

1. EXECUTIVE SUMMARY

This paper covers specific customer research, engagement and participation initiatives undertaken since our last update (1 November 2017) to develop policy or for business planning.

We have completed Service Valuation research and are awaiting the results.

Formal triangulation of all our customer insights will commence, with Water Forum members invited to observe, during late January 2018. The results will inform our Acceptability research which is scheduled for spring 2018. A dissemination event for Water Forum members has been scheduled for 13 February 2018.

We have appointed Frontier Economics to develop our Cost Benefit Analysis (CBA) tool and to carry out the CBA.

2. SERVICE VALUATION RESEARCH

The aim of our service valuation research is to measure the relative values our customers place on potential service improvements and their appetites for Outcome Delivery Incentives (ODIs). Since our last customer engagement update we have undertaken usability testing to finalise the design of our service valuation tool and completed all fieldwork. The resulting data is currently with our economic experts, Frontier Economics, for analysis.

2.1 Usability testing

Customers, Water Forum members and our people were involved in the usability testing of the service valuation tool and their feedback influenced its final design.

We undertook two days of formal usability testing, one day in Chester-le-Street (Northumbrian Water area) and one in Barking (Essex & Suffolk Water area). The approach we took to testing mimicked our intended approach for the hall tests, meaning that participants received minimal context and information upfront.

Seventeen customers representing a range of ages and socio-economic backgrounds took part in the formal usability testing. After being observed using the tool, participants were interviewed and asked to give their views on how it could be improved. On the basis of the testing Supercharge made nine changes to improve the usability of the tool.

Water Forum members were sent a link via email to see and test the tool and were also invited to drop into either of the customer usability testing sessions. Our Executive Leadership Team, members of our PR19 Steering Group and colleagues from across NWG were also invited to test the tool and give their feedback.

2.2 Fieldwork

Our fieldwork comprised of four different approaches; hall tests, emails, a panel and community-based outreach in Flo. The data is currently being cleaned ahead of analysis but the provisional numbers suggest that 5,500 customers, including customers in vulnerable circumstances and future customers participated by completing the survey.

- **Hall tests**

The formal fieldwork for the service valuation research took part in the form of fourteen hall tests. This was managed independently by Explain Market Research on our behalf. A provisional sample of 1,600 customers and future customers participated. Water Forum members were invited to call into any of the hall tests.

- **Flo**

To supplement the formal fieldwork we took Flo, our customer engagement vehicle out on tour so that we could give more customers the opportunity to participate. We mostly targeted village and town centre market days to hit a higher footfall and maximise our visibility. Flo's 'reach' during her tour is estimated at 572,000, this is based on the combined total populations of each location. During her tour Flo was fully manned by NWG people from across the business, including members of the Executive Leadership Team.

We had a number of engagement opportunities available on-board Flo. Customers could come in and take the service valuation survey, talk to us about any aspect of their account, pick up some branded freebies or get information about our Priority Services.

In total 135 of our household customers took part in the service valuation research on-board Flo.

- **Email – Household customers who have experience of service failure**

An email containing an invitation to complete the survey online was sent to a sample of 6,300 household customers who had experienced a service failure. 152 took part, a response rate of 2.4% which is above average for utilities (according to Average Email Metrics 2015 the average industry click to open rate is 2.1%).

- **Email - 'General' household customers**

We emailed all 'general' household customers who we had permission to contact by email (202,000) asking them to complete our tool in return for entrance into a prize draw to win an iPad. Provisional figures suggest that approximately 3,500 participated. This is a response rate of 1.7%.

- **Panel**

A sample of 144 non-household customers were recruited via a panel and participated in the survey. These interviews were held with the person within the organisation who has responsibility for buying utility services and pertained only to the wholesale aspect of charges.

Our customers taking part in the service valuation survey on Flo:



2.3 Data analysis and reporting

The data from the fieldwork (minus the email to all 'general' household customers who we had permission to contact) is with Frontier Economics who will perform the analysis and report the results before Christmas. Analysis of the general household customer data is outside the agreed scope of the research and will be analysed and reported on in-house.

3. OTHER RESEARCH AND ENGAGEMENT

3.1 Resilience, Asset Health and Long-Term Affordability Research

At the end of October we commissioned the market research consultancy DJS to undertake qualitative research into resilience, asset health and long-term affordability on our behalf. The fieldwork for this research has been completed and we will share results with the Water Forum in the New Year.

This research built upon earlier resilience research that we undertook in 2016, where our customers told us that they accept that there will always be risks of long-term service failure and that they expect NWG to understand and manage those risks as far as is reasonable and affordable to customers. This new research explored what level of risk customers are prepared to tolerate, how they expect us to manage our assets and what (if anything) they may be willing to pay, in principle, to reduce risk of service failure.

This was a challenging conversation to have with our customers as it involved balancing the need for long-term asset investment against current day affordability. At the heart of this research was the theme of intergenerational fairness ie that it is not sustainable for us to maintain the condition of our assets into the future within current charges and as such we need our customers' views on how we should fund asset health and when.

We undertook a mixed-methodology approach to fieldwork. This enabled a range of customers to participate in a manner convenient to them.

- Five deliberative events with 24 bill payers participating in each, representing different age groups, socio-economic profiles and incomes (three North and two South). Metered and unmetered customers were represented as well as customers who had/had not experienced a service failure.
- Two focus groups with future customers, with eight young people at each (one North and one South).
- Twelve in-home interviews with customers who would potentially be most affected by any long-term service failures ie customers with physical disabilities or chronically sick, customers with mental illnesses, customers aged over 75. These customers were recruited by specialist medical recruiters and face-to-face recruiters.
- Twelve teledepths with a cross section of businesses split by: sector; size, water dependency and region. These interviews were held with the utilities decision maker and pertained only to the wholesale aspect of charges.

Water Forum members were invited to come along to any of the deliberative events or future customer focus groups to participate and observe. Water Forum members were represented at four of our sessions; Morpeth, Jesmond, Lowestoft and Brentwood.

Initial, anecdotal evidence from observing the fieldwork suggests that customers are supportive of increased investment in asset health and resilience. We will receive the final report from DJS in mid-January and will share the results with Water Forum members then.

The results will feed into our triangulation activity and will go on to influence the draft service package we offer to customers as part of our PR19 Acceptability research.

3.2 Metering Research Phase Two

Our Metering, Supply and Demand research in our ESW supply area conducted to assist with our Water Resource Management Plan has been extensively used to help shape our Metering Policy and thoughts around metering for PR19. In order to ensure we understand whether the views of our NW customers differ significantly from ESW customers, we conducted an identical representative online survey of 500 customers during November via Explain Research.

3.3 Behaviour Change and Funds

Northumbrian Water conducted research to explore customer attitudes towards incentives for behaviour change (like diverting surface water and rain water harvesting), as well as a potential 'Green Fund'. Boxclever Research undertook this project.

The objectives were to explore:

- Customer attitudes to and level of support for financial or other incentives or penalties for certain behaviours.
- Working together with customers to create an incentive/penalty scheme which would positively change customer behaviour.
- Understanding the level of enthusiasm for a green/community fund to fund environmental or community improvements beyond their regulatory commitments, and how it could ideally work.

Eight 90-minute collaborative workshops with general customers, plus eight in home depth interviews with vulnerable customers, were conducted during November and early December 2017. The sample included different life stages, attitudes to the environment, and levels of financial vulnerability, as well as a broad mix of customer demographics.

3.4 Tariff Structures

We have planned four deliberative customer research events regarding tariff structures during January. This research will explore high level customer views and attitudes about testing the concept of rebalancing our tariffs, and will address the following research objectives:

- To explore uninformed and informed customer views on how their water (and waste water) bill is calculated.
- To understand customer views on Rateable Value (RV), with a focus on the relevance and fairness of this.
- To explore alternatives to Rateable Value (RV).
- To understand whether or not in principle customers would support aligning tariffs to affordability.
- To explore whether customers think they should be allowed to switch between tariffs (eg revert back to unmeasured from metered).
- To explore customer views on tariff structures for other aspects of their finances such, as broadband and council tax.

There will be four tables of customers with different profiles at each event (eg metered/unmetered, income and life-stage, vulnerabilities and future customers).

Explain Research will be organising the events and moderating each group, and a NWG representative will be presenting information to customers to inform their understanding. Members of our Executive Leadership Team and members of the Charges Steering Group will attend the events to engage directly in conversations with our customers.

3.4 Bespoke Measures of Success

During Phase 1 of our customer engagement for PR19, we conducted qualitative and quantitative research to understand which areas of service customers feel it is important for NWG to perform well in, how they would like NWG to measure its performance, and whether customer perception measures should be included alongside factual measures. We also explored how their views varied when we showed them information comparing our performance historically and compared to other water and sewerage companies.

Ofwat's PR19 Draft Methodology states that as well as companies having a number of common Measures of Success, they should also develop their own Bespoke Measures of Success that reflect customers' preferences and are innovative. Specifically, they must cover five key areas – the different price controls; vulnerability; environment; resilience and Abstraction Incentive Mechanism (AIM).

We are drafting our Bespoke Measures of Success. This customer engagement is to check whether our draft list of Bespoke Measures of Success is understandable for our customers and in line with their preferences.

The purpose of the research is to test approximately 15 draft Bespoke Measures of Success with our customers. The results of this research will be triangulated with other customer insights to help create our PR19 Business Plan.

The research objectives are to test:

- Whether our customers understand each measure.
- If there is anything they do not understand, what that is and how we could improve those measures to make them easier to understand.
- Whether our customers agree with our proposed Bespoke Measures of Success.
- If there is anything customers do not think we should be measuring, why this is.
- Are particular customer segments more or less supportive of each measure?
- Whether our customers think that we should have any other Bespoke Measures of Success that we have not included in our list.

We have selected Qa Research to undertake ten qualitative focus groups of five to six respondents during early January – six in the NW area and four in the ESW area. The customers will be segmented by socio economic grade and life stage. A mix of customers with different types of vulnerable circumstances will be included in the sample.

NWG representatives and Water Forum members will be invited to these events.

3.4 Innovative Tariffs Co-Creation Workshops

The Customer Team, facilitated by Dr Jo North, will be holding four small, three hour workshops with a mixture of customers in February to co-create and develop new ideas for tariffs. This excludes social tariffs and the affordability work on tariff structures above.

3.5 Draft Assurance Plan

Last year's consultation on our strengths, risks and weaknesses and draft Assurance Plan was a huge success. We received input from stakeholders and more than 500 customers to help us shape our final Assurance Plan – our biggest response to date. This year we have again created a customer friendly summary of the plan and emailed this out to:

NW – 124,607 (37,000 more than last year)
ESW – 47,022 (10,000 more than last year)

To build on the success of last year, we have changed the mechanism for customers to submit their feedback to make it easier for them to share their views. In the previous year customers were asked to send a response to three questions to our HAVEYOURSAY@nwl.co.uk email address. This year

there is a link to click through to a simple survey with four questions and at the end a chance to enter a competition to win an iPad.

We are also sharing the customer survey on social media and have created a stakeholder version that will be emailed out to key stakeholders including councillors and MPs.

The consultation closes on 12 January 2018 – the valuable feedback we receive will help us to shape our final Assurance Plan in the spring.

3.6 Cost Benefit Analysis

We have appointed Frontier Economics to carry out our Cost Benefit Analysis (CBA). Frontier Economics have built our model and the results from our service valuation tool are now being analysed. The CBA will allow us to compare services and service levels in relation to their costs and benefits. Additionally we will use our CBA to:

- Understand if our customers' views differ based on socio economic profile.
- Determine how sensitive each service is to changes in costs and valuations to understand if lower-bound benefit values would fund service levels.
- Assist in the completion of Ofwat's business plan tables.

The output of the CBA will form one strand of evidence that will support us at our triangulation meetings at the end of January. Frontier Economics will provide ongoing support to us through our triangulation meetings and the setting of our Performance Commitments.

3.7 Triangulation

We have a series of workshops arranged with the Water, Waste Water and Customer Workstreams in January 2018 to triangulate all of our customer insights, with Water Forum members invited to observe. The results will inform our Acceptability research which is scheduled for spring 2018. A dissemination event for Water Forum members has been scheduled for 13 February 2018.

4. NEXT STEPS

Members are asked to attend the Workstreams' triangulation workshops, if available, and also to attend the triangulation dissemination event on 13 February.

Invitations will be sent to Water Forum members for the other customer research and engagement events once partners have been appointed and fieldwork scheduled.

If members have any questions relating to our customer engagement, they should contact Elaine Erskine either via email (elaine.erskine@nwl.co.uk) or by phone 07792 835724.

ELAINE ERSKINE
Strategic Research and Assurance Manager

18 December 2017