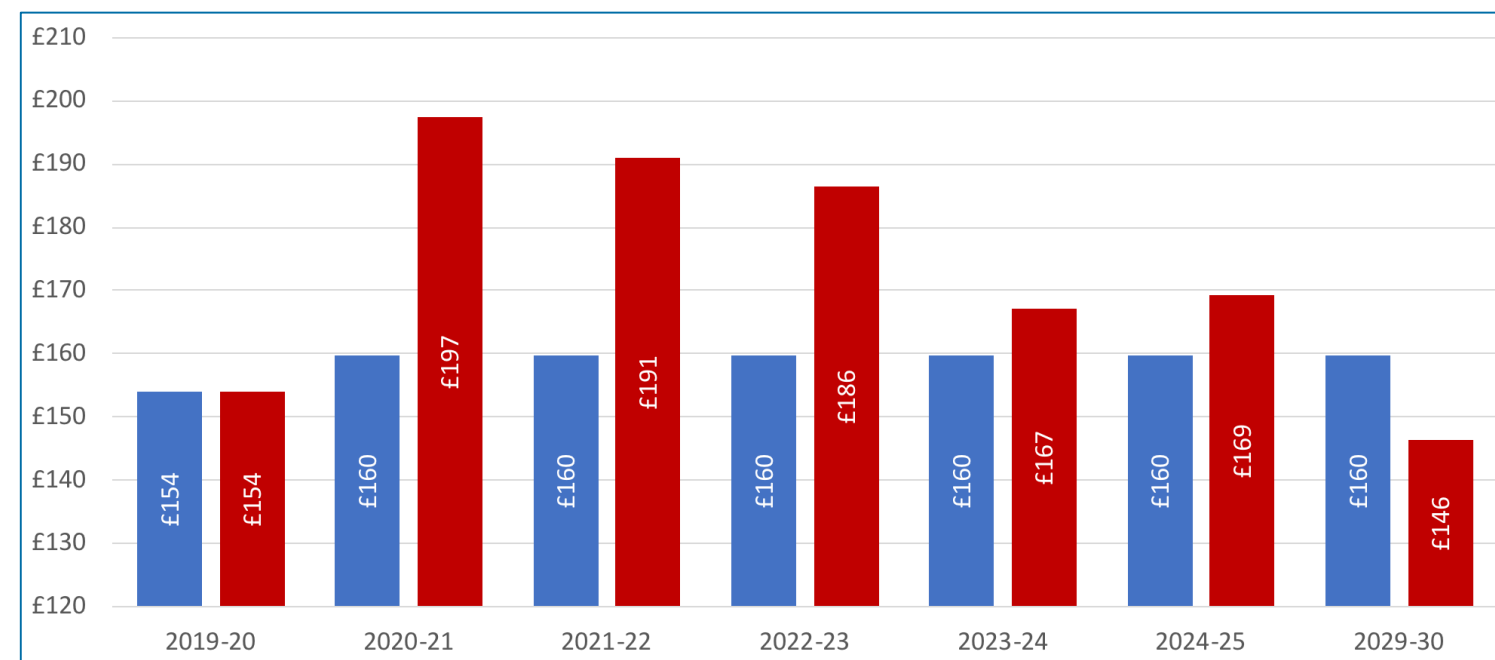
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Responses to Hafren Dyfrdwy 's approach to the balance of charges over time

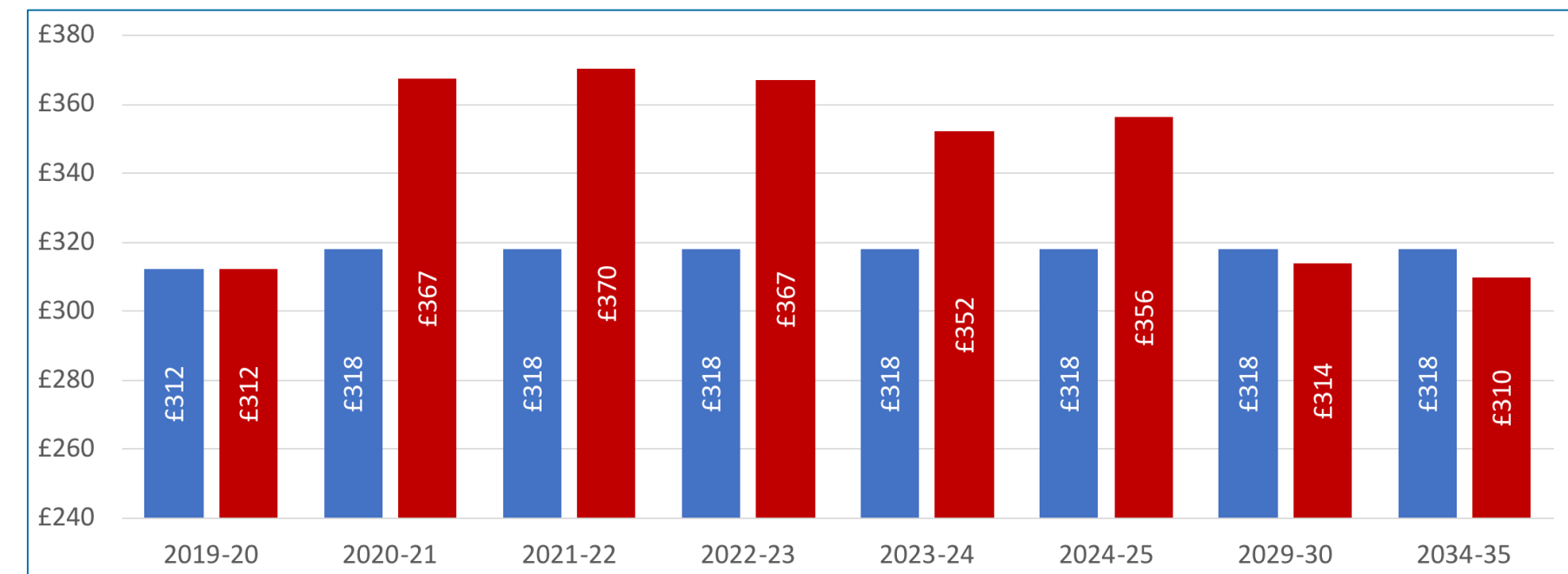
We showed customers two ways Hafren Dyfrdwy could set long term bills – use of levers (blue) or no levers (red)

- Both red and blue options related to the same investment plan but represent different ways of paying it off
- In Newtown, the option of a third scenario (between the two) presented was also discussed

Water bills in Wrexham



Water and sewerage bills in Powys



■ Use of levers ■ No levers

Customers' preference is for stability. They prefer the 'blue' option, to provide consistent bills over time

- Almost all customers say they would prefer Hafren Dyfrdwy's 'blue' option (with use of levers), whereby bills stay stable, even if that means their bills increase sooner
 - This option speaks to their key concern about bill stability and wanting to be able to plan ahead
- Most are sceptical that the 'red' option (with no levers) would deliver lower bills in the longer-term, because:
 - They worry that future investments might mean bills need to stay at a high level – or even increase further
 - Many have *never* experienced a bill reduction, increasing scepticism
- A few customers said they would prefer to pay more now under the 'red' option (with no levers) if this meant paying less in future
 - These customers acknowledge that personally, they are in a financial position to pay more now. They want to know that the approach chosen would also work for vulnerable customers

"In the red option, nobody benefits. We'd like to pay as little as possible for as long as possible. The red option might jump up again in the future."
(Newtown)

"There's no point putting more on the mortgage if there's a bigger jump in the future. It's much better to stay within your means."
(Newtown)

Many are positive towards the concept of ODIs, as long as fluctuations to bills are minimal

- Many believe it is a sensible system to incentivise water providers to meet their targets
- They are relatively unconcerned about the impact on bills so long as this remained very small (less than £10 per year)
- The involvement of Ofwat in regulating bills is positively received
 - For many, knowing that water companies are regulated increases trust that they are being treated fairly by their water provider

"It's good that these incentives are in place, to keep them accountable."
(Newtown)

"It's good. They've got a plan, it involves supply, wastewater and the environment, and [the existence of] Ofwat means they will do what they say they will."
(Newtown)

The way that information about bills is presented can influence customers' views substantially

- When discussing changes in bills before presenting information, most customers identify £10-20 per month as a 'large' increase which would be unaffordable
- The increases shown under the red plan (no levers) plan are far below this (c. £3 per month), however many customers' initial reaction is negative
- On closer examination, some feel that the information could have been provided to present the two plans more fairly. Some customers recommend changes to the chart so that the differences do not look so stark:
 - Displaying monthly bills instead of yearly
 - OR: having an axis starting at 0
- There is also a recommendation to display a wider range of bill profiles beyond the average - e.g. the average family of four
 - Ultimately, customers want to know what bills would look like *for them*

"For me, more than £10 would be a large increase in my water bill."
(Newtown)

"The graph is a bit misleading. It doesn't start at 0 and should show the future bills."
(Newtown)

"Everyone just wants to know – 'how will it affect me?'"
(Wrexham)

Customers' desire for more information about their bills poses a challenge for Hafren Dyfrdwy, given low engagement with current communications

Desire for more communication

- Customers say they want to see information about principles informing bills and anticipated long-term bill profiles communicated to them
- Many feel the best way to do this would be via additional information on their bill
- Some also want to see information about what their bills contribute towards and particularly:
 - Any local projects their bills contribute to
 - Investments in environment, vulnerable customer support, and volunteering initiatives

But...

Low reported use of current communications

- Few customers report that they read their bills or letters from their water provider in detail, if at all
- This is evident in low spontaneous knowledge of Hafren Dyfrdwy. Some recall receiving a letter about the change of company, but few could recall any detail
- Therefore despite stated desire for communications, the cut-through of these may be limited

Customers' advice for Hafren Dyfrdwy focuses on the topics of customer service, bill stability, water use and the environment

Provide great customer service

- Listen to customers
- Keep customers informed about what their money is being spent on, particularly if there are large changes to their bills

Keep bills stable

- Help customers to plan ahead
- Reduce bills for vulnerable customers, e.g. older people

Help customers use less water

- Educate children from primary school age about water consumption
- Help all customers reduce their water bill, e.g. by encouraging meter use

Protect the environment

- Consider the environmental impact of infrastructure investments
- Ensure that new infrastructure plans are future-proof, with the capacity to cater for a larger population

6

Recap of key findings

Key findings

1

Awareness of Hafren Dyfrdwy is low amongst customers

- Many say that they first became aware of the transition to the new company when they saw the name had changed on their bill. Of those who remember seeing a letter, few could remember any detail

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Of Hafren Dyfrdwy's nine outcomes (we called them pledges in the workshops), customers highlight the focus on vulnerable customers, volunteering and the environment as especially important and welcome

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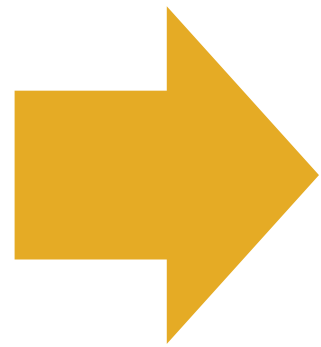
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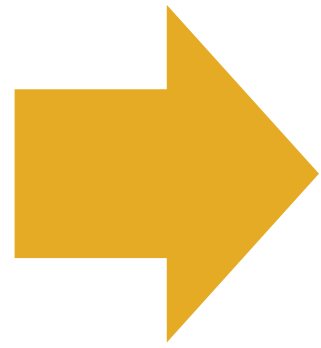
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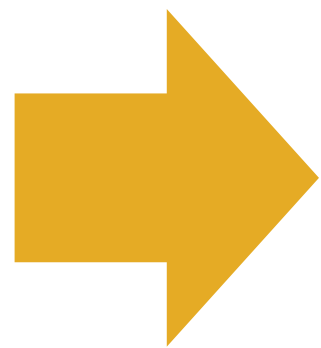
Implications for Hafren Dyfrdwy



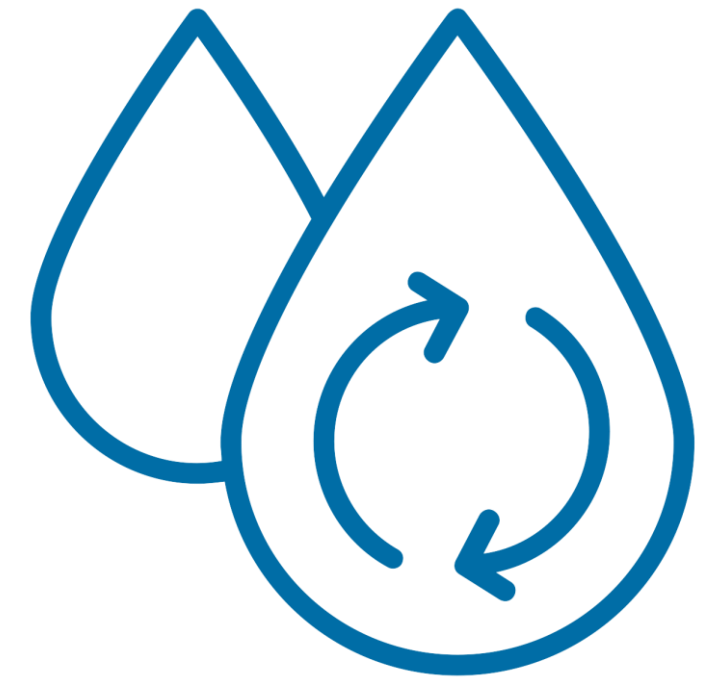
- **Hafren Dyfrdwy is starting in a good place:** customers have had a positive experience of Severn Trent/Dee Valley, and have no reason *not* to trust Hafren Dyfrdwy
 - Transparency over future bill increases would help them to build trust in Hafren Dyfrdwy



- **Hafren Dyfrdwy can feel confident that customers have endorsed its proposed long term bill profile**
 - Which effectively speaks to customers' key concern of bill stability and wanting to be able to plan ahead



- **Hafren Dyfrdwy can also feel confident that the principles that underpin its long term bill strategy have customer support**



Thank you

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