

Report to Ofwat
on
Affinity Water's Customer Engagement Programme
by the
Customer Challenge Group

26 November 2013

Contents

Foreword.....	4
Formation of the Customer Challenge Group (CCG).....	4
Membership of the CCG	4
Governance arrangements with Affinity Water	5
Preparation of our report to Ofwat.....	5
Chapter 1 – Executive Summary.....	7
Overview	7
Key areas of Affinity Water’s Business Plan that Ofwat should examine	9
Points for noting that we believe do not require detailed examination by Ofwat	11
Late changes to Affinity Water’s Business Plan.....	12
Comments from the regulators about Affinity Water’s Business Plan	12
Assurance	13
Chapter 2 - Affinity Water’s engagement with its customers.....	15
Overview	15
Demographics of the customer base, water use and metering	15
Scope	16
Methodology.....	17
Statistically significant surveys.....	18
Customers’ views on the four expectations.....	19
Social Tariffs.....	22
Willingness to Pay.....	23
Bill Acceptability	24
Total Bill Acceptability and the Thames Tideway Tunnel.....	26
Chapter 3 – Narrative	27
Overview	27
Phase 1: Listening and Learning.....	28
Consultation on Strategic Direction Statement and pre consultation on the draft Water Resources Management Plan (dWRMP).....	28
“Investing for your community”	30
Phase 2: Testing and Valuing	36
Publication of Strategic Direction Statement	37
Publication of the draft Water Resources Management Plan.....	38
Willingness to Pay.....	39
Bill Acceptability, phase 1: Testing multiple plans	44
Online Panels.....	48
Phase 3: Revisiting and Assuring	53
Bill Acceptability, phase 2: Testing £1.80 increase	53
Metering Deliberative Forums.....	54
Vulnerable customers focus groups	55

Business Plan	56
Last three meetings with the Affinity Water Board	58
Chapter 4 – Themes	59
Overview	59
Investment options, Willingness to Pay and bill acceptability	59
Social Tariffs	60
Debt.....	61
Leakage	62
Metering	63
CCG Report Appendices	66
Appendix 1 Information for members, including Terms of Reference	67
Appendix 2 Assurance Reports	87
Appendix 3 CCG Members.....	110
Appendix 4 Chronology	116
Appendix 5 Agendas and Minutes of Meetings	121
Appendix 6 Challenge Records	186

Foreword

In my foreword, I would like to describe to readers of our report to Ofwat:

- How the Affinity Water Customer Challenge Group was formed
- Who were the members
- How we managed our governance arrangements with Affinity Water and
- How we prepared our report to Ofwat.

Formation of the Customer Challenge Group (CCG)

During the spring of 2012, Affinity Water commissioned Odgers Berndtson, an executive search firm, to identify suitable candidates for the role of Chair of the CCG. A panel of Affinity Water executives interviewed the long-listed candidates. Affinity Water's Independent Board members interviewed the short-listed candidates and selected me for the role.

I used Ofwat's proposed model¹ as the basis for forming the CCG. As Affinity Water had three, physically separated regions, I ensured we had representation across these geographical areas.

Our CCG differed from Ofwat's model in two respects. First, Natural England declined an invitation to join the CCG, and asked the Environment Agency to provide its perspective. Second, despite extended engagement with Citizens Advice, they were unable to identify a volunteer who could devote the necessary time to our work. Consequently, I asked the Managing Director of Charis Grants to join the CCG to ensure the needs of vulnerable customers were fully taken into account during the customer engagement process.

To support its recruitment of an independent Chair, Affinity Water prepared a draft Terms of Reference for the CCG using the Ofwat model. After accepting the role, I amended and approved the Terms of Reference during June 2012. The final terms of reference were provided to all prospective candidates for the CCG. No further amendments were proposed in 2012 – 2013.

Membership of the CCG

I am pleased to report that our membership has proven to be very stable, and I am grateful to all colleagues for their work and support. On three occasions, members changed employers, but still continued their work on the CCG. Our membership comprised the following:

Statutory Representatives

Jacky Atkinson, Drinking Water Inspectorate
Jim Barker, Environment Agency (or his deputy David Howarth)
Karen Gibbs, Consumer Council for Water (and an Affinity Water domestic customer)
Jill Thomas, Consumer Council for Water

¹ Involving customers in price setting – Ofwat's customer engagement policy statement, pages 25 - 26

Independent Representatives

Allyson Broadhurst, Charis Grants
Keith Cane, East Kent Housing (and an Affinity Water domestic customer)
John Fox, Tendring District Council (from 15 October 2013)
Tim Hutchings, formerly at Hertfordshire Chamber of Commerce and Industry
Allan Johnson, formerly at Tendring District Council
Mark Kibble, Dacorum Council
Lucy Lee, WWF, representing Blueprint for Water
Hazel Smith, GlaxoSmithKline (and an Affinity Water domestic and business customer)
Mark Tomkins, Heathrow Airport (and an Affinity Water business customer)
Damian Williams, Tendring District Council (from 15 October 2013)

During 2013, Allan Johnson left Tendring District Council to take up a new role at Harlow Council. He kindly agreed to remain on the CCG until the completion of our Report. To ensure representation from Tendring, two new members from Tendring District Council joined the CCG in October 2013: John Fox and Damian Williams. They were not party to the preparation of this report.

Members' biographies/autobiographies can be found in an Appendix.

Governance arrangements with Affinity Water

As Chair, I always had a designated Board contact. This contact changed twice due to changes of Board membership related to the sale of the UK regulated assets of Veolia Water. Since May 2013, the designated contact has been the new Executive Chairman of Affinity Water, Dr Phil Nolan. The Board made it clear that I should not hesitate to contact them if I had any concerns; however, I never found it necessary to contact the Board to report difficulties in my engagement with Affinity Water.

In conducting my work, my regular contacts were with a number of Affinity Water executives. Tim Monod, Director of Regulation and the Company Secretary, was the senior executive responsible for supporting the CCG. Liz Allen, Stakeholder Engagement Manager, managed the interface with the CCG, ably supported by Margaret Griffiths. Chris Offer, Head of Regulation, was another frequent contact. I would like to thank them and their other colleagues for their willingness to help us undertake our review. Care was taken to ensure that these administrative arrangements did not compromise the independence of the CCG.

Preparation of our report to Ofwat

I drafted all of our report. I am grateful to two of my fellow CCG members, the representatives from the Consumer Council for Water, for their review of the early drafts.

Affinity Water also reviewed drafts of this report and advised when I inadvertently made factual errors. I would like to record that Affinity Water was scrupulous in ensuring the independence of the CCG, and never made any attempt to influence the CCG's judgments expressed in our report.

Affinity Water provided the minute taker at all our meetings, and the CCG took care to review, correct and approve the minutes.

During the five CCG meetings held from May through November 2013, the CCG collectively reviewed and amended these drafts. Affinity Water employees were asked to excuse themselves during the CCG's discussions of drafts of our report. Version controls enabled CCG members to identify all amendments and additional text added since our previous review.

The CCG is solely and collegiately responsible for the opinions expressed in this report.

Our original plan for the preparation of our report was based on our understanding that the Affinity Water Board would make all the key financial decisions at its Board meetings in October 2013. In reality, the Board continued to refine its plans after that date, and we received the final numbers after the Board approved them at its meeting on 20 November 2013.

As a result, the CCG was never given a final copy of the Affinity Water Business Plan. Our review was based on presentations, studies and preliminary drafts of the executive summary (section 2) of the Business Plan.

Our final report was approved at our meeting on 18 November 2013, subject to the Affinity Water Board approving its Business Plan in line with our briefings for a real price decrease over the price review period 2015 – 2020.

We advised Affinity Water that we would bring to Ofwat's attention any material changes made to the Business Plan after the Board meeting on 20 November 2013, as we would not have time to examine the changes in detail. These changes are listed in Chapter 1, the Executive Summary.

Robin Dahlberg
Chair, Affinity Water Customer Challenge Group

Chapter 1 – Executive Summary

Overview

- 1.1 The Customer Challenge Group (CCG) has three key roles:
 - Review the company's customer engagement process and the evidence emerging from it, to ensure customers' views are considered as the company develops its business plan
 - Challenge the phasing, scope and scale of work required to deliver outcomes, including legally prescribed standards and the requirements of the Drinking Water Inspectorate (DWI) and Environment Agency (EA)
 - Advise Ofwat on the effectiveness of the company's engagement, and on the acceptability to customers or otherwise of the company's overall business plan and bill impacts.
- 1.2 This report describes the customer engagement process and how the company took into account its customers' views when preparing its Business Plan. This process was controlled by a formal procedure. It documents our challenges to the company and its responses. Our report includes the views of the regulators and our advice to Ofwat.
- 1.3 Ofwat has clearly stated that they will take into consideration the report from the CCG when deciding how to allocate resources to examine Affinity Water's Business Plan.
- 1.4 To support this objective, in our Executive Summary, we include all our significant observations on Affinity Water's Business Plan. Further, we divide our observations into three categories:
 - First, we highlight the key areas where we believe Ofwat should examine in detail Affinity Water's Business Plan, which include important areas where we lack the expertise to make an informed judgment or differ from the company's interpretation of its customer research
 - Second, we note other areas that we examined and concluded that Affinity Water's Business Plan adequately reflects its customers' views; thus, we do not believe Ofwat needs to allocate resources to examine in depth these aspects of the Business Plan
 - Third, as our review rests largely on a draft version of Affinity Water's Business Plan, we list any significant late changes to the Business Plan which we did not have sufficient time to examine, and invite Ofwat to decide whether to scrutinise these areas.
- 1.5 Ofwat asked the Drinking Water Inspectorate, the Environment Agency and Natural England to include in this report their observations about Affinity Water's Business Plan. To accommodate this request, the CCG invited the regulators to provide text for inclusion in the Executive Summary and to write a letter giving a fuller explanation of any issues they wish to draw to Ofwat's attention. Their supporting letters are included in the Appendices.

1.6 We believe it would be useful for Ofwat if we note here several points related to the preparation of the Business Plan.

- First, we believe it is significant that Affinity Water has redefined its vision. Affinity Water's vision is "To be the leading community-focused water company." This statement was developed in 2011, in part to create a shared vision to support the unification of the three separate geographical areas. For Affinity Water, the vision represents a journey as the company strives to understand the needs of each community, where a community is defined as a water resource zone, of which there are eight in total, six in the Central Region and one each in Essex and East Kent. Affinity Water believes they have a responsibility to support local economies and to deliver environmental sustainability, as well as to satisfy each customer's needs.

In the opinion of the CCG, the new vision has symbolic importance as it represents a switch in focus towards customers and their communities. We believe it will be interesting to see how well Affinity Water is able to achieve this long-term aim and to develop its community-based service delivery objectives.

- Second, Ofwat should note that Affinity Water uses "expectations" instead of "outcomes" in all its communications with customers. For consistency, as our report describes Affinity Water's engagement with its customers, we will also use "expectations."
- Third, in part due to workload and priorities dictated by the sale by Veolia Water, we were the last Customer Challenge Group to be formed. As a result, we did not have a chance to influence Affinity Water's customer consultation work undertaken before our first meeting in September 2012.
- Fourth, as the CCG, we believe we have maintained our independence from Affinity Water through the following actions:
 - Making robust challenges, documented in this report and in the minutes of our meetings
 - Writing of the CCG Report, which was done by the CCG Chair and members, without any interference from Affinity Water
 - Asking all Affinity Water employees to leave the CCG meetings during the periods when we reviewed our draft report and determined our opinions
 - Reporting directly to the Affinity Water Board: the CCG Chair reported to the Affinity Water Executive Chairman, and the CCG Chair attended Affinity Water Board meetings to provide our views.

- 1.7 The Executive Summary is intended to be a stand-alone document containing all our major conclusions. To see other aspects of our work, we invite Ofwat to consider the following sections of our report:
- “Foreword”: includes information on the formation of the CCG, our membership, our governance arrangements and our drafting of our report.
 - Chapter 2, “Affinity Water’s engagement with its customers”: provides a description of Affinity Water’s customer engagement program, including demographics, scope, methodology and outcomes.
 - Chapter 3, “Narrative”: narrates how the CCG observed Affinity Water’s customer engagement program, and how we interacted with the company. This chapter also evidences the many challenges we made during the process.
 - Chapter 4, “Themes”: notes the outcome of our examination of some of the cross-cutting themes that Ofwat raised during its consultations on the Price Review 2014 (PR14):
 - Investment Options, Willingness to pay and bill acceptability
 - Social Tariffs
 - Debt
 - Leakage
 - Metering.
 - “Appendices”: comprises a set of documents to support and evidence our work:
 - CCG Terms of Reference
 - Assurance documents from the Drinking Water Inspectorate, Environment Agency and Mr Doug Hunt (of WS Atkins Ltd.)
 - CCG members’ biographies and autobiographies
 - Chronology
 - Minutes of CCG meetings
 - Challenge Records.

Key areas of Affinity Water’s Business Plan that Ofwat should examine

Proposed bill changes and key financial variables

- 1.8 We do not believe that the members of the CCG have the expertise to make a sound judgment on the financial assumptions in Affinity Water’s Business Plan, nor do we believe this falls within our remit. Accordingly, we recommend that Ofwat examine in detail these aspects of the Business Plan.
- 1.9 We note that the company has changed its gearing from 45% to 65% in 2009 and then to 77% in 2013.
- 1.10 Affinity Water’s Business Plan has an assumed real, pre-tax debt, post-tax equity cost of capital of 4.3%. Affinity Water informs us that this is consistent with an industry cost of capital of 4.1%, supplemented by a 0.4% premium to reflect Affinity Water’s operational characteristics and the risk it has included in the Business Plan. Affinity Water has indicated, that should Ofwat accept its cost of capital, this would be equivalent to it sharing 0.2% of this premium with customers as it has made financing efficiencies and considers it appropriate to share some of this with its customers.

1.11 Affinity Water's Business Plan anticipates that the average household bill will reduce in real terms by 0.7% per annum between 2015 and 2020.

1.12 The anticipated bill profile changes are as follows:

Year	Change	Average household bill
2015/16	-0.70%	£164.10
2016/17	-0.70%	£162.90
2017/18	-0.70%	£161.80
2018/19	-0.70%	£160.70
2019/20	-0.70%.	£159.50

1.13 ***The CCG welcomed the commitment that we have received from the company that the 'final business plan will show bills reducing in real terms between 2015 and 2020.' We believe that customers will support this proposal. However, we have asked the company to consider whether it could include a fair profits agreement in its business plan which would offer the possibility of a fair customer/shareholder balance should there be outperformance for the company around the financing assumptions built into the plan.***

Metering

1.14 To support its commitment to managing its environmental impact by reducing abstractions from critical groundwater sources, Affinity Water plans to introduce compulsory metering in the six water resource zones in the Central Region over the next two price review periods.

1.15 Affinity Water assumes (with good evidence) that introducing metering will change customers' behaviour so that they reduce their water consumption by 10%.

1.16 ***The CCG noted with interest that the Consumer Council for Water welcomes Affinity Water's phasing of compulsory metering over two price review periods, in part because it reduces the impact on customers' bills over the next five-year price review period. Rolling out metering over seven years should provide additional time for the company to make its customers aware of the water resource challenges it faces, and how metering will help address these issues. Further, the slower delivery plan will provide additional time for the company to develop and to explain the transitional arrangements that will help its customers who are not in favour of metering or who are likely to see their bills increase substantially from the introduction of metering.***

1.17 ***The CCG accept that metering is only one of the tools (albeit the most important one) that Affinity Water intends to use to manage down demand for water; however, we are concerned that one consequence of extending the delivery of universal metering and of offering a two-year transition period is that it risks delaying the expected reduction of water use by customers.***

1.18 ***We recommend that Ofwat form a view on how effectively Affinity Water has balanced the competing requirements of delivering abstraction reductions, introducing compulsory metering and minimising increases in customers' bills.***

Rewards for reducing leakage

1.19 Affinity Water is proposing thirteen measures for the four outcomes ("expectations") the Business Plan will deliver. Only two of the measures provide a possible financial reward: the Service Incentive Mechanism (SIM) and leakage reduction. The incentive package for leakage reduction provides a potential upside of up to +1.06% of total revenue, as well as a potential downside of up to -1.67% of total revenue.

- 1.20 ***The CCG challenged the company to show the evidence that customers would support this approach.***
- 1.21 In response, Affinity Water noted that in the stated preference research both households and businesses placed a high value on reducing leakage, and an even higher value on avoiding increases in leakage.
- 1.22 ***The CCG noted that the WRMP strategy was revised to make leakage a bigger contributor to the supply demand balance as a consequence of the research and stakeholder feedback and is now in effect below the economic level. The CCG believes that the customer engagement programme evidences that this approach is endorsed by customers.***
- 1.23 ***The CCG are not entirely convinced that this evidences that customers believe that the company should be rewarded for reducing leakage beyond the target set, in part because customers were generally against paying the company more for doing the job they are supposed to do. However, we also recognise that customers often perceive that reducing leakage is self-financing, and this may not always be the case.***
- 1.24 ***The CCG has a second concern about this incentive which is that the way in which it is designed to be delivered does not fit with the five-year pattern for other incentives and will not be easy for customers to understand in terms of a company claim of delivering reduced bills in real terms. Accordingly, we recommend that Ofwat forms a view on the reasonableness of the company's incentive proposal for leakage reductions.***

Measures of success and the Outcome Delivery Incentives

- 1.25 ***In addition to the challenge on the leakage incentive, the CCG has also challenged Affinity Water on its other measures of success and invite Ofwat to look closely at these.***

Points for noting that we believe do not require detailed examination by Ofwat

Total bill acceptability

- 1.26 Affinity Water bills most customers on behalf of wastewater providers; therefore, the company commissioned statistically significant studies on the bill acceptability of the water bill as well as the combined water and sewerage bills. Thames Water provides wastewater services to 80% of Affinity Water's customers. It is clear from Affinity Water's research that including Thames Water's proposed price increase to fund the Thames Tideway Tunnel will make the total bill unacceptable to these customers.
- 1.27 ***The CCG challenged Affinity Water on how it would deal with this situation. We asked about its intentions on engaging with customers to inform them of the price change and to mitigate the impact on vulnerable and low-income customers. It is the CCG's opinion that the company is committed to devising an engagement programme, and note that most of this work will necessarily be done after the preparation of the Business Plan.***

Abstraction reduction

- 1.28 Following discussions with the Environment Agency (EA), Affinity Water has committed to reducing abstractions by 42 Ml/d from critical groundwater sources.

- 1.29 ***We note that the EA says that this level of abstraction reduction is required. The CCG also note that it is WWF's view that this reduction in abstraction is essential to protect the globally unique and fragile chalk stream ecosystems from which Affinity Water currently abstracts water. Where it has been proven that the current level of abstraction is causing damage to the environment, abstraction should be reduced to sustainable levels to meet the requirements of the Water Framework Directive. Further, it is the CCG's opinion that the statistically significant studies showed that most customers supported the company's approach to abstraction reductions.***

Late changes to Affinity Water's Business Plan

- 1.30 Mr Doug Hunt, who is employed by WS Atkins Ltd., provided us with assurance around Affinity Water's preparation of its Business Plan. Mr Hunt assured us that Affinity Water did not make any material changes to its Business Plan after we reviewed it. Mr Hunt's assurance report is included in the Appendices.
- 1.31 ***Based on Mr Hunt's assurance, the CCG has no late changes that we wish to bring to the attention of Ofwat.***

Comments from the regulators about Affinity Water's Business Plan

- 1.32 **The Drinking Water Inspectorate (DWI)** had a representative on the CCG. The DWI wrote to the CCG providing its view on the Business Plan, drawing our attention to Affinity Water's five formal proposals to improve drinking water quality. The DWI letter is included in the Appendices.
- 1.33 **The Environment Agency (EA)** had a representative on the CCG, who had a deputy who attended in his absence. Included in the Appendices are copies of letters dated 1 and 21 November 2013 received from the Environment Agency.
- 1.34 The EA provided the following summary of its key concerns for incorporation into this report:

Environment Agency representatives have regularly attended the CCG. Included in the appendices of this report are copies of the relevant correspondence between the Agency and Affinity Water (dated 1st and 21st November). The comments in this correspondence were made following dialogue with the company throughout the business planning process and WRMP process, including the Statement of Response, and up to the date on the relevant correspondence. These comments were made without having seen the complete and final proposed business plan. The Environment Agency expects to continue to work with the company on some of the details of its proposals, however they do not anticipate any material changes in their overall response.

In the Environment Agency's view, from the information provided, they understand that the company is planning to meet its statutory environmental requirements set out in Defra's Statement of Obligations, and they welcome the company's commitment to meeting them.

- 1.35 **Natural England** (NE) was invited to provide a representative for the CCG. They declined the offer due to resource constraints, and said the EA would represent its views. On 25 November 2013, NE contacted the CCG Chair and asked to have a copy of the CCG Report. The CCG Chair emailed the final draft report to NE, who asked that the following text be added to our report:

Natural England was represented on the CCG by the Environment Agency, and its views on Affinity Water's business plan were included in a letter from Environment Agency to Affinity Water dated 1 November 2013. Natural England also provided detailed comments to the company on its draft Water Resources Management Plan (dWRMP) and associated Habitats Regulations Assessment and Strategic Environmental Assessment (1 August 2013). Natural England is awaiting the further work on the Strategic Environmental Assessment (SEA) requested in response to the dWRMP with regards to potential impacts on landscape and biodiversity.

Natural England provided the following statement about delivery of the company's statutory obligations with regards to the natural environment:

Affinity Water has informed us that statutory duties relating to biodiversity and the conservation and enhancement of designated sites will be met through estates management and the continuation of the biodiversity programme into AMP6. Natural England welcomes this commitment. However we have not seen the draft business plan so cannot comment on the extent to which this has been incorporated into Affinity Water's plan, or whether measures of success or targets relating to biodiversity have been identified.

Assurance

- 1.36 In forming our opinion, the CCG received assurance from the following sources:

- Interaction with the Affinity Water Board
- Four statutory organisations: Consumer Council for Water (CCWater), Drinking Water Inspectorate (DWI), the Environment Agency (EA) and Natural England (NE)
- Mr Doug Hunt, who works for WS Atkins Ltd. and fulfils Affinity Water's Reporter role.

- 1.37 Throughout the process of preparing the Business Plan, Affinity Water's Board engaged with the CCG, usually through the CCG Chair. Between May 2012 and November 2013, the following meetings took place with some or all of the Affinity Water Board members:
- On 30 May 2012, the final interviews for the candidates for the post of CCG Chair were conducted by a panel consisting of the three Independent Board Members. The Independent Board Members then selected the CCG Chair.
 - On 30 October 2012, the CCG Chair attended the Affinity Water Board meeting to brief the independent and shareholder non-executives.
 - On 21 May 2013, the CCG Chair attended the Affinity Water Board meeting to brief the Board on the CCG's work and plans.
 - On 10 July 2013, the CCG Chair met Dr Phil Nolan, the new Affinity Water Executive Chairman.
 - On 18 September 2013, the Affinity Water Executive Chairman (Dr Phil Nolan), an independent non-executive (Fiona Woolf) and one shareholder non-executive (Kenton Bradbury) attended the morning session of the CCG meeting to discuss matters of concern.
 - On 23 October 2013, the CCG Chair attended the Affinity Water Board meeting, updated them on our progress and advised on the matters we thought should concern the Board.
 - On 20 November 2013, the CCG Chair presented the CCG's draft report to the Affinity Water Board.
- 1.38 Since the inaugural CCG meeting, three statutory organisations were represented on the CCG: CCWater, DWI and EA. Natural England were asked to send a representative, but declined and asked the EA to represent them. At our CCG meetings, these representatives provided updates on regulatory matters and advised the CCG members on regulatory issues and other matters of research and experience in respect of water consumer issues. When the draft Business Plan was available for inspection, the statutory organisations were also asked to provide the CCG with formal assurance that the Plan met the statutory requirements. Their letters of assurance are attached as appendices to this report, and their summary findings are incorporated earlier in this chapter.

Chapter 2 - Affinity Water's engagement with its customers

Overview

- 2.1 In this chapter, we describe the customer engagement process used by Affinity Water to inform the development of its Business Plan. We give our opinion on Affinity Water's customer engagement programme and note a number of issues.
- 2.2 For a detailed narrative of the Customer Challenge Group's (CCG) interaction with Affinity Water during the customer engagement process, please see Chapter 3 "Narrative." Chapter 3 also contains extracts from outcomes from all the customer engagement events.
- 2.3 ***The CCG believes that throughout its customer engagement programme Affinity Water has followed the guidance recommended by Ofwat and UKWIR on establishing customer preferences and on Willingness to Pay. We believe the company used best practice on designing and delivering the other research activities that contributed to the development of the Business Plan. The company used external consultants with good reputations for expertise in this area. The research and engagement programmes were peer reviewed by experts. The outcomes from each stage of research were robust. Where necessary, the results were statistically significant.***
- 2.4 ***Notwithstanding our overall, positive opinion of Affinity Water's customer engagement programme, there is one issue that we wish to highlight.***
- 2.5 ***It is clear that the Thames Tideway Tunnel will have a major impact on the wastewater bills of about 80% of Affinity Water's customers. The proposed increase in the wastewater bill means the total bill increase will be unacceptable to most Affinity Water customers. In this situation, the CCG believes it will be very important for Affinity Water to devise a communication strategy to inform customers of the impending increase. The company should also forecast what the impact will be on its customers and take mitigating actions, preferably in partnership with Thames Water.***

Demographics of the customer base, water use and metering

- 2.6 Affinity Water divides its geographical territory into eight water resource zones. Six zones are in one continuous Central Region, inhabited by 3,150,000 people. The Southeast Region comprises a single zone in East Kent and serves 160,000 people. The East Region also consists of a single zone in Tendring, East Essex, with a population of 160,000. Thus the Central Region has 90% of the population served.
- 2.7 There are some differences between the population characteristics of Affinity Water's customers and the UK as a whole.
- 2.8 The percentage of Affinity Water households with a garden is 85%² compared to 90%³ of households across Britain (in 2009).

² Let's Talk Water consultation, page 33

³ Daily Telegraph, "More than two million British homes without a garden," 12 July 2009

- 2.9 The Affinity Water population is over and under represented in certain social types compared to the national demographics:⁴

Mosaic Group	Affinity Water	National Average
A – Alpha Territory	10%	3.54%
F – Suburban Mindsets	20%	11.18%
J – Claimant Culture	2%	5.16%
L – Elderly Needs	3%	5.96%
M – Industrial Heritage	4%	7.4%

- 2.10 These percentages generally reflect the demographics of the Central Region (Water Resource Zones 1 to 6). The demographics of the Southeast Region (Water Resource Zone 7) and the East Region (Water Resource Zone 8) are quite different: both have far fewer A – Alpha Territory postcodes (1% respectively) and have many more households in categories C –Rural Solitude and D –Small Town Diversity. In addition, the East Region also has many more in category E-Active Retirement (17%).⁵
- 2.11 The water consumption rate varies significantly across the geographical areas:

Geographical area	Consumption per person per day (litres per day)
Central Region	151
Southeast Region	131
East Region	112
All regions	149

- 2.12 Although it is classified as water stressed, the East Region has an overall water surplus, and this condition is expected to remain stable for the next 25 years.
- 2.13 The Central Region (overall) and Southeast Region are water stressed. Over the next 25 years, these areas are forecast to have a growing water deficit.
- 2.14 The percentage of domestic customers with meters varies by region.

Geographical area	Percentage of households with meters
Central Region	42%
Southeast Region	93%
East Region	74%

- 2.15 Businesses represent 5% of Affinity Water’s customers, of which the majority are classified as small and medium sized enterprises (SME).⁶ It is interesting to note that amongst the larger business customers are three major airports, one of which provided a representative for the CCG.

Scope

- 2.16 The Customer Challenge Group first met in September 2012. Affinity Water had already started some aspects of its customer engagement programme. Accordingly, the CCG did not have an opportunity to influence the initial parts of the programme.
- 2.17 ***When we first met, the Customer Challenge Group asked that Affinity Water ensure that its engagement process treated each of two small populations in the Southeast and East Regions the same way as they did the Central Region.***

⁴ Panel survey findings, pages 103 to 111

⁵ Panel survey findings, pages 103 to 111

⁶ Bill acceptability: phase 1, page 15

- 2.18 In response, Affinity Water changed its engagement strategy to ensure that the two smaller regions were engaged on the same basis as the Central Region.
- 2.19 ***In the CCG's opinion, this was important because the research did find some differences in customers' views between the regions.***
- 2.20 Affinity Water advised that during the course of research over two years, over 12,000 customers provided their views. The company commissioned 19 pieces of research, 18 of which were specifically focused on household customers. The research was both qualitative and quantitative.
- 2.21 The qualitative research included the following activities in a range of locations across all of the company's water resource zones:
- 30 focus groups
 - 10 specific interest forums
 - 6 deliberative forums
 - 4 large scale surveys using face-to-face interviews and telephone surveys
 - "Let's Talk Water" campaign which received responses from 4,134 people.
- 2.22 The quantitative research included 11 studies that generated statistically significant outcomes. These studies are described later in this chapter.

Methodology

- 2.23 Affinity Water divided its engagement strategy into three phases:
- Phase one: listening and learning
Phase two: testing and valuing
Phase three: revisiting and assuring.
- 2.24 Phase one lasted through March 2013. Its focus was on qualitative research to identify customers' issues, opinions, expectations and priorities. To initiate the process, Affinity Water derived four customer expectations from its existing customer contact information. After further refinement, Affinity Water settled on the following four expectations:
- Making sure our customers have enough water, whilst leaving more water in the environment
 - Supplying high quality water that you can trust
 - Minimising disruption to you and your community
 - Providing a value for money service.
- 2.25 Focus groups, workshops and a consultation document were the vehicles for getting customers' responses. The intention was to use the qualitative outcomes from phase one to inform the development of the quantitative surveys that would take place in phases two and three.
- 2.26 Affinity Water also used the outcomes from phase one to identify the areas where they needed to do further research.

- 2.27 Phase two developed and refined the surveys that would enable the company to generate statistically significant results of customers' views on water resources, willingness to pay and bill affordability. Experian's Mosaic classification of UK consumers was used to generate a demographic profile for Affinity Water's customer base. Through an iterative process, the surveys were then targeted to achieve a representative sampling across all groups. Three surveys focused on water resources, one on leakage and one of the inclusion of environmental measures within Affinity Water's four proposed outcomes.
- 2.28 Phase three activity was to revisit research or to fill gaps in the company's knowledge identified as a result of earlier work. This work included deliberative workshops on metering, focus groups on vulnerable customers and the Phase 2 Bill Acceptability study.
- 2.29 Independent companies specialising in this work conducted all the surveys.
- 2.30 ***In the opinion of the CCG, all the research showed consistency of customers' views, whether the source was focus groups, deliberative forums, initial surveys or the statistically significant main surveys. Participants in environmental forums tended to value sustainability investments more than the average customer, as did the self-selecting customers in the "Let's Talk Water" consultation.***⁷

Statistically significant surveys

- 2.31 In addition to the qualitative research in focus groups and deliberative forums, external consultants conducted eleven surveys to get statistically significant data on customers' views:

Type	Size	Date
Panel Survey 1: general questions	448 household customers	December 2012 – January 2013
Panel Survey 2: dWRMP	501 household customers	February 2013
Panel Survey 3: environmental measures	443 household customers	May 2013
Panel Survey 4: Leakage	519 household customers	July 2013
Panel Survey 5: Resilience	509 household customers	August 2013
Panel Survey 6: Social Tariffs	514 household customers	September 2013
On-line panel on Let's Talk Water	507 household customers	July 2013
Stated Preference Study: Main WTP Study	1,209 household customers and 508 business customers	May – August 2013
Stated Preference Study: Water Resources WTP Study	719 household customers	July – August 2013
Bill Acceptability, phase 1: Test of multiple plans	909 household customers and 302 business customers	June – August 2013
Bill Acceptability, phase 2: Test of a £1.80 price increase	813 household customers and 418 business customers	October – November 2013

⁷ Lets Talk Water consultation, page 32

- 2.32 Affinity Water used the results of all its research in different ways. The statistically significant surveys directly influenced the development of its Business Plan. The forums, deliberative events and consultations provided insight and information that helped the company to understand its customers' expectations. Ofwat might find it useful to refer to Affinity Water's peer reviewed analysis as presented in "Review of Affinity Water's PR14 Customer and Stakeholder Engagement Research and Evidence" by OPM.
- 2.33 ***In forming our opinions on the company's interpretation of the results from its customer engagement programme, the CCG took into consideration both the qualitative and quantitative research commissioned by Affinity Water. Although the outcomes were fairly consistent across all the research, we gave greater weight to the statistically significant quantitative outcomes. All of the statistics that we use in this chapter are from the quantitative research. For more information on the qualitative research, please see Chapter 3 – Narrative.***

Customers' views on the four expectations

Making sure our customers have enough water, whilst leaving more water in the environment

- 2.34 In the Panel Survey 2 on the dWRMP, 49% of the respondents said they had a meter, while 47% did not and 4% did not know whether they had a meter.⁸
- 2.35 When asked whether they thought that a water meter was the fairest way to charge for supplying water, excluding "don't know" answers, 28% of the unmetered customers said "no."⁹
- 2.36 ***The CCG noted that Affinity Water did not test for the reasons why some unmetered customers believed meters were not the fairest way to charge. However, in the CCG's opinion, this response suggests that the proposed universal metering programme is likely to be unpopular with a number of unmetered customers. We are also concerned that it may have a serious financial impact on some unmetered households that consume a large amount of water. We recommend that Affinity Water take this in to account when planning its metering programme, associated communication strategy and transitional arrangements. We recommend the company ensure mitigating actions are in place to address potential affordability issues and to help customers generally through the transition to metered charging.***
- 2.37 Customers were asked if Affinity Water should take less water from the environment in order to sustain or improve flows in streams and rivers, and 49% responded "yes," 37% said "no" and 13% did not know.¹⁰
- 2.38 Panellists were also asked whether they were prepared to have an increase in their water bill to avoid harm to the environment. A large majority (59%) said "no," while only 23% said "yes."¹¹

⁸ Panel survey findings, page 20

⁹ Panel survey findings, page 22

¹⁰ Panel survey findings, page 35

¹¹ Panel survey findings, page 38

- 2.39 ***In the CCG’s opinion, these results imply that in order to secure customers’ support for the proposed universal metering programme, Affinity Water needs to develop an effective communication programme to inform customers of the challenges it faces in balancing supply and demand. It needs to explain the link between abstraction reductions and demand reductions as well as the role metering will play. It is also important to articulate the company’s approach to and performance in relation to leakage, as this was an issue often raised by customers.***
- 2.40 Customers were asked how they thought Affinity Water should manage its environmental impacts, and 80% of the respondents thought the company should manage this as part of its day-to-day activity.¹²
- 2.41 ***In the CCG’s opinion, this customer view supports Affinity Water’s decision (which the CCG robustly challenged on more than one occasion) that there should not be a separate expectation for the environment. After much internal deliberation, AW decided that the environmental expectations should be included within the four main expectations, and they changed the wording of the expectation “Making Sure our customers have enough water” to “Making sure our customers have enough water, whilst leaving more water in the environment.” The CCG accepted this provided that there would be measures of success that adequately reflect the impact of water abstraction on the environment.***
- 2.42 Panellists were provided with a statement that summarised Affinity Water’s approach to managing leakage. When asked whether they thought the company managed leakage appropriately, 78% said “yes” and 9% said “no.”¹³
- 2.43 When asked what concerned them most about leakage, 82% said they did not like to see water wasted, and 68% were concerned about how it would affect their bill.¹⁴
- 2.44 Customers were told that on average Affinity Water repaired leaks around five days after they were reported, and more quickly if it was a large leak or affecting customers’ supplies. When asked for their views, 50% of panellists thought the company should fix the leaks more quickly, while 45% thought that performance was about right.¹⁵
- 2.45 When asked whether the company should spend more money to reduce leakage further, beyond the economic level of leakage, 41% of respondents said “yes,” 32% said “no” and 27% did not know.¹⁶
- 2.46 Further, 76% of customers thought Affinity Water should respond to leaks faster in a drought.¹⁷
- 2.47 Panellists were told that Affinity Water loses about 20% of the water through leakage, and the company was planning to reduce this to 17% by 2020. Most of its customers would have a meter by 2022, as this was the most cost effective way of ensuring the company could meet the demand for water in the future. Panellists were asked whether these targets got the right balance between metering and leakage: 54% said “yes,” 28% said “no,” and 18% said “don’t know.”¹⁸

¹² Panel survey findings, page 42

¹³ Panel survey findings, page 54

¹⁴ Panel survey findings, page 56

¹⁵ Panel survey findings, page 58

¹⁶ Panel survey findings, page 59

¹⁷ Panel survey findings, page 60

¹⁸ Panel survey findings, page 63

- 2.48 ***In the CCG's opinion, these results give some support for Affinity Water's proposed target for leakage reductions in combination with the introduction of metering to manage demand.***
- 2.49 Most respondents (74%) said they would support Affinity Water taking responsibility for their supply pipes in exchange for an increase in their bill of between £4 and £6 per year.¹⁹
- 2.50 When asked whether the company should reduce abstraction to avoid rivers drying up, 72% of panellists said "yes," while 13% said "no." Further, 87% of customers were willing to pay at least £4.60 over five years to help make this adjustment. When asked whether the company should reduce abstraction to avoid rivers drying up, 72% of panellists said "yes" while 13% said "no."²⁰

Supplying high quality water that you can trust

- 2.51 When asked whether their water was safe, 82% of customers agreed or strongly agreed. Only 3% disagreed or strongly disagreed. Similarly, 81% of customers agreed or strongly agreed that their water was clean, while 3% of customers disagreed or strongly disagreed.²¹
- 2.52 During the first study on Bill Acceptability, 74% of customers said they were satisfied with the taste, smell and appearance of the tap water, but 21% thought it needed improvement. The biggest source of dissatisfaction was the hardness of the tap water, where 62% of customers thought it needed improvement.²²
- 2.53 A large majority of customers thought it was very important (86%) or fairly important (7%) that Affinity Water supplied high quality water that can be trusted.²³
- 2.54 About 80% of customers supported the company's proposed plans to improve water quality, but only 39% of customers were willing to pay more to achieve it.²⁴

Minimising disruption to you and your community

- 2.55 Customers were asked whether Affinity Water had disrupted their day-to-day activities. Of those asked, 78% responded "no." The highest causes of disruption were planned work, work not notified and change of meter. Of those who responded, 66% said the problem was put right quickly, with a minimum of personal disruption. However, 28% of respondents said the problem lasted more than a couple of days, although disruption was minimal. For 7% of the respondents, the problem caused considerable personal disruption.²⁵
- 2.56 Customers were asked whether Affinity Water should do more to reduce leakage further, beyond the economic level, if this would mean delaying or avoiding a hose pipe ban. A total of 37% of respondents said the company should do more on leakage when it would delay or avoid a hosepipe ban, but do less work when water is less scarce so the overall cost is the same. Another 30% of customers thought the company should carry on at the same rate and not spend more. However, 25% of customers thought the company should do more about leakage in order to delay or avoid a hosepipe ban, even if it costs more.²⁶

¹⁹ Panel survey findings, page 67

²⁰ Panel survey findings, page 78 - 79

²¹ Panel survey findings, figure 2.13, page 9

²² PR14 Acceptability Phase 1: Main Study, page 20

²³ PR14 Acceptability Phase 1: Main Study, page 21

²⁴ PR14 Acceptability Phase 1: Main Study, figure 3.19, page 26

²⁵ Panel survey findings, figure 2.14, page 10

²⁶ Panel survey findings, figure 5.10, page 61

- 2.57 The survey asked whether Affinity Water should proceed with investment to improve resilience to severe drought. Of the respondents, 55% agreed, given the cost would be about £2.00 after five years. Another 23% agreed, but only if they did not have to pay any more. A small number of customers (9%) said “yes” and were prepared to pay any price. Only 13% of customers said “no”, because they were prepared to accept the current risk of water shortages in order to keep bills down.²⁷
- 2.58 A large majority of customers (72%) were willing to accept the inconvenience of having a hosepipe ban once every ten years, on average. Only 12% of customers said that they preferred to be inconvenienced less frequently.²⁸
- 2.59 Most customers (89%) thought it was important that Affinity Water minimised disruption to properties and communities. However, only 36% of customers were willing to pay more to support the company’s plans to prevent short term supply interruptions, and only 38% would pay to more to prevent long term supply interruptions.²⁹

Providing a value for money service

- 2.60 When customers were asked what did they value about their water company, 66% said they provide an essential service and 38% said they provided an “invisible” service.³⁰
- 2.61 When asked about which activities were important, 77% of customers thought it was very important to provide a value for money service, and another 16% thought this was fairly important.³¹
- 2.62 Only about 4% to 6% of customers would choose a deterioration in service in exchange for a reduced bill.³²
- 2.63 As part of the first bill acceptability study, customers were presented with Affinity Waters plans to improve its efficiency, which would put downward pressure on the average customer’s bill by £5.50 by 2020. Around 69% of customers agreed with the proposed change and considered that the impact on bills was acceptable.³³
- 2.64 The first bill acceptability study tested customers views on three options, which supported slow, medium and fast paced investments. For each of the options, few respondents thought they were poor value for money. For household customers, about 60% of customers thought the slow and medium plans represented good value for money.³⁴

Social Tariffs

- 2.65 Affinity Water planned to introduce a social tariff in the last year of the current price review period, in part to support low-income and vulnerable customers, in part to support the anticipated rollout of universal metering in the next two price review periods. Thus social tariffs are not actually part of the PR14 process. However, because the introduction of social tariffs will impact customers’ bills in PR14, we include here two pertinent outcomes from the statistically significant study.

²⁷ Panel survey findings, figure 6.10, page 84

²⁸ Panel survey findings, figure 6.12, page 86

²⁹ PR14 Acceptability Phase 1: Main Study, pages 21, 27

³⁰ Panel survey findings, figure 2.28, page 16

³¹ PR14 Acceptability Phase 1: Main Study, page 21

³² PR14 Acceptability Phase 1: Main Study, page 23

³³ PR14 Acceptability Phase 1: Main Study, page 27

³⁴ PR14 Acceptability Phase 1: Main Study, page 42

- 2.66 Customers were asked whether Affinity Water should provide additional support to customers who have financial difficulty paying for their water. A majority of respondents (62%) either strongly supported or somewhat supported this idea.³⁵
- 2.67 Panellists were asked whether they would support the introduction of a social tariff if it increased their bill. 58% of respondents would either support this or not mind if the bill increase was an extra £2.00 - £2.50 per year. This percentage rose to 63% if the increase was £1.50 - £2.00 per year and to 68% at £1.00 - £1.50 per year.³⁶

Willingness to Pay

- 2.68 For the Willingness to Pay survey, stage 1, the consultants used an on-line tool to interview 402 customers as well as computer aided personal interviews to speak to 807 customers. For business customers, the consultants used computer aided telephone interviews to recruit 508 customers who then completed an online survey. As the number of business customers surveyed resulted in their being over-represented relative to household customers, the results were weighted to ensure the combined views were truly representative across the entire customer base.
- 2.69 Prior to undertaking the choice experiment, customers were asked a range of questions about aspects of their water service. During this discussion, the hardness of the tap water was the only measure where a majority of customers believed the service needed to be improved. Both household and business customers gave a similar level of priority to reducing hardness. This was reflected in the willingness to pay values, where both household and business customers gave this the highest value from the choice experiment for any improvement in service: £1.77 for households and £2.03 for businesses. However, these values were not statistically significant at the 95% confidence level, as there was a very large range of responses.³⁷
- 2.70 The household customer demographics were compared to the 2011 census data to ensure the surveys were representative against age, gender, employment, education and income.
- 2.71 Customers were asked about ten service measures and participated in stated preference research called a choice experiment. The choice experiment is designed to elicit the value customers' place on different aspects of the water service they receive. Customers were then asked about the following ten service measures:
- Discoloration
 - Taste and smell
 - Hardness
 - Boil water and other notices
 - Persistent low pressure
 - Unexpected interruptions (of 6 to 12 hours)
 - Burst mains flooding to properties
 - Water use restrictions (hosepipe and non-essential use)
 - Low water levels and flow in rivers
 - Leakage.
- 2.72 For customers, the second highest priority was reducing the level of leakage.³⁸

³⁵ Panel survey findings, page 92

³⁶ Panel survey findings, page 95 - 98

³⁷ Headline Results: "Willingness to Pay" and "Acceptability" Studies, pages 7, 10

³⁸ Headline Results: "Willingness to Pay" and "Acceptability" Studies, page 7

- 2.73 This survey clearly showed that customers do not want to have their bills reduced by even a small amount if service would be affected. Only 2% of business customers and 2% to 4% of household customers would take a worse service in exchange for lower bills.³⁹
- 2.74 ***In the CCG's opinion, these results show that Affinity Water's customers are broadly content with the quality of the water and the level of the service they receive today. The exception is that a majority of customers would like hardness reduced, but customers' willingness to pay for this varies considerably.***
- 2.75 ***The CCG also noted that Affinity Water has a historic agreement for its customers in Saffron Walden to provide softened water for an extra charge of 10% on the customers' bills.***

Bill Acceptability

- 2.76 Affinity Water commissioned two studies on bill acceptability. The first study was in May – August 2013, while the second was in October – November 2013. The first study examined the bill acceptability of three investment options. The second study tested the bill acceptability of a £1.80 real increase in the average bill; this figure was based on Affinity Water's draft Business Plan as at 8 October 2013.

Bill Acceptability, phase 1: Test of multiple plans

- 2.77 Affinity Water developed three possible investment plans and associated bills to test bill acceptability:
- minimise investment and reduce bills
 - modest increase in investment and bills (the strategy preferred by Affinity Water)
 - accelerate investment to tackle more quickly the water resources challenges.
- 2.78 The bill impacts were as follows:

Expectation	Slower pace of investment	Proposed Plan	Faster pace of investment
Enough water	£0.45	£4.60	£6.40
Quality, Trust	£2.00	£2.00	£2.00
Minimising disruption	£0.55	£2.60	£10.80
Value for money	–£5.50	–£5.50	–£5.50
Estimated change to average bill by 2020	–£2.50	+£3.70	+£13.70

- 2.79 Each of the three plans was tested in separate surveys of 300 household customers and 100 businesses. The household customers were interviewed face to face, while the businesses were interviewed online. To ensure the household customers were representative of Affinity Water's customer base, respondents were chosen for socio-economic group, age and gender as well as metered and unmetered.⁴⁰

³⁹ Headline Results: "Willingness to Pay" and "Acceptability" Studies, page 8

⁴⁰ PR14 Acceptability Phase 1: Main Study (September 2013), pages 10 – 13, 21

- 2.80 Sampling 100 businesses for 300 household customers results in over representation of businesses, as only 5% of Affinity Water's customers are businesses. So in each survey the responses were weighted to correct the imbalance.
- 2.81 In each survey, the proportion of customers who viewed the plans as acceptable or very acceptable was as follows:
- 91.2% of customers considering the plan with the slower pace of investment
 - 90.7% of customers viewing Affinity Water's proposed plan
 - 77% of customers considering the plan with faster investment.

It should be noted that the slower plan had more "very acceptable" responses than the proposed plan, at 27% versus 21%. ICS concluded that within the margins of error around the results, it is not possible to conclude whether the slower pace plan or the proposed plan is more acceptable to customers.⁴¹

- 2.82 In general, businesses were more in favour of the slower plan than households. For households, acceptability does not appear to be associated with socio-economic group, gender or age.⁴²
- 2.83 ***The CCG also noted that this study generated a weighted average across households and business, when measured by the number of accounts. However, we had some concern that this approach lost small business' preference to keep bill increases as low as possible. Given Affinity Water's commitment to the overall welfare of its communities, we asked the company to be sensitive to the needs of its small business customers.***
- 2.84 ***The CCG challenged Affinity Water on the practice of surveying customers using real values and not showing the nominal increases in bill levels when inflation is added in, a good practice adopted elsewhere. The company responded with a paper justifying this approach as appropriate, citing academic research.***

Bill Acceptability, phase 2: Test of a £1.80 price increase

- 2.85 A second bill acceptability study was undertaken to determine customers' views on an increase of £1.80 on the average bill by 2020. This would increase the bill from a forecast £165.00 in 2015 to £166.80 in 2020, a real increase of 1.09%. The £1.80 increase was based on the draft Business Plan as of 8 October 2013. Affinity Water was unable to wait until its Board had made a final decision on the increase, because at that point there would not be enough time to conduct the study and meet Ofwat's deadline for submitting the business plan.
- 2.86 The outcome of the phase 2 study was that 87% of household and business customers found the £1.80 price increase either acceptable or very acceptable.⁴³
- 2.87 ***The CCG welcomed the company's continuing efforts to minimise increases in customers' bills. We challenged the company to provide evidence that the customers agreed with the proposed reward for reducing leakage. The company referred us to the stated preference research showing both households and businesses placed a high value on reducing leakage, and an even higher value on avoiding increases in leakage. We are not entirely convinced that this evidences that customers believe the company should be rewarded for reducing leakage, in part because customers were generally against paying the company more for doing the job they believe water companies are supposed to do.***

⁴¹ PR14 Acceptability Phase 1: Main Study (September 2013), pages 10 – 13, 21, 31

⁴² Headline Results: "Willingness to Pay" and "Acceptability" Studies, pages 16, 20

⁴³ Acceptability Study Phase 2, Main Study Results, slide 18

Total Bill Acceptability and the Thames Tideway Tunnel

- 2.88 Customers' views on bill acceptability declined dramatically if customers were asked to pay £75 more, which is roughly the projected increase proposed by Thames Water to pay for the Thames Tideway Tunnel at the time the research was undertaken.
- 2.89 About 80% of Affinity Water's customers get their sewerage services from Thames Water. Affinity Water bills these customers for combined water and sewerage bills. To pay for the Thames Tideway Tunnel, Thames Water is proposing to increase waste bills substantially by the early 2020s.
- 2.90 Affinity Water surveyed its customers on the impact on total bill acceptability of different incremental increases. Adding £75 to either the low cost plan or to the proposed plan reduced bill acceptability from 91% to 42%.⁴⁴
- 2.91 ***In the CCG's opinion, given the increases in sewerage bills that Thames Water is proposing, it would appear to be impossible for Affinity Water to have high total bill acceptability from those customers whose sewerage services are provided by Thames Water. We suggested that the company needed to devise a communication programme, preferably in partnership with Thames Water, to inform customers about the impact the Thames Tideway Tunnel will have on their bills. In addition, Affinity Water needs to consider how to mitigate the likely impacts of increased bill levels, including greater customer contact and complaints, increased failure to pay bills, consequential growth in customer debt and, potentially, greater demand for social tariffs.***
- 2.92 ***We also called on the company to demonstrate that it had considered the effect that the roll out of metering will have on customers' bills, as the redistribution of costs may have a significant rebalancing effect across the customer base, potentially impacting the company's tariffs and revenue.***

⁴⁴ Phase 1: Main Survey (September 2012), page 40

Chapter 3 – Narrative

Overview

3.1 This is the narrative chapter in the report to Ofwat written by the Customer Challenge Group (CCG). This chapter describes, from the CCG's perspective, Affinity Water's journey towards the preparation of its business plan. It describes the CCG's interaction with Affinity Water and evidences our challenges throughout the process. The journey consists of three main stages with multiple elements:

- Phase 1: Listening and learning
 - “Investing for your Community”
 - consultation on the draft Strategic Direction Statement and
 - pre-consultation on the draft Water Resources Management Plan
- Phase 2: Testing and Valuing
 - Draft Water Resources Management Plan consultation
 - Draft Business Plan consultation
 - Quantitative Research
 - Willingness to Pay, phases 1 and 2
 - Bill Acceptability testing – phase 1
 - Online panels on
 - Draft Water Resources Management Plan
 - Environmental measures
 - Let's Talk Water
 - Leakage
 - Resilience
 - Social Tariffs
 - Qualitative Research
 - Let's Talk Water
 - Deliberative forums testing the Business Plan
- Phase 3: Revisiting and Assuring
 - Quantitative research
 - Bill Acceptability testing – phase 2
 - Qualitative research
 - Vulnerable customers
 - Metering

- 3.2 During the course of the iterative engagement process, a large amount of research was undertaken, sometimes in parallel. Each generated a report, which we reviewed as it was made available. For convenience, the reports are listed here. For each report commented on in this chapter, a cross-reference to the first relevant paragraph number is provided.

Date	Activity	Paragraph no.
September 2012	First stage focus groups	3.5
November – December 2012	Second stage focus groups	3.33
December 2012	Panel Survey 1: general questions	3.150
February 2013	Panel Survey 2: dWRMP	3.156
May 2013	Panel Survey 3: environmental measures	3.163
May – September 2013	Let's Talk Water consultation	3.88
July 2013	Panel Survey on Let's Talk Water	3.186
May – August 2013	Stated Preference Study: Main WTP Study	3.113
July – August 2013	Stated Preference Study: Water Resources WTP Study	3.117
June – August 2013	Bill Acceptability, phase 1	3.124
July 2013	Business Plan deliberative forums	3.131
July 2013	Panel Survey 4: Leakage	3.168
August 2013	Panel Survey 5: Resilience	3.176
	Panel Survey 6: Social Tariffs	3.183
October 2013	Deliberative workshops metering	3.202
October 2013	Bill acceptability, phase 2	3.190
October 2013	Focus groups vulnerable customers	3.207

Phase 1: Listening and Learning

Consultation on Strategic Direction Statement and pre consultation on the draft Water Resources Management Plan (dWRMP)

- 3.3 Affinity Water decided the best way to start its customer engagement process was to use a pre-consultation stage to qualitatively assess its customers' views. Ofwat did not require any pre-consultation activity.
- 3.4 The pre-consultation stage was intended to build on the knowledge of its customers that Affinity Water already possessed through its regular contact with its customers. The pre-consultation comprised a number of inter-related activities, including the following:
- First stage focus groups to gather customers' views on Affinity Water and on the services it provides
 - The preparation and distribution of a consultation document "Investing for your community," and inviting written responses
 - Second stage focus groups to explore customers' views on themes raised in "Investing for your community"
 - Environmental Workshops.

First stage focus groups

- 3.5 An independent company named 2Europe facilitated the first stage focus groups. The objective was to gain further insight into customers' opinions about Affinity Water and its services.
- 3.6 At the first meeting of the CCG, held on 5 September 2012, Affinity Water described its plans for the first stage focus groups. The CCG noted that Affinity Water planned to hold two focus group meetings in its East Region, which is in the Tendring District, and the rest in its Central Region. However, the company did not plan to hold any focus group meetings in its Southeast Region, which is in East Kent.
- 3.7 ***The CCG asked Affinity Water to amend its plans accordingly so at least one focus group meeting was held in each of the three regions, including the Southeast region. We believed it was important to ensure that all three regions were covered at each stage of the customer engagement process.***
- 3.8 In response, Affinity Water modified its plans so two focus groups met in Clacton-on-Sea, Essex and two met in Folkestone, Kent. The rest were held in the Central Region. The company also changed its customer engagement strategy to ensure that all three regions were consulted at every stage of the engagement program.
- 3.9 2Europe organised the ten focus groups so that two were held each day in one of five locations. Each focus group was attended by between five and ten domestic customers, with a total of 77 participants. All the focus groups usually comprised customers from one socio-economic group. With the exception of the two focus groups held in Clacton-on-Sea, Essex, each focus group was comprised exclusively of metered or unmetered customers. The focus groups lasted about ninety minutes. Each attendee was given a thank you payment of £40.
- 3.10 By their nature, the outcomes from the focus groups were not statistically significant. However, 2Europe identified views shared by a majority of all customers and by the majority of customers in lower socio-economic groups. Accordingly, judicious weight should be given to the outcomes. These views are briefly summarised next.
- 3.11 From all customers' perspective, Affinity Water's two most important responsibilities were as follows:
- Provision of clean water (safe, fresh, "nice tasting," not contaminated)
 - Regular and consistent supply of water (365 days a year).
- In addition, customers with low income socio-economic demographics thought Affinity Water also had a third responsibility, which was to keep the cost of water low, especially for customers like themselves.
- 3.12 All customers generally did not have issues with Affinity Water or with the services it supplies, with three exceptions. First, a majority of all customers disliked communications from Affinity Water urging customers to insure their water supply pipes; customers regarded this as scaremongering. Second, a majority of customers noted that Affinity Water is a monopoly supplier, and they did not like how they would just have to accept any changes to their bills or services. Third, many unmetered customers had problems understanding why their bills were different to other unmetered customers.
- 3.13 A majority of customers believed Affinity Water needed to provide more communication to customers on work being carried out by Affinity Water.
- 3.14 A majority of customers believed their water should be softer than it was currently.

- 3.15 When asked about value for money, most customers (particularly affluent customers) felt value for money was irrelevant, as they had no choice over who supplied their water. Some offered the opinion that water suppliers were looking to make profits rather than focusing on value.
- 3.16 A majority of customers wanted Affinity Water to provide additional information on their bills, namely:
- If the customer was unmetered, would they be better off with a meter?
 - A breakdown of what their bill payments were spent on
 - Details of what work was being carried out in their area that would affect them.
- 3.17 Affinity Water imposed a Temporary Use Ban in some areas in 2012 as a result of drought conditions. For the majority of customers, the main issue was not the ban itself. The issue was the lack of communication about the ban, especially the lack of any official communication advising them the ban had ended.
- 3.18 A majority of customers were annoyed by the perception that their bills kept being increased, and that Affinity Water retained overpayments rather than refunding them.
- 3.19 ***The CCG noted that the perception was not correct in the Central Region, where the real cost of the water bills has declined each year during the current price review period. Further, Affinity Water advised us that they did return any overpayments to the customers.***
- 3.20 A majority of customers had not noticed any change in service over the previous twelve months.

“Investing for your community”

- 3.21 Using outputs from the first stage focus groups, Affinity Water drafted a 27-page consultation document entitled “Investing for your community.” This was distributed to about 1,000 stakeholders, and made available on the company’s web site. Written responses were received from 190 people. In addition, there were nine facilitated focus group sessions for customers and an environmental workshop. (A second environmental workshop was added later in this stage.) Through this process, Affinity Water hoped to have an open, broad engagement with its customers, in order to identify what issues its customers considered to be important.
- 3.22 Due to the workload associated with the sale of Veolia Water’s regulated business, Affinity Water’s management had been unable to focus on the pre-consultation process as early as would have been desirable. As a consequence, “Investing for your community” was drafted quickly. A draft copy was emailed to the CCG Chair, who provided his comments during a meeting; Affinity Water incorporated his suggestions. The CCG representatives from the Consumer Council for Water (CCWater), the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) were not invited to provide comments on the draft document.
- 3.23 As “Investing for your community” was drafted between the first and second meetings of the CCG, we did not contribute as a group to its preparation. At our second meeting on 21 November 2012, we reviewed the published version.

3.24 ***We concluded that it might have been more concise and easier for customers to understand had more time been available for its preparation and if the CCG members had had the opportunity to comment on the draft version. We therefore recommended that in the future Affinity Water should consult all the CCG members when documents were still in draft.***

3.25 ***In practice, there were always tight deadlines which prevented CCG members from providing comments as often as we would have liked.***

3.26 “Investing for your community” comprised an introduction and two sections. The sections were entitled “Your expectations” and “A pre-consultation on our Water Resources Management Plan and Strategic Environmental Assessment.”

3.27 Section one, “Your expectations,” was intended to use customer engagement to inform the development of a detailed 25-year Strategic Direction Statement. This section was 16 pages long.

3.28 To initiate the consultations, Affinity Water derived four customer expectations from its knowledge from existing customer contacts, for example, from complaints. Affinity Water proposed the following four expectations:

- Making sure our customers have enough water
- Supplying high quality water you can trust
- Minimising disruption in your community
- Providing a value for money service.

3.29 Affinity Water asked whether it was meeting its customers’ expectations in providing enough water of sufficiently high quality, while minimizing disruption and providing value for money. It asked whether customers’ expectations were changing and highlighted that climate variability and population growth needed to be considered in the preparation of the company’s plans. It then briefly described what Affinity Water considered to be the key issues:

- Affordability and social tariffs
- Local environmental impact of abstraction
- Metering
- Water efficiency and
- New laws and regulations.

It asked for customers’ views on these issues.

3.30 Section two, “A pre-consultation on our Water Resources Management Plan and Strategic Environmental Assessment,” was intended to use customer engagement to inform the preparation of these two reports. The Water Resources Management Plan was subject to a specific set of consultation requirements, as specified in the Water Resource Management Plan Regulations and in the Water Resource Planning Guidelines. Affinity Water planned to use customers’ responses to this section of “Investing for your community” to inform the creation of its draft Water Resources Management Plan.

3.31 Section two was seven pages long. In tables, it briefly outlined how Affinity Water proposed to respond to the challenges of demand growth, climate change, leakage, water efficiency, metering, pollution and sustainability reductions. It provided a one-page overview of the implications in providing water reliably during droughts. It asked for its customers’ views on trade-offs for abstractions, reduction of water consumption, leakage, meters and water restrictions. Finally, this section included two pages on the options Affinity Water planned to use in modelling its Strategic Environmental Assessment, and asked for customers’ views on four questions.

Meeting with the Affinity Water Board on 30 October 2012

- 3.32 On 30 October 2012, the CCG Chair attended the Affinity Water Board meeting to brief the non-executive directors on the work of the CCG. Following the briefing, the CCG Chair asked the Board members to nominate a non-executive as his Board contact to replace the senior independent non-executive who had resigned. The Board suggested the CCG Chair contact all the Board members in the event that he had any concerns; however, the CCG Chair preferred a single point of contact, as that seemed more practical. Accordingly the Board nominated the Chair of the Audit Committee as the designated contact. (At that time, the structure of the Affinity Water Board was novel in so far as it had no permanent Chair. The Chair of the Audit Committee was a non-executive appointed by one of the owners.) The CCG Chair proposed that he update the Board on the CCG's work at regular intervals. The Board suggested the CCG Chair update each monthly Board meeting. The CCG Chair suggested that six-monthly briefings would be more appropriate as each briefing would be more substantive. The Board accepted the CCG Chair's proposal for six-monthly briefings.

Second Stage Focus Groups

- 3.33 Affinity Water contracted a specialist consultancy, Dialogue by Design, to organise and to facilitate a second set of focus groups to get customers' views on the themes raised in the consultation "Investing for your community." Dialogue by Design organised ten meetings in November and December 2012:

- eight focus groups for domestic customers,
- one focus group for SMEs, and
- one environmental workshop.

One focus group was cancelled due to the high drop out rate of invitees; this focus group was for higher income domestic customers in Saffron Walden, Essex. This was replaced by a focus group arranged in Stevenage, Hertfordshire.

- 3.34 The focus groups for domestic customers consisted of six to nine invited customers, usually from one demographic profile. A total of 65 people participated. Those who attended were each given a £40 thank you payment. Both metered and unmetered customers participated. Dialogue by Design provided a facilitator. Each focus group lasted about two hours.
- 3.35 Seven focus groups considered the issues raised in "Investing for your community." In addition, the focus group at Great Missenden looked at Affinity Water's Service Delivery Map. This was a new initiative that the company will develop in the future as a means of providing tailored services for different communities. It did not feature heavily in the preparation of the Business Plan. This focus group also prioritised seven investment options.
- 3.36 Dialogue by Design facilitated one focus group session for SMEs, held at Harlow, Essex on 14 November 2012. These attendees were not a random sample, unlike the other focus groups. All nine attendees were from businesses in the leisure and sports sector that had responded to the drought communications sent earlier in 2012.
- 3.37 Dialogue by Design also facilitated an environmental workshop held at Hatfield, Hertfordshire on 19 November 2012.
- 3.38 In addition, drop-in sessions for the general public were available where the focus group meetings were held, but these were very poorly attended despite Affinity Water having advertised them in the local press. The drop-in sessions did not contribute anything to the consultation process. As a follow-up activity, Affinity Water placed a second round of advertisements in the local press inviting people to respond to the consultation document.

- 3.39 As observers, CCG members attended four of the second stage domestic customer focus groups. In addition, a CCWater representative on the CCG participated in the environmental workshop. We also attended the validation workshop where Dialogue by Design's reports from the focus group sessions were reviewed and checked.
- 3.40 On 23 January 2013, at the third meeting of the CCG, Affinity Water presented the initial findings as they related to preparation of the Strategic Direction Statement. The findings were derived from the 190 responses to the consultation document "Investing for your community" and from the reports from the focus groups. We also received copies of the two draft reports prepared by Dialogue by Design. The first report was on the focus groups for domestic customers and SMEs. The second report covered the environmental workshop.
- 3.41 The results from the pre-consultation exercises were qualitative, rather than quantitative. Affinity Water never intended that the pre-consultation outcomes would be statistically significant. The results were to assist the company to better develop its customer engagement processes. Accordingly, the outcomes described below should be considered judiciously.
- 3.42 The outcomes from the 190 written responses and from the focus groups for domestic customers and SMEs were largely consistent. In the following sections, the percentages are from the 190 written responses. The qualitative comments are from the reports on the focus groups.
- 3.43 84% of domestic customers agreed that the following list, prepared by Affinity Water, accurately described customers' expectations:
- Making sure our customers have enough water
 - Supplying high quality water you can trust
 - Minimising disruption in your community
 - Providing a value for money service.

However, customers felt these were the minimum standards they should expect from their water supplier. They felt Affinity Water should also protect the environment and operate in a sustainable manner.

- 3.44 ***At the meeting on 13 March 2013, the CCG recommended that Affinity Water consider adding a fifth expectation on protecting the environment.***
- 3.45 For reasons described in the following section on the Strategic Direction Statement and documented in a briefing note provided to the CCG, Affinity Water decided not to adopt this proposal.
- 3.46 ***At this meeting, the CCG also recommended that Affinity Water consider rewording the third of the customer expectations to 'Minimising disruption for you and your community' to give it more focus for individual customers.***
- 3.47 Affinity Water decided later to accept our proposal and reworded the third expectation.
- 3.48 In all the focus groups, customers raised the issue of leakage, and many customers wanted this issue to be addressed. Customers appeared not to accept that the "sustainable economic level of leakage" (SELL) appropriately valued the water lost through leakage.

3.49 This outcome was also supported by the results in a different context at the Great Missenden focus group. These six customers were asked to rank seven investment options. The outcome was as follows (where 1 is the highest priority):

1. Reduce leakage at a faster rate
2. Distribute water efficiency devices
3. Increase metering
4. Bring in water from a neighbouring community
5. Import water from elsewhere in the country
6. Create a new reservoir to store surplus water
7. Find new sources of water in your community (away from the river).

3.50 Some of the key outcomes, which were not statistically significant but which helped the company to inform it's thinking, were as follows:

- 57% of customers wanted Affinity Water to be responsible for all the pipework until it reached their houses. However, customers were concerned that this change might increase their bills.
- 57% of customers favoured implementing social tariffs, but they did not want to pay for this. Customers felt that the cost of subsidizing certain customers should come out of Affinity Water's large profits.
- 78% of customers were willing to pay more to secure the supply of water for the next generation. For those who did not agree, their concern appeared to have been that they could not afford to pay more for water in the current economic conditions.

3.51 Amongst participants in the focus groups, there was also general support for compulsory metering, if it did not result in higher bills for customers.

Two environmental forums

3.52 Dialogue by Design organised an environmental workshop on 19 November. A total of 14 people attended, including representatives from the Chiltern River Society, Colne Valley Anglers Association, Cranfield Water Science Institute, Friends of the Mimram, Impress the Chess, Misbourne River Action, River Chess Association, RSPB, The Chiltern River Society (River Misbourne), The River Beane Restoration Association and The Ver Valley Society. A CCG member participated as the representative from CCWater.

3.53 Participants in the workshop were concerned about the environmental impact of over-abstraction of groundwater, and wanted this addressed in future investment plans. For many, reducing demand was essential to resolve this problem, and there was strong support for increased education and community engagement. Participants recommended that Affinity Water provide customers with information on their personal water use, together with information to enable customers to compare their water consumption with other users.

- 3.54 A follow-up forum was held on 26 February 2013. Dialogue by Design's primary objective in holding the second environmental meeting was to broaden the number of stakeholders participating in the consultation. The invitees to this forum were mainly drawn from organisations which did not participate in the 19 November environmental workshop. The 26 February environmental forum was attended by 11 people, representing the following stakeholders: Dacorum Environmental Forum Water Group, Friends of the Mimram, Groundwork Southern Water Programme, Groundwork Hertfordshire, Hertfordshire County Council, Herts & Middlesex Wildlife Trust, London Colney Village Concern, Tewin Flyfishing Club, Ver Valley Society, Watford Borough Council and Welwyn Hatfield Borough Council. Of the attendees, only two stakeholder groups sent representatives to both environmental meetings: Friends of the Mimram and The Ver Valley Society. The Ver Valley Society sent different representatives each time. Only the Friends of the Mimram sent the same individual to both environmental meetings. Thus, the second meeting broadened the number of stakeholders engaged, but did not have continuity in attendees. Dialogue by Design facilitated the meeting, which lasted three hours.
- 3.55 At this meeting, Affinity Water presented updates on its progress of stakeholder consultation, sustainability reductions and biodiversity. Dialogue by Design facilitated a discussion on customers' preparedness to pay. Attendees appeared to be concerned about the lack of understanding consumers have about crucial environmental issues, customers' consequent reluctance to pay for sustainability measures and the need for consumer education on the environment.
- 3.56 With one exception, the CCG members were not invited to observe the second environmental forum held on 26 February. The CCG representative from WWF/Blueprint for Water was invited the day before, but was unable to attend at such short notice. CCWater were unaware that this forum was being held.
- 3.57 ***Later, the CCG Chair asked Affinity Water to ensure that all the CCG members were advised of the dates and invited to observe every customer engagement event, wherever our presence could be accommodated. Affinity Water undertook to do this, but was often only able to provide the dates at short notice as events were developed and delivered very quickly.***

Conclusions from the first phase of the engagement programme

- 3.58 At the fourth CCG Meeting on 13 March 2013, Affinity Water presented the conclusions it had drawn from the pre-consultation stage.
- 3.59 Affinity Water believed they had enough information on its customers' views to take action in two areas:
- Customers support metering
 - Abstraction reductions were understood by customers.
- 3.60 Affinity Water concluded that more research was needed in four areas to determine customers' views:
- What do young people think?
 - On social tariffs and debt management, more work was needed to develop a policy and to determine how acceptable it would be to customers.
 - What is the level of leakage that customers would find emotionally acceptable?
 - How could Affinity Water test for customers' willingness to pay for investment to reduce water hardness?

- 3.61 Water hardness was viewed as a special case. Affinity Water recognised that customers did not like water hardness, and they decided to consider including measures to address water hardness in a cost evaluation for Willingness to Pay research. However, the company recognised that this might be something Affinity Water could not justify doing anything about. In that case, they might need to develop a communications plan to explain to customers why they could not justify taking any action to address its customers' desires.
- 3.62 At the March CCG meeting, Affinity Water explained that by the end of the month, its Directors would have decided what issues needed to be tested for the business plan. For example, they would form a view on how much metering should be included in the Draft Water Resources Management Plan. They would also agree on commissioning further work, for example, for the choice experiments to be used in Willingness to Pay research.
- 3.63 At the fifth CCG meeting on 22 May 2013, Affinity Water presented a summary of the outcomes from the first phase of the customer engagement programme, which ended on 31 March 2013. Affinity Water called the first phase "Listening and Learning," as it consisted of qualitative surveys of customers, primarily through focus groups and written responses to "Investing for your community."
- 3.64 For each of the issues identified, Affinity Water outlined what action they planned to take to develop further its knowledge of customers' views on these points.
- 3.65 ***The CCG asked that Affinity Water pay particular attention to researching further a number of points that appeared to the CCG to be important. The CCG had some concerns that Affinity Water was reaching conclusions on customers' views based on the qualitative research, and Affinity Water did not yet have robust evidence that justified its conclusions. The Affinity Water findings that the CCG highlighted were the following:***
- ***Customers found it difficult to make a judgement about value***
 - ***Customers supported metering***
 - ***Customers were concerned about over abstraction, especially as it affected flows in rivers***
 - ***Customers lack comparisons to make judgements about value for money service.***

Phase 2: Testing and Valuing

- 3.66 At the 22 May CCG meeting, Affinity Water explained the objectives behind phase 2 of its engagement programme. Phase 2 was called "Testing and Valuing."
- 3.67 The objectives were to inform customers and stakeholders about Affinity Water's proposals for its dWRMP and Business Plan and to get its customers' views in a manner that was robust evidentially. The intent was to assure the Affinity Water Board, the regulators and the CCG that the company's engagement process was sound. These customer views would also inform the development of the Business Plan.
- 3.68 Affinity Water outlined the planned programme of engagement, which included the setting up of on-line panels. Indicative sampling sizes were provided.

- 3.69 ***The CCG welcomed the setting up of the panels and were happy with their demographic composition. However, the CCG registered a number of concerns. We wanted assurance that Affinity Water intended to survey those who might not have access to the Internet, such as the elderly, vulnerable and those on low incomes. We asked for assurance that the survey work would cover the East and Southeast Regions, providing statistically significant results. We also reminded the company to invite all CCG members to all events where we could be accommodated.***
- 3.70 Affinity Water assured the CCG that these matters would be addressed.
- 3.71 ***The CCG also asked Affinity Water whether they would consider CCWater's paper on its expectations on water companies' testing of customer views.***
- 3.72 Affinity Water assured the CCG that they had taken on board the content of the paper, which had also been forwarded to the company responsible for the survey work. In addition, ICS attended the CCG meeting to explain how those principles had been incorporated into its work.

Publication of Strategic Direction Statement

- 3.73 Unlike in the 2009 price review, Ofwat did not require the water and sewerage companies to prepare a Strategic Direction Statement to support the Price Review 2014 (PR14). Nonetheless, Affinity Water decided to prepare a Statement to facilitate its engagement program with customers and other stakeholders around its long term strategic direction and plans.
- 3.74 At the meeting of the CCG held on 13 March 2013, Affinity Water provided an update on the pre-consultation as it related to the Strategic Direction Statement. The consultation showed that most of the respondents were supportive of the four outcomes as they were presented. There was some feedback, including from special interest groups, questioning whether 'environmental issues' had enough prominence.
- 3.75 On 5 April 2013, Affinity Water emailed an early version of its Strategic Direction Statement to the CCG Chair and to the two CCWater members of the CCG. Affinity Water invited us to comment. In a meeting on 8 April and in an email the following day, the CCG Chair provided his comments. Both CCWater members provided comments by email, and their comments were incorporated.
- 3.76 During the meeting with the CCG Chair on 8 April 2013, Affinity Water explained why they had decided not to add a fifth customer expectation to the four raised in the consultation document "Investing for your community." (Affinity Water uses "customer expectations" where Ofwat uses "outcomes.") The four customer expectations used in the pre-consultation document "Investing for your community" were as follows:
- Making sure our customers have enough water
 - Supplying high quality water you can trust
 - Minimising disruption in your community
 - Providing a value for money service.

- 3.77 At the 8 April meeting, Affinity Water explained that they had had extensive internal discussions about the possibility of adding a fifth customer expectation focused on the environment. At the Affinity Water Board meeting on 26 March 2013, the Board considered a paper on its Strategic Direction Statement, which included a section on whether to add a fifth expectation focused on the environment. (The Board paper was later provided to the CCG Chair.) The argument for excluding a separate environmental expectation was that environmental matters were embedded in each of the other four customer expectations. For example, “reducing unsustainable abstraction” was essentially a sub-set of “having enough water.” The Executive proposed, “...to undertake deliberative research ... to test with customers how environmental measures that are embedded in day to day business activities can be most effectively communicated.” The Board accepted the Executive’s recommendation not to add a fifth customer expectation for the environment.
- 3.78 Affinity Water followed up by writing a briefing note for the CCG outlining how they had examined the proposal for a fifth expectation, and why they had decided not to add it. The note was included in the papers for the CCG meeting held on 22 May 2013.
- 3.79 Affinity Water did decide to change the description of one customer expectation following the CCG’s recommendation. “Minimising disruption in your community” would become “Minimising disruption for you and your community.”

Publication of the draft Water Resources Management Plan

- 3.80 At the meeting of the CCG held on 13 March 2013, Affinity Water provided an update on its preparation of the draft Water Resources Management Plan (dWRMP). They had considered the feedback received during the pre-consultation stage. A majority of respondents supported the following actions:
- Stop abstraction where it is causing damage
 - Act to reduce consumption, in part by providing free fittings and advice to customers
 - Increase bills in order to fund leakage reduction to below the sustainable economic level of leakage (SELL).
 - Install meters systematically by water stressed areas, provided it is cost beneficial.
- 3.81 ***At its meeting on 22 May 2013, the CCG recommended that when Affinity Water reached conclusions like those expressed above, they should document how the company reached these conclusions. The CCG believed that these four conclusions were based on preliminary qualitative research, and would have to be supported by better research if the company wanted to act on these assertions.***
- 3.82 ***Further, the CCG noted that the company’s conclusion that customers would agree to increased bills to fund leakage reduction was not completely consistent with the outcomes from the second stage focus groups.***
- 3.83 Affinity Water reported that customers were divided over whether bills should be increased to fund activities to reduce the frequency of restrictions on water use. Some customers favoured the current arrangements, while others wanted to ensure supply under all conditions.
- 3.84 The outcomes from the research were seen as indicative rather than definitive. Affinity Water planned to further test these views through research.

- 3.85 From the pre-consultation responses, Affinity Water concluded that customers supported the inclusion of sustainability reductions in the dWRMP. In addition, customers thought it might be necessary to invest in water efficiency measures costing more than would be justified by SELL.
- 3.86 Through its consultation process on the dWRMP in the following months, Affinity Water intended to test these early conclusions.
- 3.87 In May 2013, Affinity Water distributed its dWRMP for consultation.

“Let’s Talk Water” consultation

- 3.88 Affinity Water commissioned the “Let’s Talk Water” consultation with the hope of getting as many customers as possible involved and to provide their views. The consultation lasted three months. Customers were provided with information to allow them to make informed judgements.
- 3.89 Between May and September, 3,627 self-selecting customers responded to the consultation. As the respondents were self-selecting, the outcomes were not statistically significant, as was the case with all the preliminary qualitative research.
- 3.90 The report on this consultation was written in September 2013. The results were broadly consistent with the outcomes from earlier research.
- 3.91 In line with earlier studies, 93% of metered customers agreed that water meters were the fairest way to charge, while only 60% of unmetered customers agreed. Further, 58% of those who did not have a meter were not willing to get one fitted.⁴⁵
- 3.92 There was a significant relationship between metering status and household size. 62% of metered customers lived on their own or with one other person, compared to 48% of unmetered customers.⁴⁶
- 3.93 Of the metered customers, 75% agreed that they pay about the right amount for the water and service they receive, while 64% of unmetered customers agreed. There were significant regional differences: 72% of customers in Central Region agreed, compared to 65% in the East Region and 59% in the Southeast Region.⁴⁷
- 3.94 ***The CCG observed that the percentage of customers who agreed they were paying the right amount for water was in reverse order to meter penetration. Further, customers in the Southeast Region were least likely to agree they were paying the right amount; in reality, they paid more per cubic metre than customers in the other zones.***
- 3.95 Most respondents (78%) wanted Affinity Water to fix all leaks even if it costs more than the value of the water lost.⁴⁸

⁴⁵ Let’s Talk Water consultation, pages 5, 6

⁴⁶ Let’s Talk Water consultation, page 13

⁴⁷ Let’s Talk Water consultation, page 17

⁴⁸ Let’s Talk Water consultation, figure 2.8, page 7

Willingness to Pay

- 3.96 Affinity Water planned to consult with its customers on their willingness to pay between April and August 2013. The objectives of the consultation were described as follows:
- To undertake direct engagement with customers on services and tariffs
 - To understand customer priorities and preferences for services charges
 - To ensure the business plan is built upon and encompasses these priorities and preferences.
- 3.97 Through customer engagement, Affinity Water intended to use stated preference methods to identify inferred market prices.
- 3.98 The willingness to pay consultation had two studies:
- Stated Preference Study: Main WTP Study, which gives wide coverage of a diverse range of service measures
 - Stated Preference Study: Water Resources WTP Study, which gives the relative value of water resource service impacts.
- 3.99 The consultation was conducted in three phases:
- Design and testing, to determine the best language to use and to identify issues which customers' value
 - Pilots, to test the draft survey with customers
 - Main survey.
- 3.100 Affinity Water commissioned a consortium lead by ICS Consulting working with etfec and Facts International to manage the Willingness to Pay consultation. This phase was managed by a company named Opinion Leader, a sister company of Facts International.

Design and Testing

- 3.101 The design element of the design and testing phase consisted of six focus group sessions held between 20 and 24 April 2013. Opinion Leader facilitated the discussions. Ten Affinity Water household customers were invited to each session. Across the groups, the invitees reflected the demographics of Affinity Water's customer base. Each focus group consisted of a mix of demographic types, except at Hatfield, where the first session tended to have better off customers, while the second session had less well off people. Each attendee received a thank you payment of £45. Each focus group session lasted 90 minutes.
- 3.102 The CCG Chair observed the first focus group meeting while a CCWater member observed the first two focus groups at Hatfield, Hertfordshire.

- 3.103 The external consultants summarised the main themes that emerged from these focus groups. Below we quote some key conclusions extracted from the report:

Overall participants were fairly satisfied with the water service they received from Affinity Water. Participants were not typically willing to pay extra for service improvements nor did they want to see a reduction in service levels in order to receive lower bills.⁴⁹

Those who felt that they experienced a good water service typically felt that their bills were reasonable if not cheap compared to other household bills. Those who had experienced a poor water service e.g. low water pressure or poor water quality felt that their bill was poorer value than those who had good water services.⁵⁰

With the exception of water hardness, participants were not typically prepared to pay extra for improving water services.⁵¹

Tackling water hardness was perceived to be the most important area of service for Affinity Water to prioritise.⁵²

After spontaneously discussing leakage, participants were informed about Affinity's policy on fixing leaks i.e. fixing leaks that cost less than getting water from elsewhere. Participants expressed mixed opinions about this policy. Participants typically felt that this made economic sense and were relieved that their bills were being kept under control. Others felt that Affinity had an environmental responsibility to reduce leaks below the current level, however participants did not want to incur higher bills to facilitate this. When asked where the money should come from to pay for repairing leaks some participants thought that Affinity should sacrifice some of its profits.⁵³

- 3.104 In May 2013, ICS Consulting began the testing element of the design and testing phase by conducting cognitive testing interviews of the Stage 1 (main) Study and Stage 2 (water resources) Study questionnaires to check that the surveys used appropriate language, were understandable to customers and were grounded on a sound methodology. CCG members were invited to comment on a draft of the questionnaire, and a number responded. Their observations were taken into account.
- 3.105 Ten domestic customers and five business customers were surveyed for the Stage 1 Study to identify any weaknesses in the process. The cognitive tests for household and business customers took place on 13 and 14 May 2013 at Harwich (Essex) and Clacton-on-Sea (Essex).
- 3.106 Ten domestic customers completed the Water Resources Study and debrief questionnaire to identify any weaknesses in the process. The cognitive testing interviews were conducted in Folkestone (Kent) and St. Albans (Hertfordshire) on 13 and 14 May 2013.

⁴⁹ Willingness-to-pay qualitative research findings, page 5

⁵⁰ Willingness-to-pay qualitative research findings, page 5

⁵¹ Willingness-to-pay qualitative research findings, page 14

⁵² Willingness-to-pay qualitative research findings, page 14

⁵³ Willingness-to-pay qualitative research findings, page 18

3.107 Some of the key results of the cognitive testing interviews for both studies were as follows:

Main Study

- Respondents understanding of attribute descriptions and show cards was high,⁵⁴
- All respondents stated that the choice exercises were easy or relatively easy,⁵⁵
- The presentation of the separate sewerage bill was clear to all respondents⁵⁶ and
- Respondents understood that the sewerage bill might rise due to investment made by the sewerage provider.⁵⁷

Water Resources Study

- Respondents said their motivation for their choice exercise responses was largely based on the potential impact on their household,⁵⁸
- They doubted if hosepipe bans were only imposed once in every ten years⁵⁹
- Overall respondents understood the different water options and could make choices from the information provided⁶⁰ and
- Respondents were mixed as to whether duration of frequency was the most important aspect in their making choices over water restrictions.⁶¹

Pilot surveys

- 3.108 The Stage 1 and Stage 2 Study pilots were intended to check the effectiveness of the survey process. Findings were never intended to contribute directly to the research on customers' views on Willingness to Pay.
- 3.109 The Stage 1 pilot survey was completed by a sample of 139 household respondents and 88 business respondents.
- 3.110 The results of the Stage 1 pilot survey were presented in a report entitled "PR14 Willingness to Pay Survey: Pilot Survey" dated June 2013.
- 3.111 The pilot was intended to check the effectiveness of the survey process rather than to generate usable research. ICS Consulting concluded that the "... pilot shows survey in the main works well" while pointing out areas of possible improvement.
- 3.112 The survey was peer reviewed by Professor Ken Willis. ICS Consulting commented that "Professor Willis was very positive about the survey, making only minor suggestions for improvements to wording for the Main Fieldwork."⁶²

⁵⁴ Summary of Survey Cognitive Tests, page 1

⁵⁵ Summary of Survey Cognitive Tests, page 1

⁵⁶ Summary of Survey Cognitive Tests, page 2

⁵⁷ Summary of Survey Cognitive Tests, page 3

⁵⁸ Summary of Survey Cognitive Tests, page 4

⁵⁹ Summary of Survey Cognitive Tests, page 4

⁶⁰ Summary of Survey Cognitive Tests, page 4

⁶¹ Summary of Survey Cognitive Tests, page 5

⁶² PR14Willingness to pay Survey, Pilot Study June 2013, page 8

Stated Preference Study: Main WTP Study

- 3.113 This study aimed to assess which services household and business customers valued. The values were estimated in monetary terms of the impact of changes to water service levels. These values could then be used in cost benefit analyses to support the preparation on the Business Plan.⁶³
- 3.114 The survey covered 1209 household customers and 508 business customers. The household customers were representative by gender, age and socio-economic group. Business customers were representative by industry and bill size.⁶⁴
- 3.115 For most services, a majority of household and business customers were satisfied with the current level of service they received.⁶⁵
- 3.116 The key findings were as follows:

Tap Water Quality

- Both household and business customers place significantly higher value on avoiding reductions in tap water quality. Willingness to pay for even higher service by comparison is much lower.
- Households value for tap water quality improvements are higher than business customer values, except in the case of taste issues.
- The high importance attached to water hardness is not supported by evidence of positive willingness to pay to reduce properties affected by hard water.

Reliability of Water Supplies

- Pressure and property flooding were valued more highly than interruptions when compared on a per property affected basis.
- Both households and businesses put more value on avoiding increases in supply reliability issues compared to reducing current levels.
- The relatively high values on property flooding indicate customers place value on the consequences of service risks and not just numbers affected.

Managing Water Supplies

- Both households and businesses valued the environmental impact of low flows more highly than changing the frequency of water use restrictions.
- Avoiding reductions in the current service is valued more highly than improving upon current service.
- Both households and businesses placed a high value on reducing leakage, and an even higher value on avoiding increases in leakage.⁶⁶

Stated Preference Study: Water Resources WTP Study

- 3.117 This study builds on the Main Study of the values customers place on different services. It expands on that evidence to support the development of the Water Resources Management Plan. There are two objectives:
- Establish relative values for different water resource planning options over and above the environmental and social costs that were assessed separately.
 - Estimate relative values for different water use restrictions and durations.⁶⁷

⁶³ Stated Preference Study: Main WTP Study, page iv

⁶⁴ Stated Preference Study: Main WTP Study, page viii

⁶⁵ Stated Preference Study: Main WTP Study, page viii

⁶⁶ Stated Preference Study: Main WTP Study, page ix

⁶⁷ Stated Preference Study: Water Resources WTP Study, page v

- 3.118 The study surveyed 719 household customers. The customers were representative by gender, age and socio-economic group.⁶⁸
- 3.119 To establish relative values for different water resources, customers were asked for their preferences amongst seven options:
- Take more water from rivers
 - Take water from the sea
 - Take more water from underground sources
 - Fix more leaks
 - Transfer more water from outside the Affinity Water region
 - More water meters
 - More water efficiency measures in homes.⁶⁹
- 3.120 To determine customers' values for water restrictions, respondents' views were solicited on varying the current planned frequency and duration of hosepipe bans and non-essential use bans. The values were anchored on the value for leakage and the value for hosepipe bans determined in the Stated Preference Study: Main WTP Study.⁷⁰
- 3.121 For leakage, both household and business customers placed a high value on reducing leakage and an even higher value on avoiding increases in leakage.⁷¹
- 3.122 For water resource options, customers prioritized demand management options over supply side options. Respondents favoured fixing more leaks and encouraging more customer water efficiency and metering.⁷²
- 3.123 For hosepipe bans and non-essential use bans, both household and business customers placed a higher value on avoiding an increase in the likelihood of restrictions than a reduction in the likelihood of restrictions. When restrictions occur respondents prioritized duration over frequency.⁷³

Bill Acceptability, phase 1: Testing multiple plans

- 3.124 ICS Consulting conducted the Bill Acceptability testing in two phases:
- Phase One – Testing of Multiple Plans
 - Phase Two – Testing of £1.80 increase.
- 3.125 In phase one, ICS Consulting tested the three plans presented within the draft Business Plan Consultation.
- 3.126 ICS Consulting conducted cognitive tests on the proposed survey on customer acceptability. On 29 May 2013, CCG members were sent a link to the draft survey, and several provided suggestions that were considered.
- 3.127 The tests were conducted on 27 and 28 June 2013 in Folkestone (Kent) and Clacton-on-Sea (Essex), and it involved five domestic customers and five business customers. The domestic customers received a thank you payment.

⁶⁸ Stated Preference Study: Water Resources WTP Study, page v

⁶⁹ Stated Preference Study: Water Resources WTP Study, page vii

⁷⁰ Stated Preference Study: Water Resources WTP Study, pages vii, ix

⁷¹ Stated Preference Study: Water Resources WTP Study, page ix

⁷² Stated Preference Study: Water Resources WTP Study, page 3

⁷³ Source: Stated Preference Study: Main WTP Study, page x and Stated Preference Study: Water Resources WTP Study, page 14

- 3.128 ICS summarized the main findings for the cognitive testing for the Acceptability Study as:
- Understanding of the survey is very high,
 - The service attributes were clearly understood and
 - All respondents were able to recall in the debriefing questions that bill increases would be from 2015 to 2020.⁷⁴
- 3.129 ICS Consulting reported that the overwhelming feedback was the task was easy, or very easy, to complete. The information provided was easy to understand, and the exercise was a valid exercise for customers to undertake. Furthermore, it reported that all respondents were comfortable with the idea that there was a water bill and a sewerage bill, and that the sewerage bill may rise due to investment made by the sewerage provider.⁷⁵
- 3.130 ICS intended to conduct the Phase Two survey after the Affinity Water Board decided on its preferred plan and the desired price increase. The outcome is included in the statistically significant surveys described later in this chapter.

Business Plan Deliberative Forums

- 3.131 Affinity Water commissioned Office for Public Management (OPM) to conduct four “Deliberative Forums” to get qualitative customer input into three possible levels of investment. OPM conducted the four workshops between 6 and 27 July 2013. A total of 201 customers participated, spread evenly across the events. The workshops were held on Saturdays, lasted 5 ½ hours and were demographically representative. Each participant received a thank you payment of £75.
- 3.132 The “Deliberative Forums” were held in the following locations:
- Clacton-on-Sea, Essex
 - Harrow, London
 - Dover, Kent
 - Bishop’s Stortford, Hertfordshire.
- 3.133 The CCG Chair observed the event in Harrow.
- 3.134 An Affinity Water senior executive provided an overview of the company, including information on how the company spent money received from customers. For example, customers were told that 30p in the pound went to suppliers who maintain and improve the network and plant, while 13p in the pound went to “shareholders who we pay a return on the money they have invested on behalf of current and future pensioners.” The role of Ofwat was also explained.
- 3.135 A second Affinity Water senior executive explained that Affinity Water had developed four customer expectations through an earlier consultation process:
- Making sure you have enough water
 - Supply high quality water you can trust
 - Minimise disruption to you and your community
 - Provide a value for money service.

⁷⁴ Summary of Survey Cognitive Tests, pages 1 - 3

⁷⁵ Summary of Survey Cognitive Tests, page 3

3.136 The company asked for customer's views on how much investment to make for each expectation, where there were three options:

- Minimise investment and reduce bills
- Affinity Water's proposed plan or
- Accelerate investment to tackle more quickly the water resources challenges.

3.137 Customers were provided up front with the impact these changes would have on the average water bill in 2020. The bill impacts were as follows:

Expectation	Slower pace of investment	Proposed Plan	Faster pace of investment
Enough water	£0.45	£4.60	£6.40
Quality, Trust	£2.00	£2.00	£2.00
Minimising disruption	£0.55	£2.60	£10.80
Value for money	-£5.50	-£5.50	-£5.50
Estimated change to average bill by 2020	-£2.50	+£3.70	+£13.70

3.138 Each customer had a voting pad linked by wifi. For each expectation, customers were advised of the impact of the range of investment choices. In small groups and collectively, customers discussed the options. Customers then voted for which investment option they preferred. As the voting pads were assigned to customers, OPM were able to monitor demographic preferences. OPM reported that in all votes, there were no differences in voting patterns due to gender, age or income. There were no differences between voting preferences for metered and unmetered customers. There were regional variations, but these did not change the overall outcome.

3.139 The first expectation was "Making sure our customers have enough water." Affinity Water explained how much impact each option would have on its measures for success:

- reducing leakage (million litres per day)
- average water use (litres per person per day)
- water available for use (million litres per day).

When they voted, the results were as follows:

- 11% voted to slow the pace of investments to reduce bills
- 50% supported the proposed plan
- 39% wanted to accelerate investment to deal with water resource challenges, even if it meant higher bills.⁷⁶

3.140 The second expectation was to "Supply high quality water you can trust." Affinity Water explained the investment proposal was the same for all three options, as the company was completely committed to maintaining a high quality water supply. The company currently complies with water quality standards 99.95% of the time. 69% of customers supported the proposed level of investment, with the balance split almost evenly between the "no" and "don't know" groups.⁷⁷

⁷⁶ Business Plan Consultation, page 20

⁷⁷ Business Plan Consultation, page 26

3.141 The third expectation was “Minimise disruption to you and your community,” and there were four measures of success for the three investment options:

- Unplanned interruptions to supply over 12 hours
- Number of burst mains
- Affected customers not notified of planned maintenance
- Planned works taking longer to complete than notified.

These investment options generated considerable discussion, as customers remarked that the faster investment option cost considerably more, without an equivalent improvement in performance. The voting result reflected this:

- 13% voted to slow the pace of investments to reduce bills
- 59% supported the proposed plan
- 28% wanted to accelerate investment to deal with water resource challenges, even if it meant higher bills.⁷⁸

3.142 The fourth expectation was “Provide a value for money service.” For each of the three investment options, the outcome was the same – a £5.50 reduction in the average bill by 2020. This investment proposal reflected Affinity Water’s commitment to improve its performance and to reduce its costs. 62% of customers supported the proposed plan. 15% did not agree with the plan, while 23% said they did not know whether or not they supported the company’s proposed plan.⁷⁹

3.143 To measure success, Affinity Water proposed to conduct a community survey. 71% of customers thought it would be helpful if Affinity Water conducted a regular survey of its customers to measure their views on whether the company was providing a value for money service.⁸⁰

3.144 ***The CCG believes the suggestion is a good idea, and we understand Affinity Water is investigating how it could be implemented. We believe this is a positive example of how the company has listened to its customers.***

3.145 Finally, customers were asked for a view about the acceptability of the overall plan. The voting was as follows:

- 13% voted to slow the pace of investments to reduce bills
- 54% supported the proposed plan
- 34% wanted to accelerate investment to deal with water resource challenges, even if it meant higher bills.⁸¹

3.146 ***Given that both the slow plan and the proposed plan both had bill acceptability ratings of 91%, we challenged the company to consider implementing the slow plan, as it would reduce customers’ bills. The company responded with a written reply that explained why the investments in the proposed plan were preferable.***

⁷⁸ Business Plan Consultation, page 32

⁷⁹ Business Plan Consultation, page 39

⁸⁰ Business Plan Consultation, page 39

⁸¹ Business Plan Consultation, page 41

Online Panels

3.147 Affinity Water used an on-line panel to provide robust, statistically valid research. In December 2012, Research Now was commissioned to establish the panels. Panel members were selected to try to mirror the demographic profile of Affinity Water's customers when measured by Mosaic. The outcomes were statistically significant to a 95% confidence level.

3.148 The panels were used for seven surveys:

1. Panel Survey 1: general questions on themes from the Strategic Direction Statement and the Draft Water Resources Management Plan
2. Panel Survey 2: Draft Water Resources Management Plan
3. Panel Survey 3: Testing to support the proposal to include environmental measures within the four proposed outcomes
4. Panel Survey 4: Leakage
5. Panel Survey 5: Resilience
6. Panel Survey 6: Social Tariffs (which is not formally part of the PR14 process)
7. Panel Survey: "Let's Talk Water."

3.149 In addition, the company commissioned two statistically significant studies on Willingness to Pay. The outcomes from these surveys were reported earlier in this chapter.

Panel Survey 1: general questions on themes from the Strategic Direction Statement and the Draft Water Resources Management Plan

3.150 This survey had 448 responses, but did not achieve full alignment with all the Mosaic codes and Water Resource Zone areas.⁸²

3.151 Affinity Water advised that they only used the figures as indicative of the views of all customers taken together, as the respondents were not as representative across the regions as they wished. The overall results were statistically significant.

3.152 Only 5% of customers believed their households were high users of water.⁸³

3.153 67% of customers thought metering was effective or very effective in saving water. However, 36% of customers did not believe all customers should be metered; they felt customers should be able to choose.⁸⁴

3.154 85% of customers had been impacted by the hosepipe ban. For 69% of customers, this had only caused a minor inconvenience.⁸⁵

3.155 When customers were asked who provided their wastewater services, 19% did not know and 38% thought Affinity Water did.⁸⁶

Panel Survey 2: Draft Water Resources Management Plan

3.156 The survey had 501 responses and correlated well across Water Resource Zones and Mosaic populations. 49% were metered, 47% unmetered, and 4% did not know if they were metered.⁸⁷

⁸² Panel survey findings, page 2

⁸³ Panel survey findings, figure 2.6, page 5

⁸⁴ Panel survey findings, figures 2.8 and 2.9, pages 6 - 7

⁸⁵ Panel survey findings, figure 2.11 on page 8, and figure 2.12 on page 9

⁸⁶ Panel survey findings, figure 2.16, page 11

⁸⁷ Panel survey findings, page 18 and figure 3.3 on page 20

- 3.157 67% of customers said that having a meter and paying charges based on the amount of water used would affect the amount of water they would use in their home. 94% of customers using a meter said a water meter was the fairest way for everyone to pay for the water they use. 72% of unmetered customers agreed that a meter was the fairest way to charge.⁸⁸
- 3.158 Overall, 69% of customers said they would like to receive more information about their water use. The desire for more information varied by age. 78.4% of 18-25 year olds wanted more information, and the interest then decreased with age.⁸⁹
- 3.159 Customers were asked whether, during a compulsory metering programme, should everyone should have a meter or should they only be installed in areas where water is in short supply. 77% of customers said everyone should have one. 14% thought they should only be compulsorily installed in areas of short supply. 9% of customers did not know.⁹⁰
- 3.160 67% of customers would like Affinity Water to introduce a charging system that rewards customers according to how careful they were with their water. 87% of customers said they would use water saving devices if Affinity Water supplied them, and 72% would like the company to offer discounted water efficient white goods.⁹¹
- 3.161 75% of respondents would like Affinity Water to increase the rate at which leaks are fixed. However, 69% would not be willing to pay more to achieve this.⁹²
- 3.162 Customers were reluctant to pay more to avoid harm to the environment: only 23% were willing to pay more, while 59% would not pay more and 18% did not know.⁹³

Panel Survey 3: Testing to support the proposal to include environmental measures within the four proposed outcomes

- 3.163 443 respondents were asked for views on seven questions.⁹⁴ Affinity Water advised that the outcomes were statistically significant, but they only used the figures as indicative of the views of all customers taken together, as the respondents were not as representative across the regions as they wished.
- 3.164 Respondents were asked how they believed Affinity Water manages its environmental impacts. 49% of customers said they did not know. 34% of customers believed the company did so as part of its day-to-day activities and 17% believed it acted only when there is a local issue. When asked how should the company manage its environmental impacts, the overwhelming response (80%) was that they should do so as part of its day-to-day activities.⁹⁵
- 3.165 ***The CCG believes this outcome supports Affinity Water's decision not to have a fifth expectation on the environment. Customers think environmental matters should be part of the company's day-to-day work. However, we noted that the company expanded its first expectation to make the environmental aspect explicit: "Making sure our customers have enough water, whilst leaving more water in the environment." Affinity Water also changed its proposed environmental measures after getting its customers' views.***

⁸⁸ Panel survey findings, figure 3.4 on page 21 and figure 3.5 on page 22

⁸⁹ Panel survey findings, figure 3.8, page 25

⁹⁰ Panel survey findings, figure 3.9, page 26

⁹¹ Panel survey findings, figure 3.10 on page 27, figure 3.11 on page 28 as well as figure 3.13 on page 30

⁹² Panel survey findings, figure 3.14 on page 31 and figure 3.15 on page 32

⁹³ Panel survey findings, figure 3.21, page 38

⁹⁴ Panel survey findings, page 42

⁹⁵ Panel survey findings, figure 4.2, page 42

- 3.166 86% of respondents believed Affinity Water should take action to reduce its environmental impact where it was cost effective. 65% felt the company should invest to protect the environment or a community even if in the short term it would cost the business more.⁹⁶
- 3.167 Only 31% of respondents believed the company should only invest the minimum amount legally required in order to protect the environment. 87% of respondents wanted Affinity Water to invest to enhance or improve local natural resources.⁹⁷

Panel Survey 4: Leakage

- 3.168 519 responses were received, and they correlated well against Affinity Water's population profile by Water Resource Zones and Mosaic classifications. 47% of respondents were unmetered, 50% were metered and 3% did not know.⁹⁸
- 3.169 Respondents were told about Affinity Water's approach to fixing leaks, and asked whether the company managed leaks appropriately. 78% said "yes," 9% said "no," and 13% did not know. 66% of customers wanted the company to report how much water was lost through leakage.⁹⁹
- 3.170 Respondents were provided with a brief description of leakage and about setting targets for leakage reduction based on the economic level of leakage. Customers were told that on average Affinity repaired leaks around five days after they were found or notified to the company. 50% of respondents believed the company should respond more quickly, while 45% thought that was about right. 41% of respondents thought the company should spend money to reduce leakage further, going beyond the economic level of leakage. 76% of respondents though Affinity Water should respond to leaks faster in a drought.¹⁰⁰
- 3.171 65% of customers knew they were responsible for their supply pipe. 31% said they did not know this and 5% were unsure. The percentage of respondents who knew they were responsible for their supply pipe rose in proportion with age, from 38% of the 18-25 year olds to 84% of those aged over 66.¹⁰¹
- 3.172 76% of respondents believed metering would encourage householders to take responsibility for their own leakage. 13% did not agree, and 11% did not know.¹⁰²
- 3.173 74% of respondents were in favour of Affinity Water taking over responsibility for their supply pipes in exchange for a bill increase of £4 to £6 per year. 10% were opposed, and 15% did not know.¹⁰³
- 3.174 Respondents were told that very cold winters and long dry summers increased leaks and make it more difficult for Affinity Water to achieve an agreed leakage target. The company proposed to vary the targets depending on conditions. 55% of customers thought the company should set a target that is achieved most of the time and is the most economic. 8% of customers thought a target should be set and not exceeded, even if it was more expensive. In the event the target was not achieved in a given year, 58% of customers thought the company should achieve the target the following year at no extra cost to the customer.¹⁰⁴

⁹⁶ Panel survey findings, figure 4.3 on page 45 and figure 4.4 on page 46

⁹⁷ Panel survey findings, figure 4.5, page 48

⁹⁸ Panel survey findings, page 50, figure 5.3 on page 52

⁹⁹ Panel survey findings, page 53, figure 5.4 on page 54 and figure 5.6 on page 55

¹⁰⁰ Panel survey findings, figure 5.7 on page 58, figure 5.8 on page 59 and figure 5.9 on page 60

¹⁰¹ Panel survey findings, figure 5.13 on page 64

¹⁰² Panel survey findings, figure 5.15 on page 66

¹⁰³ Panel survey findings, figure 5.16 on page 67

¹⁰⁴ Panel survey findings, figure 5.17 on page 68 and figure 5.18 on page 69

- 3.175 ***The CCG noted that qualitative surveys as well as the statistically significant study all showed that customers feel strongly about leakage. We believe this research supported the company's decision to seek to reduce leakage faster than would be justified solely by SELL. The CCG believe this approach to leakage reduction is important to provide legitimacy to the introduction of compulsory metering, as customers do not believe they should reduce their water use when the company loses so much water through leakage.***

Panel Survey 5: Resilience

- 3.176 The 509 respondents correlated well with the demographics of the Water Resource Zones and Mosaic classifications. 49% were metered, 47% were not, and 4% did not know.¹⁰⁵
- 3.177 89% (*sic*) of customers were concerned when they see or hear about water courses drying up. 12% of respondents were not concerned.¹⁰⁶
- 3.178 72% of respondents agreed that Affinity Water should reduce abstraction if this increases the likelihood of rivers drying up. 13% thought abstraction should not be reduced, as water supply is more important. 15% did not know.¹⁰⁷
- 3.179 87% of customers were prepared to pay extra to reduce abstraction. 14% thought the environment should not be protected if this would result in higher bills. Amongst those willing to pay more, the amount respondents were willing to pay varied.¹⁰⁸
- 3.180 87% of respondents agreed that Affinity Water should invest to improve resilience to severe drought, and 64% were willing to pay £2.00 more. 36% were not willing to pay, even if they wanted less frequent restrictions. 9% wanted to have enough water all the time and were prepared to pay any price.¹⁰⁹
- 3.181 Only 17% of customers thought Affinity Water should never resume abstractions, even in an emergency, as the environment should always be protected.¹¹⁰
- 3.182 72% of respondents were prepared to accept the inconvenience of a hosepipe ban every ten years. 15% would accept the inconvenience even more frequently.¹¹¹

Panel Survey 6: Social Tariffs

- 3.183 Affinity Water planned to introduce a social tariff in the last year of the current price review period, in part to help vulnerable and low-income households, in part to support the anticipated rollout of universal metering in the next two price review periods. Thus social tariffs are not actually part of the PR14 process. However, because the introduction of social tariffs will impact customers' bills in PR14, we include here some of the key outcomes from the statistically significant study.
- 3.184 Only a minority of customers supported the principle that Affinity Water should introduce a social tariff to provide a reduced bill to customers who are struggling to pay for water: 45% either strongly supported or somewhat supported the principle. Another 19% of customers did not mind.¹¹²

¹⁰⁵ Panel survey findings, page 74, figure 6.3 on page 76

¹⁰⁶ Panel survey findings, figure 6.4, page 78

¹⁰⁷ Panel survey findings, figure 6.5, page 78

¹⁰⁸ Panel survey findings, figure 6.6, page 79

¹⁰⁹ Panel survey findings, figure 6.10, page 84

¹¹⁰ Panel survey findings, figure 6.11, page 85

¹¹¹ Panel survey findings, figure 6.12, page 86

¹¹² Panel survey findings, figure 7.5, page 94

3.185 Further, customers were not keen to have their bills increased, or increased by much, to deliver the social tariff. 31% of customers would pay an additional £2.50 - £3.00 charge on their annual bill to support a social tariff; another 23% did not mind and 43% opposed to some degree. When the bill increase dropped to £1.00 - £1.50, those who would support this or did not mind rose to 68%, while 31% were still opposed.¹¹³

Panel Survey: Let's Talk Water

3.186 Affinity Water commissioned a survey of 507 panel members that matched the population profile by Mosaic group. 53% of respondents had a meter and 47% did not. 85% had a garden.¹¹⁴

3.187 Some of the key findings were as follows:

- 96% of those with a meter agreed that a water meter is the fairest way to charge, while 69% of those without a meter agreed.¹¹⁵
- 50% of those without a meter would be unwilling to have one fitted.¹¹⁶
- 67% of customers felt that they paid about the right amount for water. 72% of metered customers agreed, while 62% of unmetered customers agreed.¹¹⁷
- 88% of customers wanted Affinity Water to fix all leaks, even if it costs more than the value of the water lost.¹¹⁸
- 29% of respondents thought Affinity Water should place a high priority on reducing the amount of water taken from underground sources to leave more water for rivers. A further 63% thought this should have a medium priority.¹¹⁹

3.188 ***The CCG believes these outcomes support Affinity Water's plan to reduce the rate of leakage beyond that justified by SELL. To gain customers' support for the introduction of universal metering, it is important that the company is seen to be addressing customers' concerns about leakage.***

3.189 This survey also found customers tended to be unwilling to pay more for water today to avoid significant bill increases for future generations. 45% of customers disagreed to some extent, 30% neither agreed nor disagreed while 24% agreed to some extent.¹²⁰

¹¹³ Panel survey findings, figures 7.6 on page 95 and figure 7.10 on page 99

¹¹⁴ Let's Talk Water consultation, figure 2.3 on page 22 and figure 3.17 on page 33

¹¹⁵ Let's Talk Water consultation, page 25

¹¹⁶ Let's Talk Water consultation, figure 3.7, page 26

¹¹⁷ Let's Talk Water consultation, figure 3.21 on page 35, page 36

¹¹⁸ Let's Talk Water consultation, figure 3.9, page 27

¹¹⁹ Let's Talk Water consultation, figure 3.15, page 32

¹²⁰ Let's Talk Water consultation, figure 3.22, page 36

Phase 3: Revisiting and Assuring

Bill Acceptability, phase 2: Testing £1.80 increase

- 3.190 The CCG were given access to the final draft questionnaire for the on-line survey of bill acceptability, phase 2. The CCG Chair provided his comments.
- 3.191 The earlier phase 1 study showed that 91% of customers thought a £2.50 reduction or a £3.70 increase were acceptable or very acceptable.
- 3.192 In order to conduct the phase 2 bill acceptability, at the Board meeting on 8 October 2013, the Board decided that the Business Plan would not result in a real increase of more £1.80. Although Affinity Water had not arrived at the final Business Plan, the acceptability testing was undertaken using this figure.
- 3.193 For the phase 2 study, 813 household customers and 418 business customers were surveyed. The household customers surveyed were representative by gender, age and socio-economic group. 68% of customers were metered and 29% were not.¹²¹
- 3.194 The results were that 87% of respondents said the proposed price increase of £1.80 was acceptable or very acceptable.¹²²
- 3.195 An analysis of the results showed that acceptability varied amongst socio-economic groups:
- | | |
|----|---------------------|
| AB | 92% |
| C1 | 85% |
| C2 | 83% |
| DE | 84%. ¹²³ |
- 3.196 There were also regional variances in customers' views on the acceptability of a £1.80 price increase:
- | | |
|-------------------|---------------------|
| Central Region | 90% |
| East Region | 86% |
| South East Region | 80%. ¹²⁴ |
- 3.197 The proposed bill increase to pay for the Thames Tideway Tunnel had a profound negative impact on total bill acceptability.¹²⁵
- 3.198 ***At the time we finalised our report, we did not know how the company would phase the introduction of any price increase. We are concerned that the phasing might adversely affect the bill acceptability to customers.***
- 3.199 ***The CCG also noted that in the phase 1 study, dissatisfied business customers were more likely than dissatisfied domestic customers to say this was because they received poor value for money. Further, businesses appear more inclined than household customers to favour a slower pace of investment in order to keep bills low.***¹²⁶

¹²¹ Acceptability Study Phase 2, Main Study Results, slides 3, 5, 6 and 8

¹²² Acceptability Study Phase 2, Main Study Results, slide 18

¹²³ Acceptability Study Phase 2, Main Study Results, slide 27

¹²⁴ Acceptability Study Phase 2, Main Study Results, slide 32

¹²⁵ Acceptability Study Phase 2, Main Study Results, slides 43 - 44

¹²⁶ Bill acceptability, phase 1: Test of multiple plans, pages 19, 30

- 3.200 ***The CCG challenged Affinity Water on surveying bill acceptability using real numbers rather than nominal ones. The company responded by providing a thoughtful note compiled by an independent consultant that concluded that using real numbers was the best method. The note cited academic research.***
- 3.201 ***Nevertheless, the CCG would like to encourage Affinity Water to ensure that its communication activities make it clear to customers that inflation will impact their bills.***

Metering Deliberative Forums

- 3.202 OPM organised two deliberative forums to discuss metering. The first was in Harlow, Essex on 7 October 2013 and the second in Rickmansworth, Hertfordshire on 14 October 2013. The CCG Chair and a CCG member observed the meeting in Harlow.
- 3.203 Each deliberative forum had about 35 customers, about 75% of whom were unmetered. Participants broadly reflected the population (as recorded in the census) of the location where the events were held.¹²⁷ The forums lasted two hours. Attendees were given a thank you payment of £50.
- 3.204 In its report, OPM drew a number of qualitative conclusions from the two events:
- Most people supported metering in principle: paying for what you use is fair.
 - Cost was clearly the main influencing factor for how participants felt about metering. People were very aware that there would be winners and losers.
 - Many people found it difficult to comment on the pre-installation and installation phases as they had many questions they wanted answered first.
 - Many customers wanted examples and case studies about the impact having a meter would have on different customers' bills.
 - People had mixed views on the proposed social tariff.
 - Participants were in favour of the volumetric tariff, particularly the scrapping of the standing charge.
 - People overwhelmingly thought customers would switch earlier to metering if they believed they would save money.
 - Throughout the event, participants had many questions they wanted answered.
 - OPM concluded that Affinity Water must increase customer awareness and understanding about why the metering programme is needed, what it will mean in terms of people's bills and what support will be available.¹²⁸
- 3.205 Affinity Water thought the main message from customers was that they had to do a lot more to engage effectively with customers. Amongst other points, the company needed to provide hard evidence that introducing meters did reduce water consumption; some customers doubted if a 10% reduction in water use could be achieved through metering. Affinity Water also needed to tell people what effect metering would have on their bills. The company would also have to overcome concerns that metering was really a device to enable the company to make more profits.

¹²⁷ Community metering consultation, page 5

¹²⁸ Community metering consultation, pages 4 - 5

- 3.206 ***The CCG agrees with the company that it needs to devise plans to ensure it takes its customers with them during the rollout of compulsory metering. We recommend that the company begins this communication programme as early as possible in order to get maximum cooperation from customers.***

Vulnerable customers focus groups

- 3.207 The two main studies that generated statistically significant results ensured the surveyed customers matched the demographics of the 2011 census data by age, gender, employment, education and income. It follows that vulnerable customers were surveyed proportionally, but their views could not be extracted for separate consideration.
- 3.208 ***The CCG thought that the online panels were appropriate for getting statistically significant results, but we were concerned that Affinity Water had not undertaken research targeting vulnerable customers. Therefore, we were pleased when the company commissioned qualitative research focused on these groups.***
- 3.209 To gain an understanding of the issues impacting vulnerable customers, Affinity Water commissioned two additional pieces of research.
- 3.210 First, a telephone survey was conducted with seven organisations that work with vulnerable people to get their insight into their experience of working with Affinity Water on their clients' behalf. None of the people interviewed had heard any direct feedback about Affinity Water from the people they support. When they heard complaints about water bills, the most common concern was that the bill had been unexpected, arriving on an unusual date or containing a higher than expected charge. The interviewees explained that the rising cost of living was making life increasingly hard for those on low incomes. The interviewees welcomed Affinity Water's proposal to introduce a social tariff, and had a number of practical suggestions on how it might be successfully rolled out.¹²⁹
- 3.211 Second, ICS organised six focus group sessions, each targeting a specific type of vulnerable group:
- long-term unemployed
 - low-income larger families
 - urban state pensioners
 - rural or isolated state pensioners
 - people with disabilities and
 - members of minority ethnic groups.

The focus groups were for people with low incomes, except for the meeting of the people with disabilities, who had broader income levels.

- 3.212 Each focus group had about ten participants and lasted two hours. All participants were Affinity Water customers. Each group included metered and unmetered customers. With the exception of the people with disabilities, all participants were classified as social grades D (working class) and E (non-working). All participants received a thank you payment of £40.

¹²⁹ Research with vulnerable groups, findings from interviews with stakeholders, pages 5 – 13

3.213 Some common themes emerged across all the focus groups:

- Awareness of the Water Sure offer was very low.
- The vast majority felt that the proposed £3.70 price increase was reasonable.
- Participants wanted Affinity Water to work collaboratively with partners and to develop more channels to provide support and advice to vulnerable customers.
- There was a high level of concern about the increasing cost of living.
- Customers who were struggling to pay their bills on time valued Affinity Water's flexible payment plans.
- All groups wanted more support with achieving greater water efficiency.
- Many groups did not like to use an 0845 number, like Affinity Water offered, and many requested that the company set up a free phone line.¹³⁰

3.214 There were some differences between the groups:

- Many of the long-term unemployed suspected that Affinity Water would break its promise and raise their bills by more than £3.70. They also felt the social tariff should be funded from the company's profits, rather than by customers.
- State pensioners in rural or isolated areas noted that poor mobility can make achieving water savings more difficult.
- Urban state pensioners were particularly focused on Affinity Water doing more outreach to vulnerable older customers.
- None of the people with disabilities drank tap water because it was cloudy and the taste was not liked. They also found the proposed £3.70 price increase less acceptable than the other groups.
- Some members for minority ethnic groups had difficulty understanding their bills. Some recent immigrants did not understand how the water industry works in the UK.¹³¹

¹³⁰ Vulnerable customer focus groups, pages 2 – 3

¹³¹ Vulnerable customer focus groups, pages 3 - 4

Business Plan

- 3.215 This report and the CCG's conclusions are based on the draft Business Plan prepared for the Affinity Water Board meeting on 20 November 2013. Any material changes after that date were not examined by the CCG due to a lack of time. These late changes are highlighted in the Executive Summary, but not anywhere else in this report.
- 3.216 The key elements of the Business Plan are noted here.
- By 2020 the average bill will not increase by more than the rate of inflation, so customers will have no increase in real terms.
 - Affinity Water will introduce compulsory universal metering in six Water Resource Zones (WRZ). The introduction of metering will prioritise areas with the greatest need to reduce abstraction. This will be achieved over seven years, as follows:
 - Colne (WRZ 2) 76,000 meters in 2015-16
 - Stort (WRZ 5) 41,000 meters in 2016-17
 - Lee (WRZ 3) 107,000 meters in 2017-18
 - Misbourne (WRZ 1) 56,000 meters in 2018-19
 - Wey (WRZ 6) 80,000 meters in 2020-21
 - Pinn (WRZ 4) 164,000 meters in 2021-22.
 - Between 2015 and 2020, Affinity Water will consider developing a solely volumetric tariff, shifting a larger proportion of the total bill to the variable charge, to reward more fully customers who reduce water usage.
 - By 2020, Affinity Water is planning to reduce leakage by 15% (27.0 MI/d).
 - The company is planning to reduce the level of individual consumption by at least 10% (11.5 MI/d).
 - The company will reduce abstractions by 42 MI/d.
- 3.217 During our meetings, Affinity Water explained to the CCG how it endeavours to keep its debts in check. The company believes the main contributor to rising debt is a mobile population, many of which are "won't pay" rather than "can't pay."
- 3.218 ***The CCG would like to encourage the company to continue its efforts to collect outstanding debt. While shareholders take the consequences during a price review period, in future periods the customers who pay are in effect paying for those who do not. We encourage Affinity Water to do everything reasonable to keep a lid on debt.***
- 3.219 ***The CCG noted that "Investing for your community" included a very clear breakdown of where customers' money was spent. "Our Business Plan Consultation" very clearly reported on***
- ***the company's performance to date***
 - ***the financial consequences of proposed outcomes of three alternative business plans and***
 - ***explicitly stated the assumed cost of finance.***
- The CCG believes this is a transparent, honest approach to engaging with customers on financial and operational matters, and would like to encourage Affinity Water to build on this work when planning future customer engagement.***
- 3.220 ***The CCG notes and commends that some of this information is included in the draft summary of the final business plan for customers that is currently in preparation. CCG members have had sight of this and have provided individual feedback but it arrived too late for a collegiate discussion/view.***

Last three meetings with the Affinity Water Board

3.221 On 18 September 2013, we invited three Affinity Water non-executive Board members to attend the morning session of our CCG meeting. Accordingly, the Affinity Water Chair (Dr Phil Nolan), an independent non-executive (Fiona Woolf) and one shareholder non-executive (Kenton Bradbury) joined us for several hours. In preparation for the meeting, the CCG Chair had distributed in advance a presentation listing the 13 matters which the CCG and the statutory bodies considered to be most important points about Affinity Water's proposed Business Plan. This was followed by an open discussion and a good exchange of views.

3.222 On 23 October 2013, the CCG Chair attended the Affinity Water Board meeting, updated them on our progress and advised on the four matters we thought should concern the Board:

- Cost of capital
- Proposing an above inflation price increase
- Eligibility criteria for social tariffs and
- Environment Agency's concerns.

This was followed by a frank discussion around the issues the CCG Chair raised.

3.223 On 20 November 2013, the CCG Chair attended the Affinity Water Board meeting to present a final draft of the CCG Report, before submitting it to Ofwat for its consideration.

Chapter 4 – Themes

Overview

- 4.1 To support our review of Affinity Water's customer engagement program, the Customer Challenge Group (CCG) examined in depth a number of key, cross-cutting themes:
- Investment options, Willingness to Pay and bill acceptability
 - Social Tariffs
 - Debt
 - Leakage
 - Metering.
- 4.2 The iterative process of challenging was documented through a Challenge Record. A Challenge Record was initiated by the CCG with a written request in a structured form. In each Challenge Record, the CCG described the challenge, our expectations of what the reply should address and highlighted specific points Affinity Water should comment on. Affinity Water replied in writing and in presentations to CCG meetings. Through an iterative process, the CCG responded and Affinity Water refined its views. The final product was a Challenge Record that described the iterative process and Affinity Water's final view. The presentations made to the CCG meetings were attached to the Challenge Record as appendices.
- 4.3 Social tariffs were originally combined with debt as a single challenge. As social tariffs has become a more important topic and as it is not strictly part of the PR14 process, it has been separated from debt and reported on separately in this chapter. Accordingly, there is no separate Challenge Record on social tariffs in the appendices.
- 4.4 All the Challenge Records are attached to this CCG Report as appendices. Their main function is to evidence the depth of the challenge and to enable Ofwat to scrutinize an issue in detail, should they wish to do so.
- 4.5 The Challenge Records and the CCG's views are summarized in this chapter.

Investment options, Willingness to Pay and bill acceptability

- 4.6 The CCG articulated this challenge as follows:
- How will Affinity Water consult with domestic and commercial customers to determine their preferences and willingness to pay for alternative investment options and/or possible service enhancements?
How will Affinity Water determine their customers' acceptability of proposed bill levels including their overall water and sewerage bill in the period 2015 – 2020?
- 4.7 The challenge was underpinned by five expectations and a list of thirteen specific points the CCG wished to see explained.
- 4.8 Affinity Water addressed this challenge through a series of presentations made to the CCG during 2013. A conclusive, 25-page response was provided to the CCG meeting on 18 September 2013. The report provided Affinity Water's response to all five expectations and the thirteen specific points raised by the CCG.
- 4.9 Some of Affinity Water's key responses are extracted for reporting here.

- 4.10 Affinity Water provided a summary of the consultation process they used to determine its customers' preferences. These included a range of qualitative and quantitative research taking into account guidance from UKWIR, CCWater and Ofwat. To ensure the quantitative research surveys were representative, the sampled household customers matched the 2011 census data while the sampled business customers matched the industrial classification based on ONS data. Affinity Water also explained how they used an optimisation tool to translate customer preferences and customer acceptability into an overall investment programme.
- 4.11 The CCG said they expected Affinity Water to be transparent with customers about key financial assumptions such as cost of capital. On page 9 of the Business Plan consultation document, Affinity Water explicitly explained to customers that they had "assumed an industry cost of finance in the region of 4.5% real, pre-tax debt and post-tax equity basis."
- 4.12 The CCG asked Affinity Water to demonstrate how it engaged with customers who are reliant on a constant and consistent source of water. Affinity Water explained that this would be addressed through phase 2 bill acceptability testing, rather than in this response to the Challenge Record.
- 4.13 The CCG wanted to know how Affinity Water would provide the cost savings from unification to customers in the East and Southeast Regions. Affinity Water explained that the cost savings and efficiencies from unification would be returned to customers in these two regions "through the adoption of the average cost to serve price control.... The lower unified cost to serve will more than offset the efficiencies of £900k identified at the time of unification." This had been agreed with Ofwat in 2011 when unification was considered.

Social Tariffs

- 4.14 Social tariffs do not form part of the price review process.
- 4.15 Nevertheless, the CCG has engaged with Affinity Water on this topic, in part because of the focus Ofwat has given it, in part because ultimately the cost will impact on customers' bills.
- 4.16 Affinity Water advised us that they had noted the guidance Ofwat provided in 2012 about how a social tariff might be structured and what level of cross subsidy would be appropriate.
- 4.17 In preparing its proposed social tariff, Affinity Water surveyed its customers. It also consulted with Ofwat, CCWater, the CCG Chair, the Managing Director of Charis Grants (who is also a CCG member) as well as various organizations that support vulnerable and low-income people.
- 4.18 The customer survey showed the following:
- 81% of customers support or accept that the company should assist customers in difficulty
 - 63% support or accept the principles of a social tariff
 - 68% of customers support or accept that their bills could increase by £1 to £3 per year to support the costs of a social tariff.

- 4.19 The company advised us that, subject to receiving approval from Ofwat, it planned to introduce a social tariff in 2014/15, possibly on a trial basis in one region. The proposal is to offer the social tariff to households whose annual income is less than £15,860 and/or who receive some welfare support. The offer will be a fixed flat rate bill of £95.80 per year. This is the company's lowest tariff available to customers, the Assessed Household Charge for the single Occupier. Affinity Water said this fee represents about a 40% discount off the average customer's bill. Customers on the social tariff will have the water available at this rate capped at 150% of average household consumption.
- 4.20 The company believes that 30,000 of its customers might be eligible for the social tariff.

Debt

- 4.21 Through this Challenge Record, the CCG wanted to understand
- how current and future levels of debt would impact on customers' bills
 - how did Affinity Water plan to reduce debt levels and
 - whether the company planned to introduce measures like social tariffs to address affordability issues.

The CCG had a specific concern about whether debt management practices meant that some customers were cross subsidizing others.

Impact of debt on bills

- 4.22 Affinity Water advised that for all three regions the level of debt has risen over the last five years, in absolute amounts and as a percentage of revenue. In 2011/12 debt was fairly consistent across all three regions at 19% to 20% of revenue.
- 4.23 The company does not forecast future debt levels. As part of the PR14 process, Affinity Water will need to forecast the amount of bad debt to write off in order to estimate the operating expenditure in its Business Plan.
- 4.24 As a generality, higher debt levels lead to higher bad debt charges that eventually result in higher bills for customers. Because of the way the price review process works, fluctuations in debt levels will not have any impact on customers' bills in the current five-year price review period. It may well impact bills in future price review periods. However, in the short term, increases in bad debt charges are met by investors and not by customers.

Efforts to reduce bad debt

- 4.25 Across the company, Affinity Water has tried to adopt consistent best practice. Since disconnections were banned in 1999, bad debt has been a problem for the whole industry. In response, a "Water UK Debt Good Practice Network" was established, and Affinity Water is an active participant.

Social tariffs and affordability

- 4.26 Ofwat define water and sewerage bills as difficult to afford if they constitute more than 3% of household income after housing costs. By this definition, 17% of Affinity Water's domestic customers have affordability problems. Affordability risks are concentrated amongst households with a single adult, whether with or without children, whether working age or a pensioner.
- 4.27 Affinity Water are considering introducing a social tariff to try to alleviate affordability risks. The proposed social tariff is described earlier in this chapter.

- 4.28 Affinity Water plan to take affordability issues into account in any proposal for metering. In its experience, educating customers is the key to promoting water efficiency. The company believes it must become more innovative to overcome customer apathy on this topic.

Cross-subsidy

- 4.29 For customers with measured charges, because Affinity Water uses a simple measured tariff structure in a region, they have a uniform distribution of recovery costs of bad debt. This applies whether customers are business or domestic customers, rural or urban, single or multiple occupiers. As a result it is not possible to say, with certainty, that one group of customers subsidise more than any other.
- 4.30 For customers on the unmeasured rateable value system, customers on higher rated properties pay more than those on lower rated properties, so one could argue that there is a general cross-subsidy for occupiers of larger properties towards those in smaller homes.
- 4.31 Affinity Water can treat business customers differently than domestic customers. They can demand deposits, collect bills more frequently and, if necessary, cut off the customer. As a result, business customers have lower debt than domestic customers. This leads Affinity Water to conclude that there is a tendency for business customers to cross-subsidise the bad debts of households.
- 4.32 ***The CCG accepts the company's explanation that mobile populations who "won't pay" cause the main difficulty with debt. In principle, low-income customers with affordability issues can be helped effectively through social tariffs, grants and favourable payment arrangements. In the CCG's opinion, Affinity Water needs to continue to try to distinguish between those who "won't pay" and those who "can't pay," and to focus its debt recovery efforts on the "won't pay" customers.***
- 4.33 ***The CCG is concerned about the impact that sewerage bills may have on debt for those customers receiving wastewater services from Thames Water. The proposed increases in wastewater bills to pay for the Thames Tideway Tunnel may make combined water and sewerage bills unaffordable for more low-income customers. Ultimately, Affinity Water may have to decide whether the income from billing wastewater services on behalf of Thames Water is worth the consequential deterioration in customers willingness to pay and a probably rise in bad debt.***
- 4.34 ***The CCG has suggested that Affinity Water might find it useful to ask its customers for their views on this issue, for example, whether they would find it acceptable to change to separate bills for water and sewerage.***

Leakage

- 4.35 The CCG noted that Ofwat had asked water and sewerage companies to make a step-change in their approach to leakage. Ofwat was motivated in part by its belief that customers were reluctant to be more water efficient when they perceived that large amounts of water were lost through leakage. In addition, anecdotal evidence suggested that customers did not accept the economic cost of leakage rationale.¹³²
- 4.36 The CCG expected Affinity Water to devise a strategy for addressing leakage that would be acceptable to both its customers and to the statutory bodies. In support of our challenge, we asked Affinity Water to reply to five specific points that we raised.

¹³² Ofwat breakfast briefing 05 November 2012

- 4.37 In its response, Affinity Water explained that leakage reduction was an integral component of the strategy for meeting the outcome of making sure that its customers had enough water. Therefore, the company was not proposing to develop a separate strategy for leakage.
- 4.38 In the draft Water Resources Management Plan, Affinity Water explained how they planned to meet the outcome of ensuring customers have enough water over the next 25 years. The plan included a balanced range of options, including reducing leakage across most of the water resource zones.
- 4.39 In the five years from 2015 to 2020, Affinity Water intended to save 20 MI/d in leakage at a cost of £11.3 million. This represents 24% of the 82 MI/d improvements in water supply proposed during this period, where the biggest change is 36 MI/d of demand reductions from compulsory metering in five water resource zones. [Note: subsequent to this response, the Affinity Water Board changed its investment plans so that metering would be introduced in four zones, rather than five zones, during 2015-2020.]
- 4.40 Affinity Water said they recognised the significance of customers' views on leakage, and its communications programmes would include a clear commitment to reducing leakage, in part to help win its customers' support for the company's overall strategy and priorities.
- 4.41 The company had also put in place new monitoring systems to improve its understanding of the true costs when they operate at lower levels of leakage. This will enable Affinity Water to clearly compare costs of leakage reductions with other supply and demand options before making any decisions to reduce leakage below 20 MI/d.
- 4.42 Affinity Water is planning on setting targets for leakage levels over the next 15 years that are lower than the Sustainable Economic Level of Leakage (SELL).
- 4.43 The company also believes it needs to adopt a flexible approach to leakage, controlling leakage to much lower levels during benign weather periods and in drought conditions. In both cases leakage reductions may be sub-economic. This approach may also conflict with DEFRA's aspiration that leakage should not rise. However, the company believes this flexible approach is essential if the company is to be as efficient as possible.
- 4.44 Affinity Water plans to consult with customers on its proposed approach to leakage reductions, possible targets and the impact on customers' bills.
- 4.45 The company said it would also consider what support to offer customers on supply pipe leakage as part of the programme of compulsory metering.
- 4.46 Finally, Affinity Water is considering including leakage as one of the core measures of success of meeting the outcome of making sure its customers have enough water. The company's performance could be reported monthly on its web site to keep customers informed of its progress.

Metering

- 4.47 The challenge the CCG made to Affinity Water was as follows:

Affinity Water has a working hypothesis that customers support universal metering. This view is an outcome from the qualitative work in focus groups, environmental forums and deliberative workshops. It is not yet substantiated by robust quantitative research.

- 4.48 We set a number of expectations around the areas we expected Affinity Water to cover in its reply; further, we asked for the company to address a number of specific points that concerned us.

- 4.49 At the outset, Affinity Water stressed that metering was a key component within a range of coherent measures to target demand reduction. This is required to deliver the company's first expectation, "Making sure our customers have enough water, whilst leaving more water in the environment."
- 4.50 The challenges Affinity Water faces include supplying water to 3.5 million people in areas that are subject to serious water stress, and whose population is forecast to grow by 15% over the next 25 years. Further, the company's customers have one of the highest rates of water use in England and Wales.
- 4.51 The company believes it has to persuade customers to use water more efficiently. A key component of the plan to get customers to change their behaviour is to introduce metering so the company can charge customers for the water they use.
- 4.52 The universal metering programme will result in 90% meter penetration in the Central Region by 2022. In the first five years, the programme will target the four Water Resource Zones where there is the greatest need to reduce demand in order to alleviate the imbalance with the water supply. The company plans to install 280,000 meters at a cost of £xxxx to achieve a reduction in demand on 18.4 Ml/d by 2020.
- 4.53 Affinity Water acknowledges that its initial view that its customers support universal metering was based on qualitative research. However, the company believes its preliminary views were later supported by both qualitative and quantitative research studies.
- 4.54 Three panel surveys were used to gather statistically robust data on customers' views on water resources. Affinity Water highlighted four findings to evidence its customers support metering:
- 67% of customers said having a meter installed would be effective in saving water¹³³
 - 75% of customers believe a meter is the fairest way for everyone to pay for the water they use¹³⁴
 - 67% of customers support a charging system that rewards customers according to how careful they are in their water use¹³⁵ and
 - 77% of customers believe that if meters are installed on a compulsory basis, they should be installed everywhere, and not just in areas where water is in short supply.¹³⁶
- 4.55 The company also noted that research evidenced that customers prioritized demand management options over supply side options and favoured fixing more leaks and encouraging more customer efficiency and metering.¹³⁷
- 4.56 Further, the second phase of Bill Acceptability research showed that 77% of customers supported increased metering, compared to 65% in the first round of Bill Acceptability testing.¹³⁸
- 4.57 The CCG challenged Affinity Water on its understanding of the motives of customers who did not support universal metering, and how it planned to engage with them.

¹³³ Panel survey findings, page 7

¹³⁴ Panel survey findings, page 22

¹³⁵ Panel survey findings, page 27

¹³⁶ Panel survey findings, page 26

¹³⁷ PR14 Customer Research, Summary of Findings, Water Resources, page 3

¹³⁸ Acceptability Study Phase 2, Main Study Results, slide 51

- 4.58 Affinity Water is of the view that these customers are largely made up of households who are unmetered. To get greater insight into the issues, the company commissioned two deliberative forums for customers in Harlow and Rickmansworth in October 2013. 80% of the participants did not have a meter. During these sessions, Affinity Water described its metering plans, and invited feedback. From these discussions, the company drew several conclusions, including the following:
- Customers became more supportive of metering, once they had an opportunity to discuss what was involved
 - Bill impact is the key issue for low and high users of water
 - Trust was an issue, and the company would have to provide assurance that metering was really about reducing water usage.
- 4.59 The CCG challenged the company on how it intended to help customers who might have affordability problems.
- 4.60 Affinity Water noted the CCWater report which concluded that customers in low value properties are most likely to face bill increases as a result of introducing universal metering. To address this concern, the company planned to introduce a social tariff in addition to retaining its existing WaterSure tariff for vulnerable customers as well as its current arrangements for spreading payments over affordable periods for its customers.
- 4.61 Subject to Ofwat's approval, Affinity Water plans to trial a new social tariff for households whose income is less than £15,860 per year and/or who are in receipt of welfare support. These customers will be offered a fixed flat rate bill of £95.80 per year, which the company believes is the equivalent of a 40% discount on the average water bill. Affinity Water believes about 30,000 customers will qualify for this social tariff.
- 4.62 Affinity Water is also considering introducing a volumetric tariff that has no standing charge. With this structure, customers who reduced their water use would gain more financially than under the current charging structure.
- 4.63 The CCG challenged the company on how it would deliver universal metering.
- 4.64 The company has explained that its preparations for delivering universal metering are well advanced. Affinity Water plans to launch its communication plan three to six months prior to installing a meter, and to use a third party to provide an independent view on the benefits to its customers. Customers will be given a two-year transition to adapt to the measured bill.
- 4.65 In planning its delivery programme, Affinity Water will draw on its own experience in rolling out compulsory metering in Folkestone and Dover in 2009, and it has recently established contact with Southern Water and South East Water to learn from their experience of introducing metering in AMP5.
- 4.66 The CCG also asked Affinity Water why two Water Resource Zones in the Central Region will only be metered in AMP7 (2020 – 2025).
- 4.67 The company explained that it altered its original goals on universal metering in AMP6 in order to ensure bill acceptability.

CCG Report Appendices

Appendix 1 Information for members, including Terms of Reference

Appendix 2 Assurance Reports

Appendix 3 CCG Members

Appendix 4 Chronology

Appendix 5 Agendas and Minutes of Meetings

Appendix 6 Challenge Records