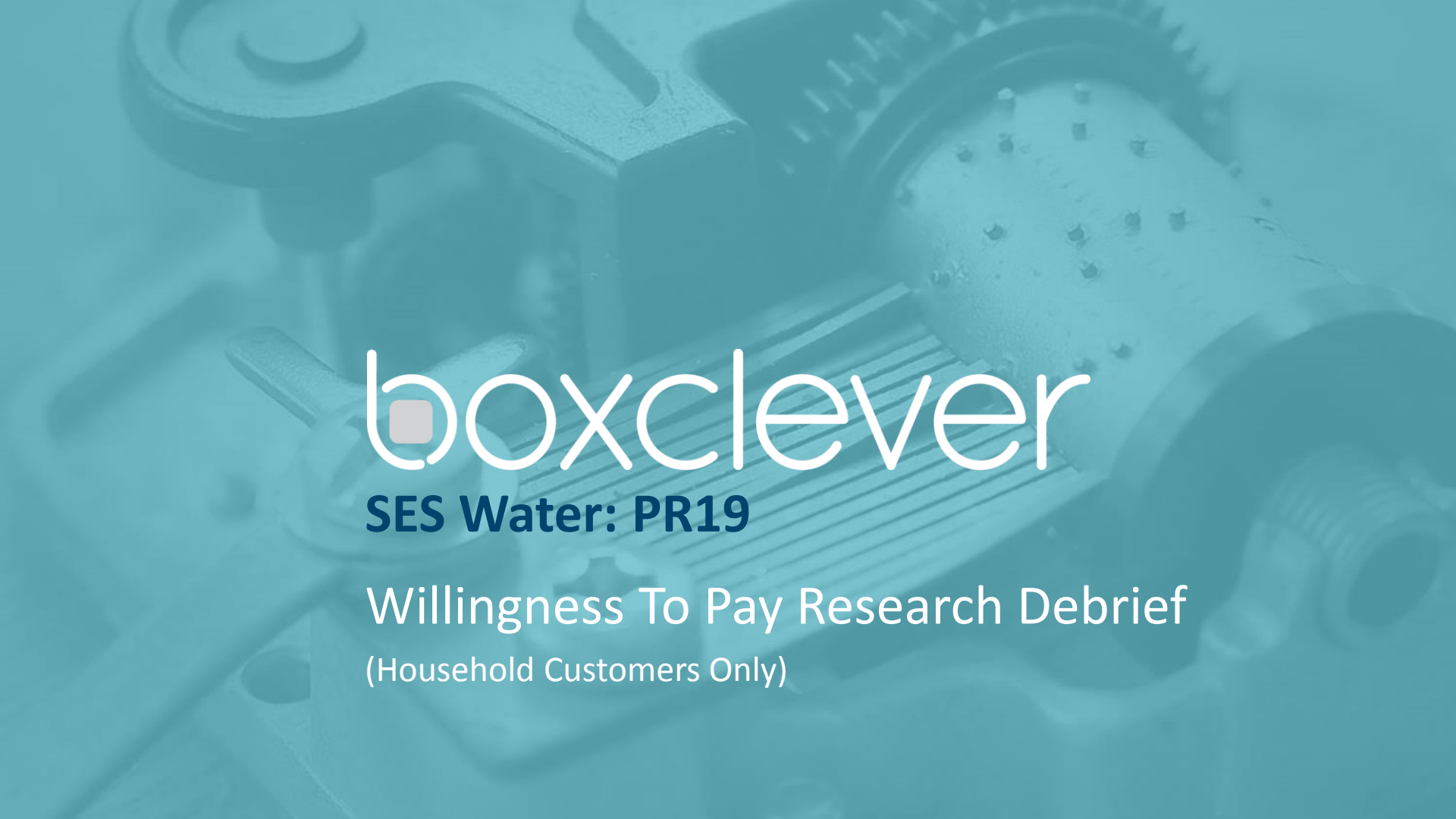


boxclever

SES Water: PR19

Willingness To Pay Research Debrief

(Household Customers Only)

The challenge…

As part of the PR19 review SES Water needs to be able to justify its investment and delivery plan through a robust and thorough evaluation of what consumers are willing to pay for various changes in the level of service they receive

The solution…

Using advanced analytical techniques we are able to quantify the extent to which consumers are willing to pay / be compensated for changes in the level of service they receive

We are also able to explore how this willingness to pay varies and the extent to which framing and contextualising the topic can drive willingness to pay up or down

The process…

We have undertaken a comprehensive quantitative study amongst SES Water household and business customers to explore and quantify willingness to pay across a range of key service areas:

1. What are the key service areas where consumers demonstrate the greatest willingness to pay?
2. What is the average level of willingness to pay within each service area and how does this differ; by customer group, across the range of potential service areas, across the different levels of service that could be delivered?
3. How does framing impact the extent to which consumers are willing to pay for different service levels?
4. Are there any overall limits in the extent to which consumers are willing to accept increases in bills to pay for improved service delivery?
5. Do we have a mandate from consumers for implementing a specific investment strategy and changing bill amounts accordingly?

Contents

Key Headline Summary

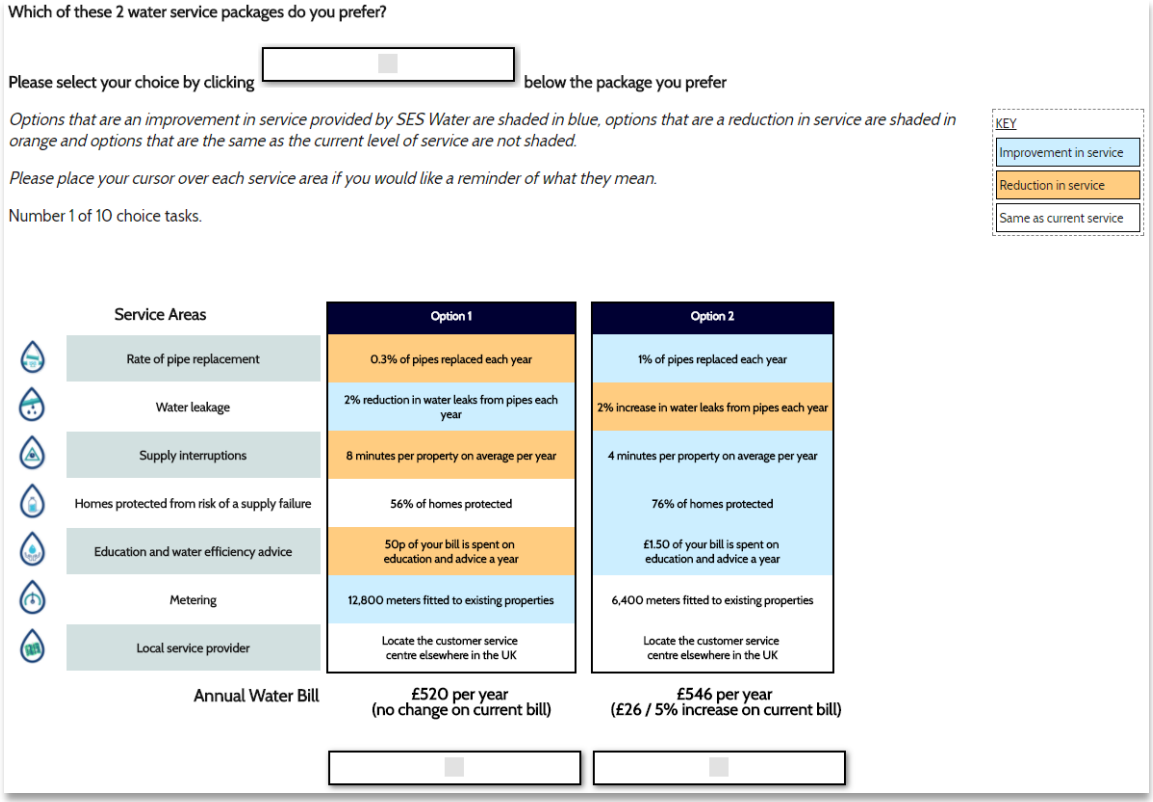
We see encouraging levels of overall consumer engagement, with the majority willing to accept at least some level of bill increase to support service improvements

- Whilst change in bill is the single most important element in driving decision making, other elements accounted for 63% of the choices made.
  - The most influential being metering, a local service provider and education & advice (however, the importance of these 3 is driven as much by an expected bill reduction for any anticipated service reduction, as it is a willingness to pay more for a service improvement)
  - Protection against a risk of failure / interruption are the areas that command the most willingness to pay **more**
- Nearly 1 in 5 respondents would be classified as financially vulnerable, and this has a significant impact on their reaction to proposed price increases
- The more people engage with their use of water / water services, the more importance they place on where the customer service centre is located, with a significant majority wanting a locally based contact centre

Quantifying willingness to pay through a stated preference exercise...

We have used a technique called Conjoint Analysis to develop a clear picture of what consumers find important and how much value they attach to the various aspects of their water service...

Respondents were shown 10 choice tasks like this and statistical modelling (Hierarchical Bayes) has been used to quantify the drivers of choice



Which of these 2 water service packages do you prefer?

Please select your choice by clicking below the package you prefer

Options that are an improvement in service provided by SES Water are shaded in blue, options that are a reduction in service are shaded in orange and options that are the same as the current level of service are not shaded.

Please place your cursor over each service area if you would like a reminder of what they mean.

Number 1 of 10 choice tasks.

KEY
- Improvement in service
- Reduction in service
- Same as current service

Service Areas	Option 1	Option 2
Rate of pipe replacement	0.3% of pipes replaced each year	1% of pipes replaced each year
Water leakage	2% reduction in water leaks from pipes each year	2% increase in water leaks from pipes each year
Supply interruptions	8 minutes per property on average per year	4 minutes per property on average per year
Homes protected from risk of a supply failure	56% of homes protected	76% of homes protected
Education and water efficiency advice	50p of your bill is spent on education and advice a year	£1.50 of your bill is spent on education and advice a year
Metering	12,800 meters fitted to existing properties	6,400 meters fitted to existing properties
Local service provider	Locate the customer service centre elsewhere in the UK	Locate the customer service centre elsewhere in the UK
Annual Water Bill	£520 per year (no change on current bill)	£546 per year (£26 / 5% increase on current bill)

We tested consumer preferences of service levels across 7 different areas at different price points

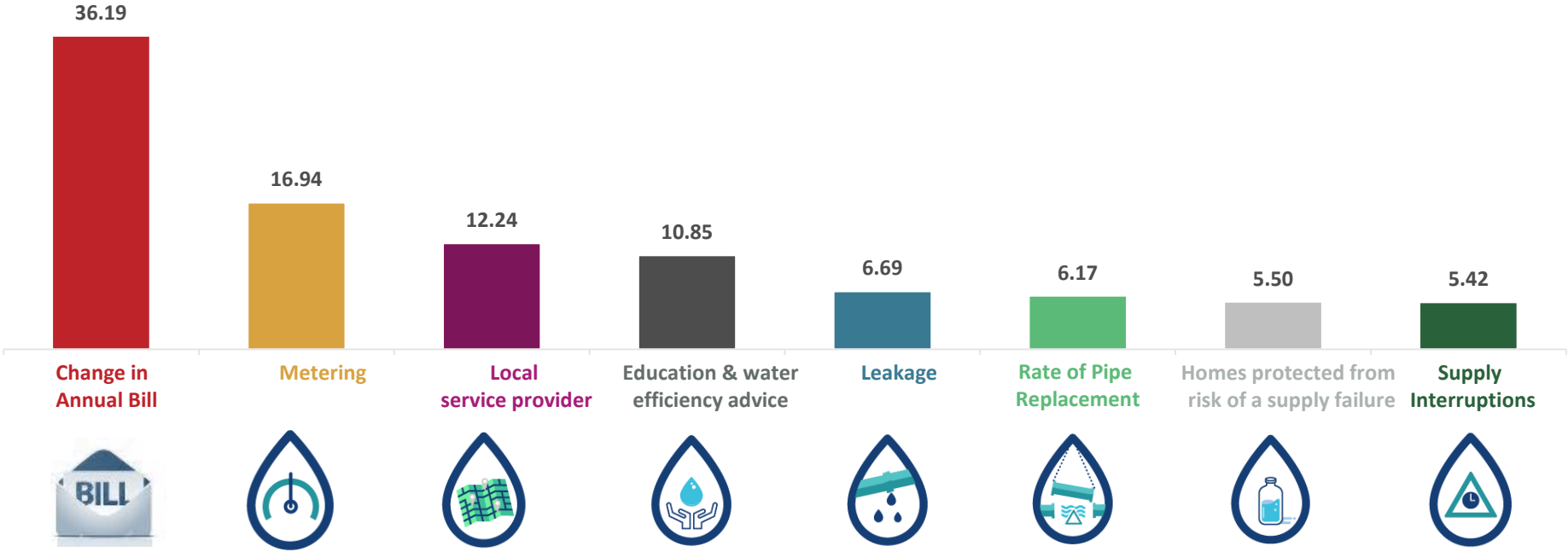
Rate of Pipe Replacement 	**Leakage** 	**Supply Interruptions** 	**Homes protected from risk of a supply failure** 	**Education and water efficiency advice** 
Metering 	**Local service provider** 	**Within most attributes we tested 4 levels…** • **A reduction** in the current service level • **The current service level** • **An improvement** on the current service level • **A bigger improvement** on the current service level • For 'Homes protected from risk of a supply failure' there was no reduced service option, but an additional improvement level. • And for 'Local Service provider' there were only three levels tested, the current and 2 alternative solutions.		

+ Change in Annual Bill:

Which was varied between -10% and +10% of the respondents current bill

Whilst change in bill was most important, other elements accounted for 63% of the choices made. The most influential being metering, a local service provider and education & advice

Importance of attributes in driving consumer choices made within the conjoint exercise



Q. Conjoint. Base: All (1,002)

What is the perceived value that consumers attach to each level of service we could offer?

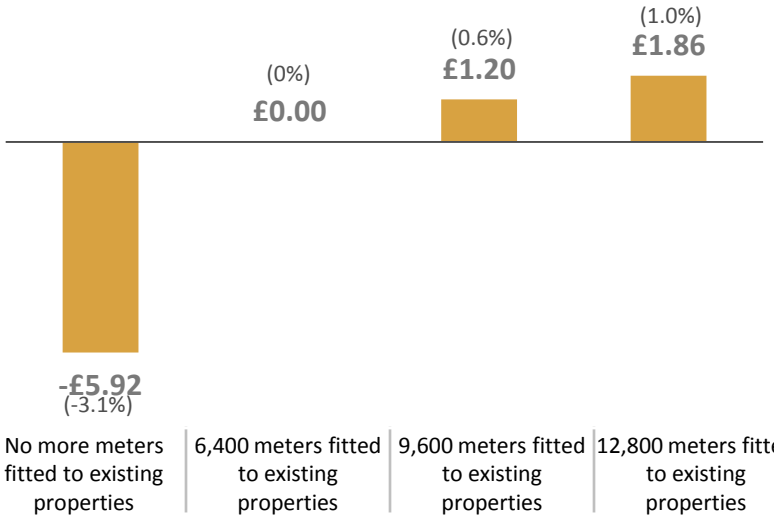
Within the conjoint exercise respondents are constantly trading different levels of service and cost off against one another

Through the analysis we are able to calculate the monetary value they attribute to each level of service

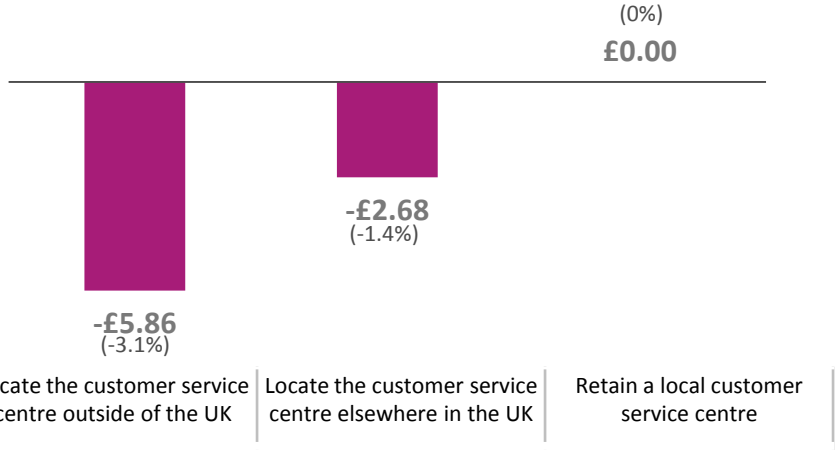
These values are calculated relative to the current level of service within each attribute

No more metering to existing properties has the highest expectations for a decrease in bill, closely followed by changes to the customer service centre…

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



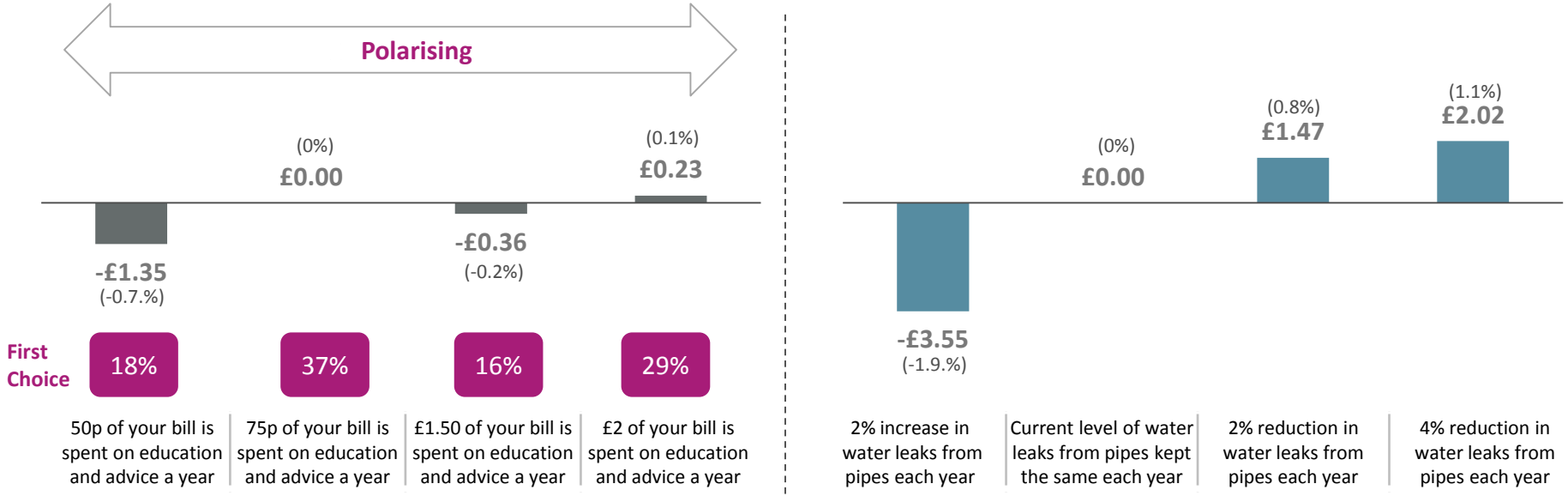
Metering



Local service provider

Opinion on investment in education is split, but people are willing to pay more to decrease the level of leakage from pipes

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

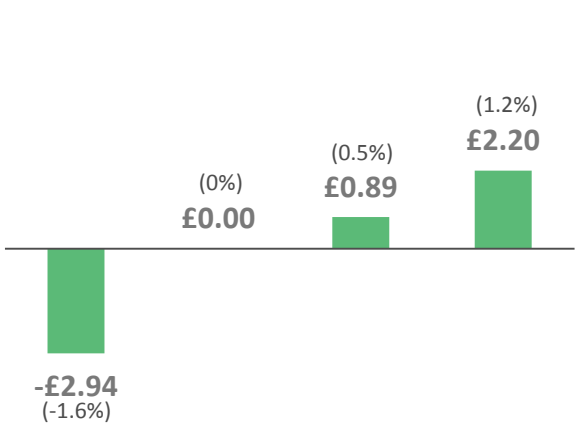


Education & water efficiency advice

Leakage

Consumers expect greater compensation for a drop in the rate of pipe replacement than they are prepared to pay for improvements

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

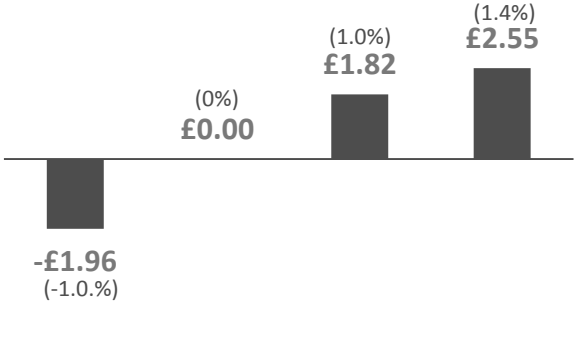


0.3% of pipes replaced each year	0.6% of pipes replaced each year	0.8% of pipes replaced each year	1% of pipes replaced each year

Rate of Pipe Replacement

56% of homes protected	65% of homes protected	76% of homes protected	100% of homes protected

Homes protected from risk of a supply failure

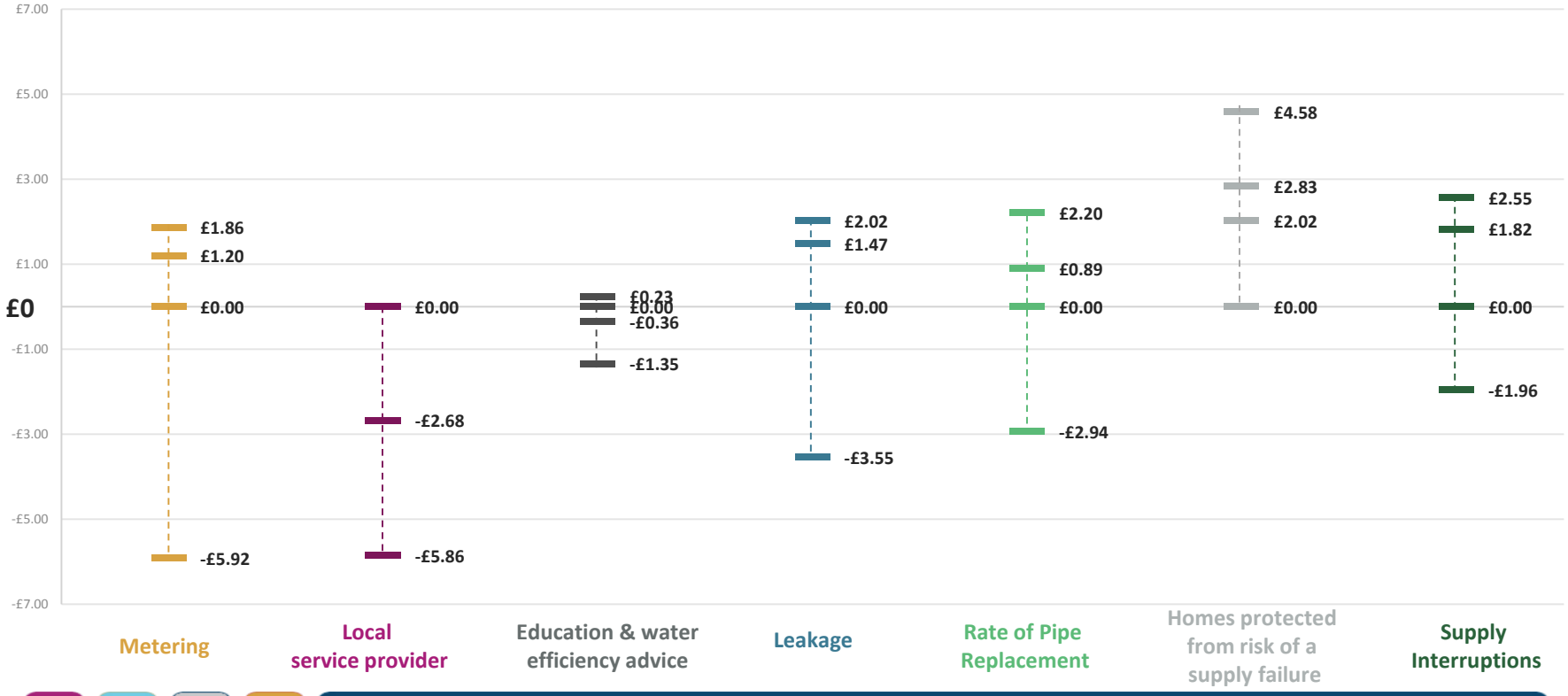


8 minutes per property on average per year	6 minutes per property on average per year	4 minutes per property on average per year	2 minutes per property on average per year

Supply Interruptions

Consumers willingness to pay for increases in services are highest for protection against a risk of failure / interruption

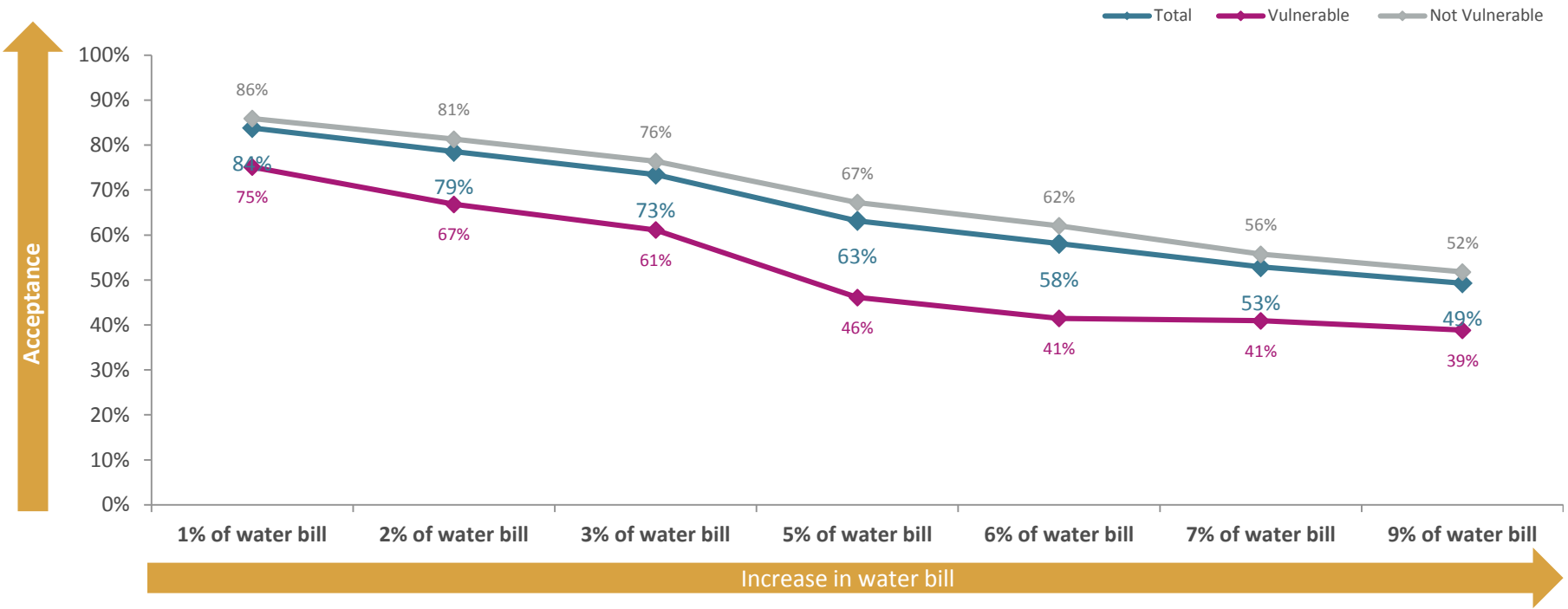
Valuation Analysis Summary: Annual value attached to each feature relative to current level



Whilst acceptance is lower amongst those already financially vulnerable, there are still a significant majority who would accept at least some increase in bill for improvements

Likely acceptance at different price points, by vulnerability

Is there a ceiling to how much customers will pay?



Q5. If SES Water delivered the service changes that matter to you from the choice task you've just completed would you be willing to accept a <£X/X%> increase in your <annual / half yearly /quarterly / monthly / fortnightly / weekly> bill to pay for these services? Base: All (1,002), Vulnerable (193), Not Vulnerable (809)

Appendix

Sample Frame & Methodology

- Data capture methodology
- Quality control processes and optimising survey design
- Survey structure and content
- Sample achieved
- Analytical techniques employed

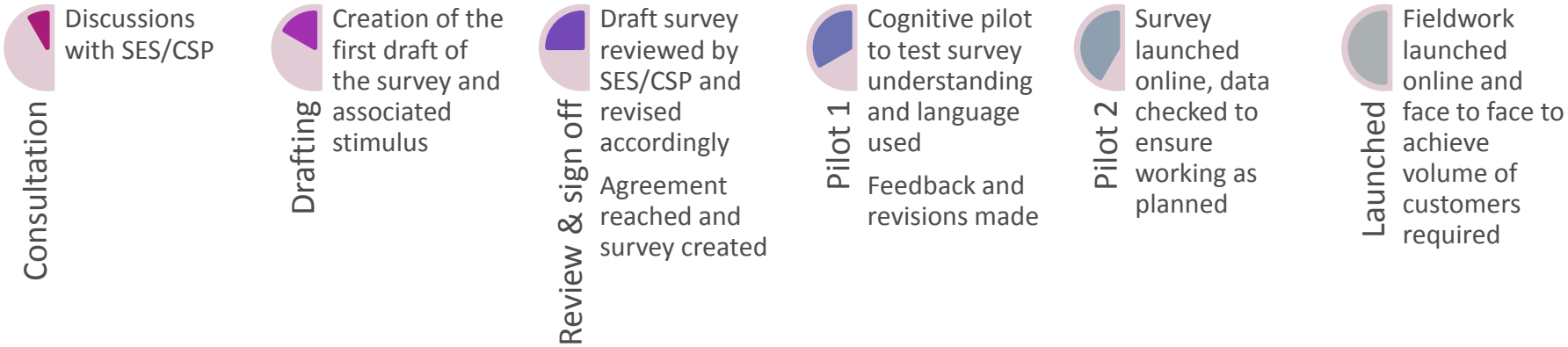
A mixture of data capture methods were used to optimise coverage of SES Water customer base in a cost effective manner

Customer responses captured via a combination of online and F2F CAPI methods

- A mixture of online and face to face Computer Assisted Personal Interviews (CAPI) methods were used to capture responses from SES Water customers
- Mixture of methods used as a cost effective method of achieving a robust and representative sample of SES Water customers
  - CAPI method provides greater coverage than a solus online panel sourced approach, but is more expensive
- Online responses were sourced via a consumer panel amongst panellists that live in the SES Water customer catchment area
- CAPI interviews recruited by going house to house in relevant locations in SES Water customer catchment area. Interviews undertaken in home using CAPI interview methodology – the survey undertaken was identical via CAPI to that undertaken online

A number of stages were involved in making sure the survey was optimised for customers in terms of language, understanding and navigation

Overview of stages from start of project to commencing fieldwork

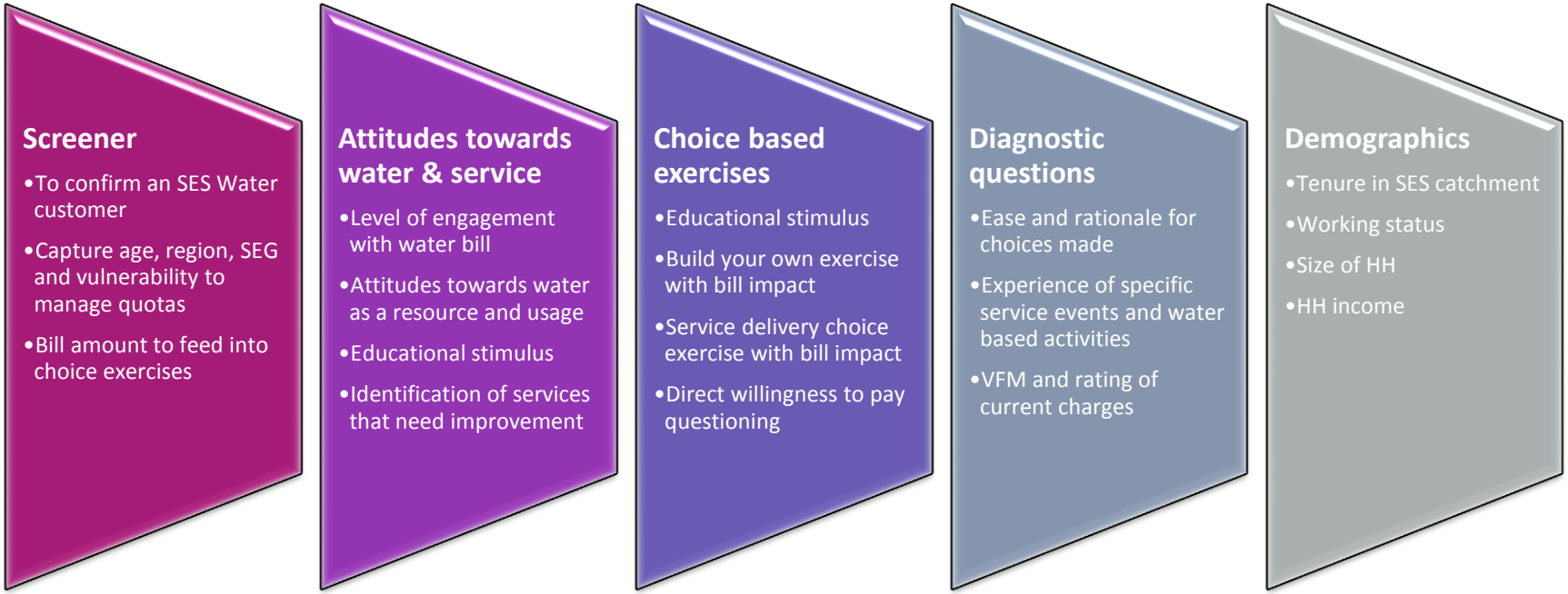


How we moved from one stage to the next is detailed on the following pages…

Survey structure and content

Overview of survey structure and content

- 20 minute survey covering the following topics



Analytical techniques employed

Willingness to Pay Analytics

Build your own water service exercise

- An initial warm up exercise to gather some high level preferences at fixed price points and provide respondents with some initial context around the areas we are looking to cover and the fact that changing service levels will impact bills

Choice Based Conjoint & Market Simulation

- In order to provide a robust quantification of the value that consumers attach to the potential improvements which SES could make to the regions service and delivery, we have used Choice Based Conjoint analysis.
- A key stated preference method that asks respondents to trade-off different water service scenarios
- This enables the quantification of willingness to pay
- Market simulation quantifies preference / mandate for service improvements

Gabor Granger

- By asking a contingent valuation question, we are quantifying the proportion of our customer base who would accept a range of overall bill increases
- This exercise will provide contextual information for the conjoint analysis and market simulation as customers would clearly not be willing to accept a scenario with bill increases above the values from this

A total of 1,002 customer interviews achieved…

Gender	n=
Males	510
Females	492

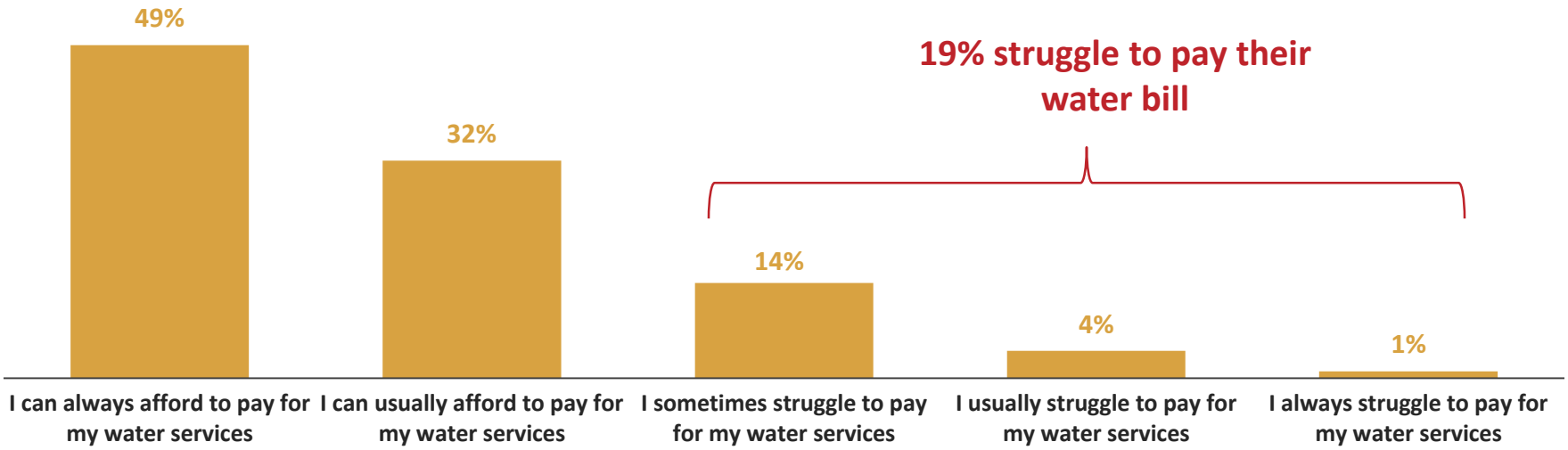
Age	n=
18-34	186
35-44	245
45-54	230
55-64	162
65+	178

Region	n=
South	439
North 1	437
North 2	126

Social Grade	n=
A/B	125
C1	377
C2	179
D	87
E	162

Whilst the majority can pay their water bill, 1 in 5 are classified as 'vulnerable' with regards to payment

Ease of payment:



QS14. Which one of these statements do you most agree with? Base: All (1,002)

2 in 5 customers are thinking about their water services quite frequently

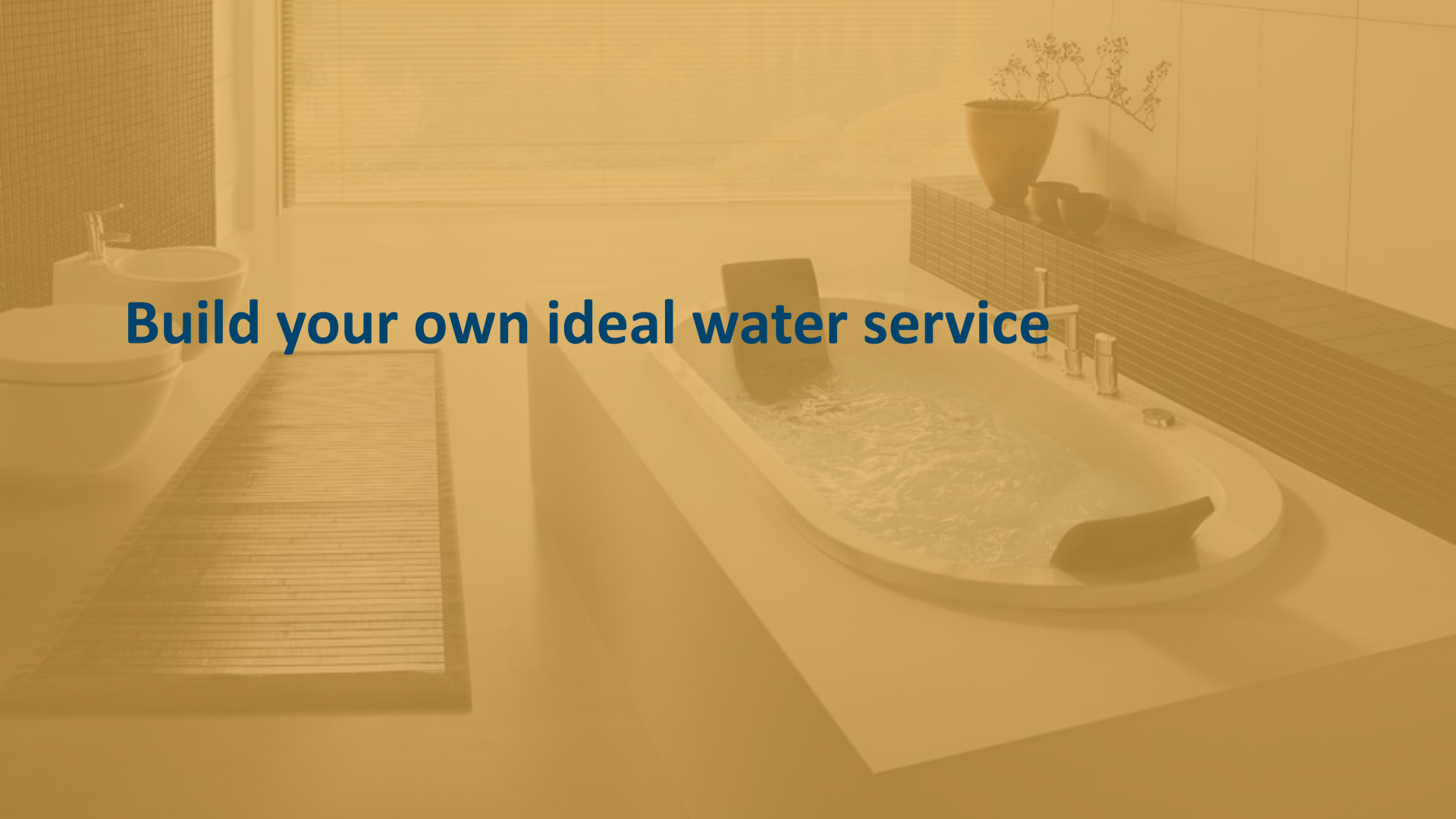
Psychological impact of water bills…

I think about my water services when I pay for it
28%

I don't really think about my use of water
31%

I think about my water services a fair bit
41%

Q1a. Which one of these statements do you most agree with? Base: All (1,002)



Build your own ideal water service

Consumers exhibit a small willingness to pay for improved levels of service with the average overall bill increase being just over 1%

- For each element considered, just under half chose the current level of service, but for most attributes around 2 in 5 selected an improvement (with cost) on the current level
- Spend on education and water efficiency advice was the most polarising element
- Local service provider received the most emphatic response, with over 60% preferring to retain a local contact centre

We tested consumer preferences of service levels across 7 different areas…

Rate of Pipe Replacement

Leakage

Supply Interruptions

Homes protected from risk of a supply failure

Education and water efficiency advice

Metering

Local service provider

Within most attributes we tested 4 levels…

- **A reduction** in the current service level
- **The current service level**
- **An improvement** on the current service level
- **A bigger improvement** on the current service level

For ‘Homes protected from risk of a supply failure’ there was no reduced service option, but an additional improvement level.

And for ‘Local Service provider’ there were only 3 levels tested, the current and 2 alternative solutions.

Before Undertaking a ‘build your own ideal water service’ exercise, respondents were given a brief introduction to SES Water and the services they provide

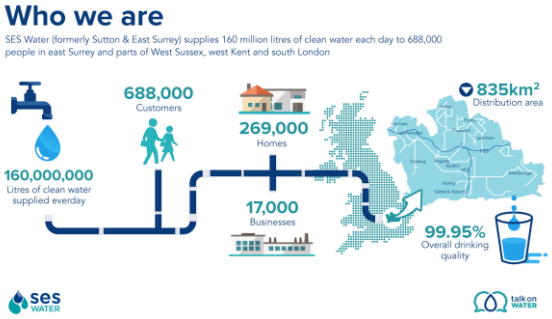
Education:

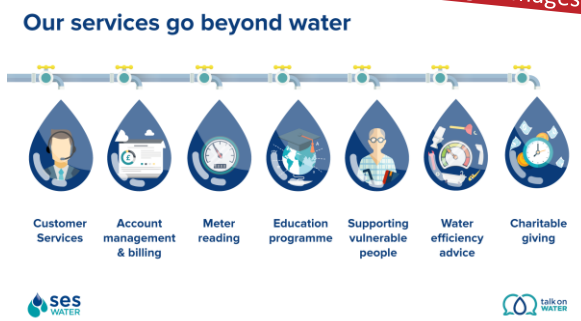
SES Water (formerly Sutton and East Surrey Water) is responsible for maintaining and improving the water services in the areas of east Surrey, west Sussex, west Kent and south London. They provide you with the clean water that you use for drinking as well as many other functions in the home such as washing clothes, watering the garden, showering and flushing the toilet. They are responsible for taking raw water from its source and ensuring you have a safe supply readily available from your tap.

Other water companies deal with the dirty water that you have used which is flushed down the toilet or taken away via waste pipes. Depending on where you live either Thames Water or Southern Water will be your sewerage company.

Please take a moment to read a bit more information about SES Water and the service that they provide on the next 3 screens…

See Appendix for larger images





There was a delay on the survey programming to ensure respondents had time to read the information presented

They were also asked to read about the specific areas they would be asked about….

Education:

Some specific areas that you will be asked about in the next set of questions will be explained on the next 3 screens. Please take a moment to read these as they will help you to complete the upcoming questions…

See Appendix for larger images

Rate of pipe replacement

There is a network of pipes which take water from where it is treated to your home. Some of these pipes are over 100 years old, but they do not last forever. To reduce the risk of pipes bursting, leaking or affecting the quality of the water you receive, SES Water invests in replacing sections of pipe each year. Doing this means that the risk of disruption to your water supply and to road users is minimised both now and for many years to come.

Leakage

Pipes that deliver water to your home can leak. This means that some of the water that SES Water takes from under the ground and rivers and then treats to make it safe can escape before it reaches your home. SES Water invests in people and technology to find and fix leaky pipes and monitors pressure in the pipes, because fluctuations in pressure can weaken pipes. The more SES Water invests the more it can prevent leaks in the first place and the faster leaks can be spotted and fixed.

Supply interruptions

SES Water has a target to minimise interruptions to your water supply that last more than three hours. Most interruptions last no longer than six hours. Sometimes SES Water needs to interrupt your supply to carry out maintenance. SES Water has improved its processes and invested in technology to significantly decrease the number of occasions when this type of planned interruption is needed. The vast majority of interruptions are now unplanned and often due to bursts in the pipes that supply you with water. SES Water invests in its network of pipes to reduce the chance of them bursting and disrupting your supply.

Homes protected from a risk of supply failure

SES Water has eight water treatment works where water is made ready for drinking. If one of those treatment works goes out of action, for example due to a mechanical failure or if the works is flooded, this could cut off supply to your property until SES Water can get the treatment works up and running again. This could be up to a few days. During this time SES Water would supply you with bottled water. SES Water is investing to improve the way it can transfer water around its supply area so that if a treatment works goes out of action, you can be supplied with water from another treatment works. It has the option to invest further to protect more or all its customers from this risk.

Education and water efficiency advice

The area you live in is categorised by the Environment Agency as 'seriously water stressed'. This means that demand for water is close to exceeding the amount of water available for supply. SES Water therefore encourages customers to use water wisely. To spread these messages, it has an education centre at its Bough Beech reservoir in the south of its supply area. Approximately 4,000 school children pass through its doors each year to learn about the water cycle and what they can do to help save water. SES Water also promotes water efficiency through school talks, community events, providing water efficiency devices and carrying out home water efficiency assessments. SES Water could change the amount it spends to reach more or less people.

Metering

Having a meter means you pay for the water you use so it is the fairest way to charge for water. Just over half of SES Water's customers currently have a meter. All new homes are fitted with a water meter and SES Water will be fitting meters for people that apply for one over the next three years to increase the number of customers with meters to 60%. SES Water has a choice on the speed at which it continues to install meters on its customers' properties. There is a cost to installing meters. One of the advantages of increasing the number of customers that have a meter is that, based on the experience of other water companies, water use will decrease which is important in an area which is categorised as 'seriously water stressed'.

Local service provider

SES Water is one of the smallest water companies in the country and is proud to be a local company with a long heritage in the area. It plans to continue being a local service provider as customers tell us this is important but at the same time must operate as efficiently as possible to keep water bills as low as possible. Having a customer service centre in areas of the country where costs are lower, or even abroad, could result in small reductions to your water bill.

As before, there was a delay on the survey programming to ensure respondents had time to read the information presented. Additionally each page built up, one feature at a time so that it wasn't overwhelming for the respondent

Respondents were then introduced to the task itself…

Task introduction:

In the following question, you will be asked to select your preferred level of service for a range of areas where SES Water has a choice on how it spends your money.

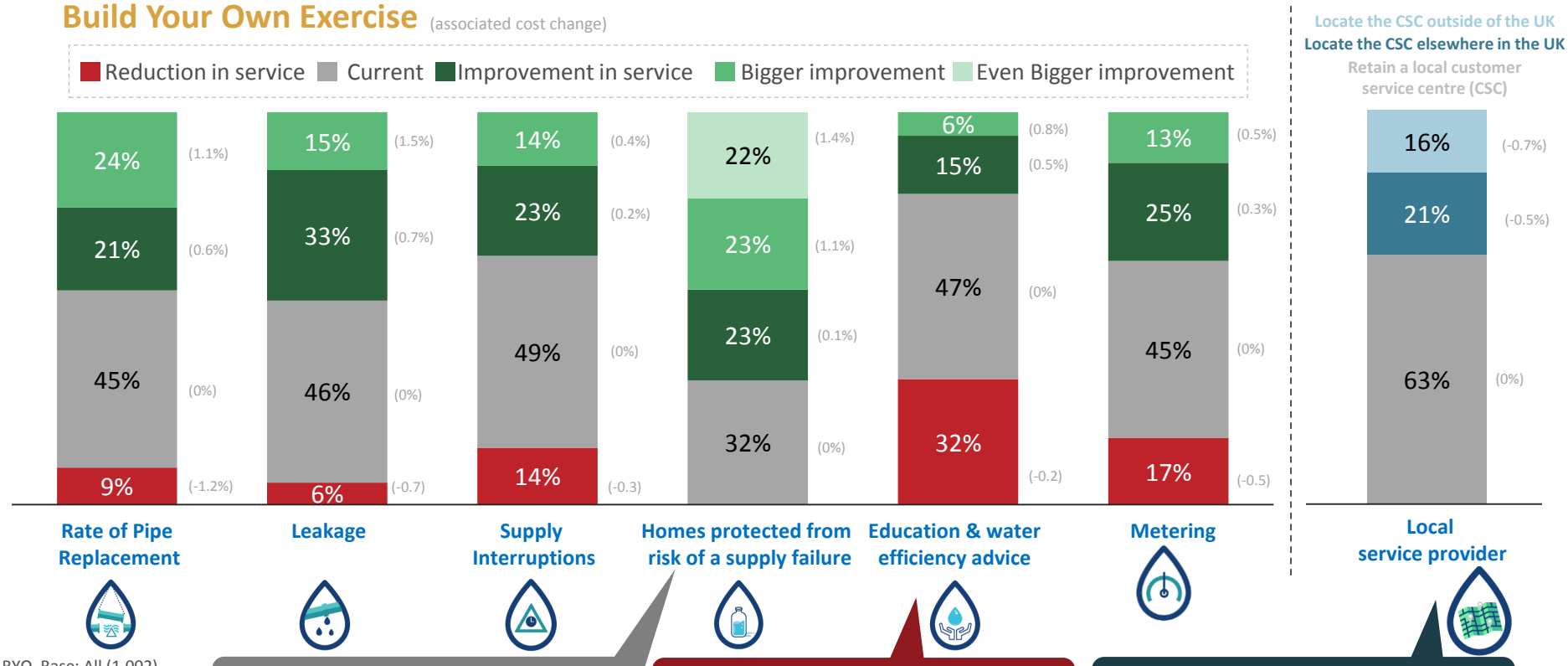
Before undertaking this exercise, please take a moment to familiarise yourself with the table below, which outlines the service areas you will be asked about, the way performance on each area is measured and what the current level of service SES Water provides to you.

Please take a moment to read this as it will help you complete the next question.

Area	Select your prefered service level here...
Rate of pipe replacement	0.6% of pipes replaced each year
Water leakage	Current level of water leaks from pipes kept the same each year
Supply interruptions	6 minutes per property on average per year
Homes protected from risk of a supply failure	56% of homes protected
Education and water efficiency advice	75p of your bill is spent on education and advice a year
Metering	6,400 meters fitted to existing properties
Local service provider	Retain a local customer service centre

Total % change to your bill:	0.00%
Your current Annual Water bill:	£360.00
New Annual Bill (based on the choices above):	£360.00

Just under half chose the current level of service, but for most attributes around 2 in 5 selected an improvement (with cost) on the current level



Q. BYO. Base: All (1,002)

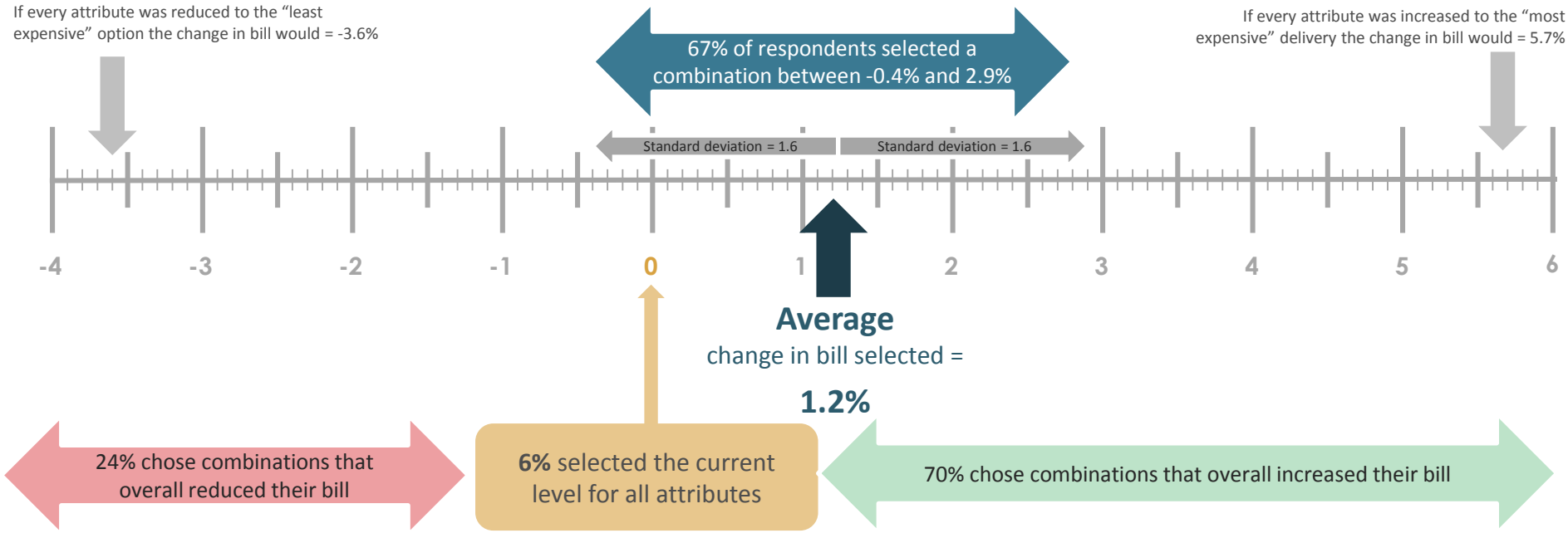
Evaluated with a different set of option levels (current + 3 improvement levels)

Spend on education & water efficiency advice was the most polarising

There is a strong preference to retain a local Customer Service Centre

On average customers selected improvements in service that resulted in a 1.2% increase on their annual bill

BYO Choices Impact on Annual Bill

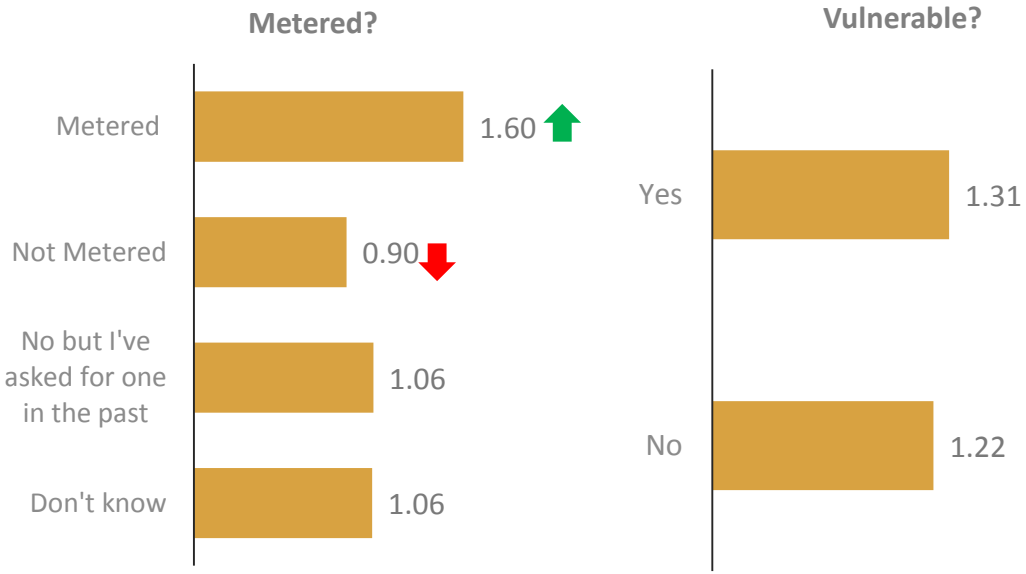


Q. BYO. Base: All (1,002)

Those on a meter and those in the Southern Area were more likely to select improvements (with cost) to the current provision

BYO Choices % Impact on Annual Bill, by subgroup

Total Sample Average change in bill selected = **1.2%**



Q. BYO. Base: All (1,002), Metered (473), Not Metered 489), No but I've asked for one in the past (19), Don't know (21) , Vulnerable (193), Not Vulnerable (809)

KEY: ▲ ▼ Significantly higher / lower than total

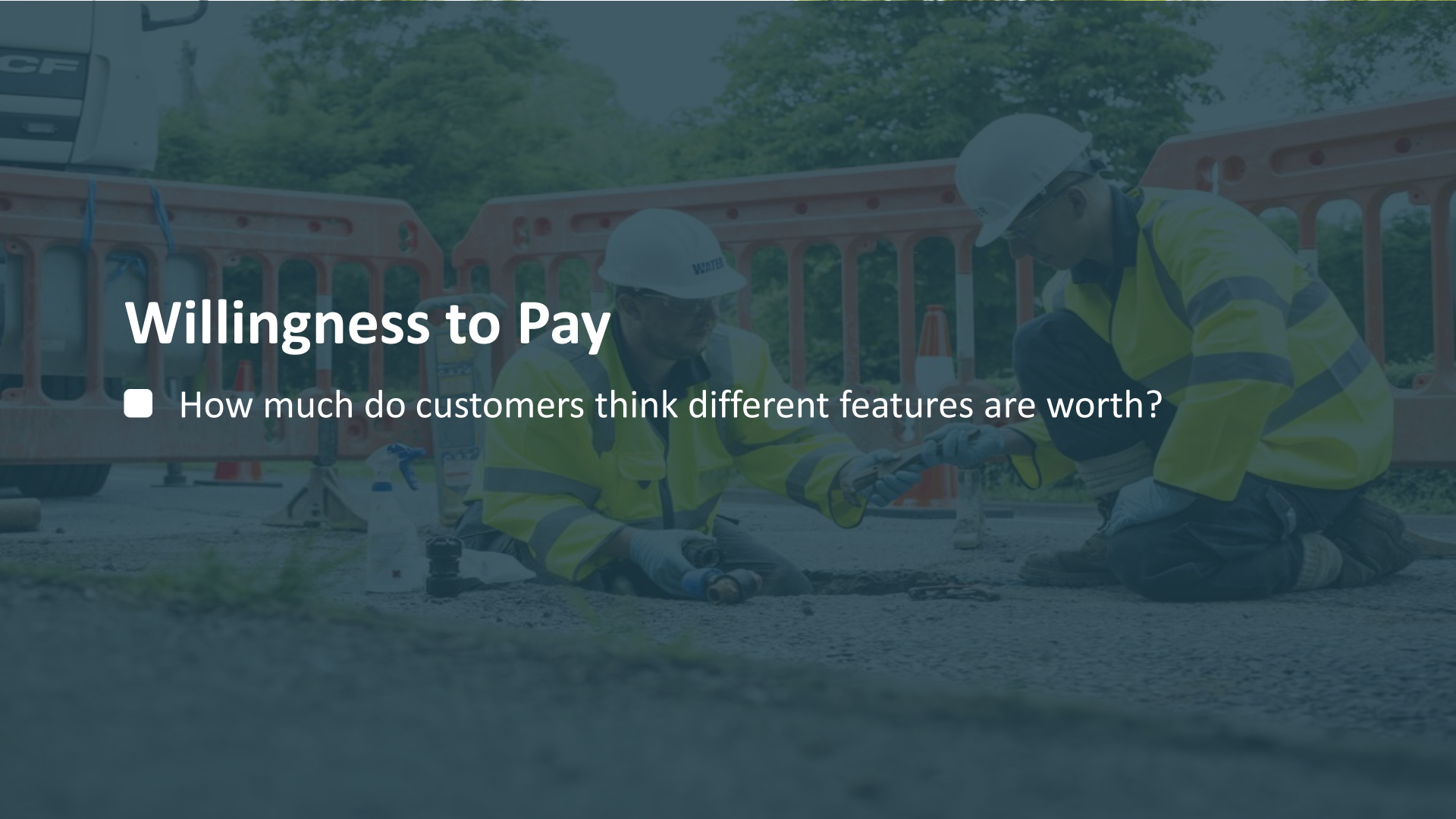
2 person households and those over 54 years old were more likely to select improvements (with cost) to the current provision

BYO Choices % Impact on Annual Bill, by subgroup

Total Sample Average change in bill selected = **1.2%**

Q. BYO. Base: All (1,002), 1 person (120), 2 people (312), 3 people (182), 4 or more (387), 18-34 (186), 35-54 (475), 55+ (340), Male (510), Female (492)

KEY: ▲ ▼ Significantly higher / lower than total



Willingness to Pay

- How much do customers think different features are worth?

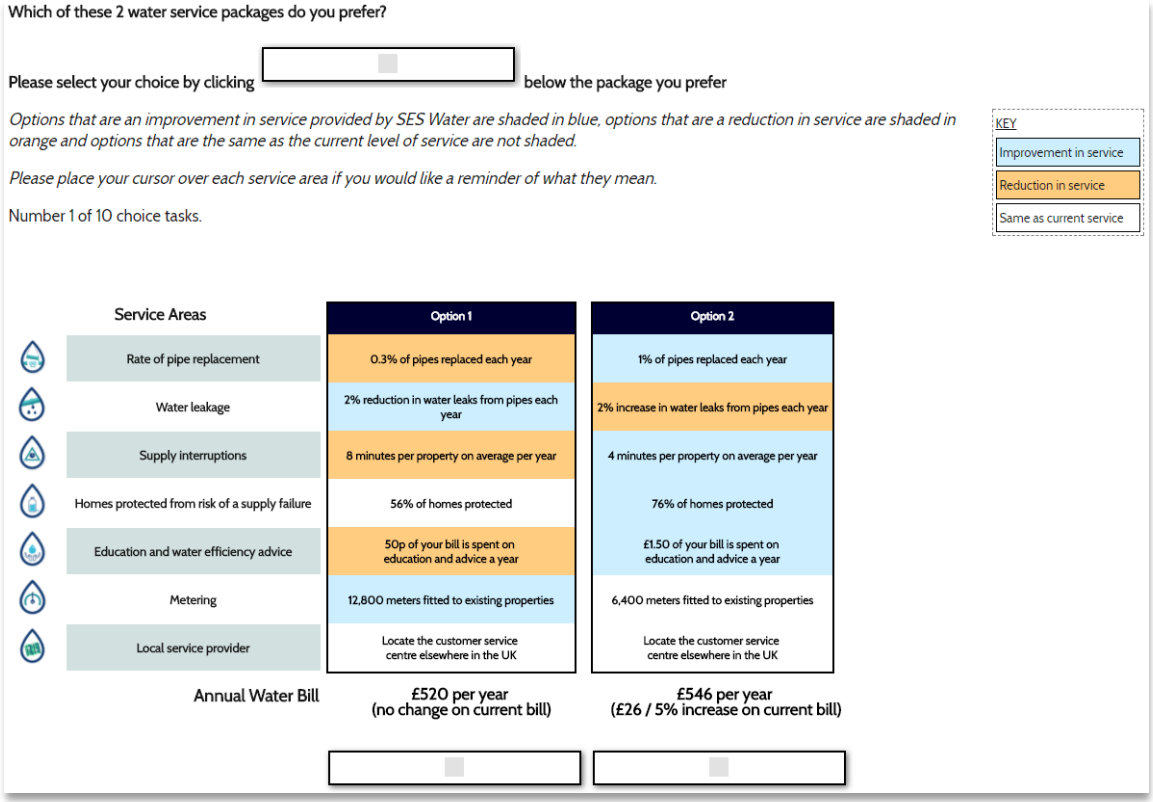
We see encouraging levels of overall consumer engagement, with the majority willing to accept at least some level of bill increase to support service improvements

- Whilst change in bill is the single most important element in driving decision making, other elements accounted for 63% of the choices made.
  - The most influential being metering, a local service provider and education & advice (however, the importance of these 3 is driven as much by an expected bill reduction for any anticipated service reduction, as it is a willingness to pay more for a service improvement)
  - Protection against a risk of failure / interruption are the areas that command the most willingness to pay **more**
- Nearly 1 in 5 respondents would be classified as financially vulnerable, and this has a significant impact on their reaction to proposed price increases
- The more people engage with their use of water / water services, the more importance they place on where the customer service centre is located, with a significant majority wanting a locally based contact centre

Quantifying willingness to pay through a stated preference exercise...

We have used a technique called Conjoint Analysis to develop a clear picture of what consumers find important and how much value they attach to the various aspects of their water service...

Respondents were shown 10 choice tasks like this and statistical modelling (Hierarchical Bayes) has been used to quantify the drivers of choice



Which of these 2 water service packages do you prefer?

Please select your choice by clicking below the package you prefer

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Please place your cursor over each service area if you would like a reminder of what they mean.

Number 1 of 10 choice tasks.

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- Same as current service

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Education and water efficiency advice	50p of your bill is spent on education and advice a year	£1.50 of your bill is spent on education and advice a year
Metering	12,800 meters fitted to existing properties	6,400 meters fitted to existing properties
Local service provider	Locate the customer service centre elsewhere in the UK	Locate the customer service centre elsewhere in the UK
Annual Water Bill	£520 per year (no change on current bill)	£546 per year (£26 / 5% increase on current bill)

We tested consumer preferences of service levels across 7 different areas at different price points

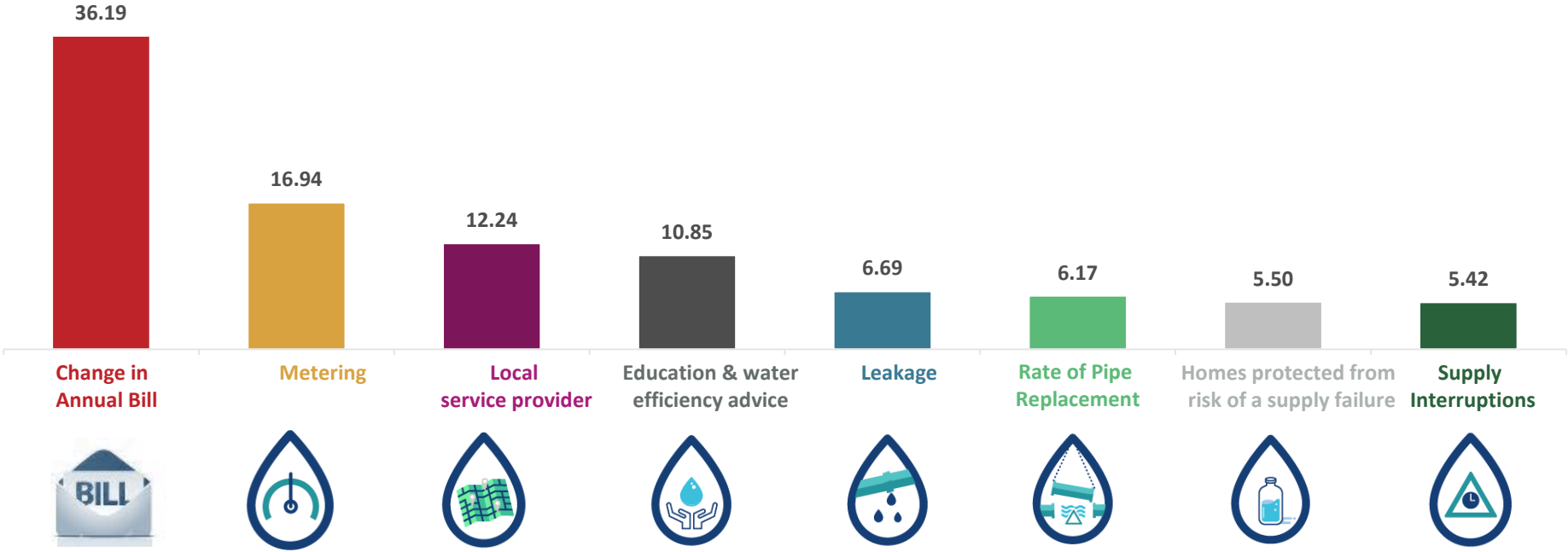
Rate of Pipe Replacement 	**Leakage** 	**Supply Interruptions** 	**Homes protected from risk of a supply failure** 	**Education and water efficiency advice** 
Metering 	**Local service provider** 	**Within most attributes we tested 4 levels…** • **A reduction** in the current service level • **The current service level** • **An improvement** on the current service level • **A bigger improvement** on the current service level • For 'Homes protected from risk of a supply failure' there was no reduced service option, but an additional improvement level. • And for 'Local Service provider' there were only three levels tested, the current and 2 alternative solutions.		

+ Change in Annual Bill:

Which was varied between -10% and +10% of the respondents current bill

Whilst change in bill was most important, other elements accounted for 63% of the choices made. The most influential being metering, a local service provider and education & advice

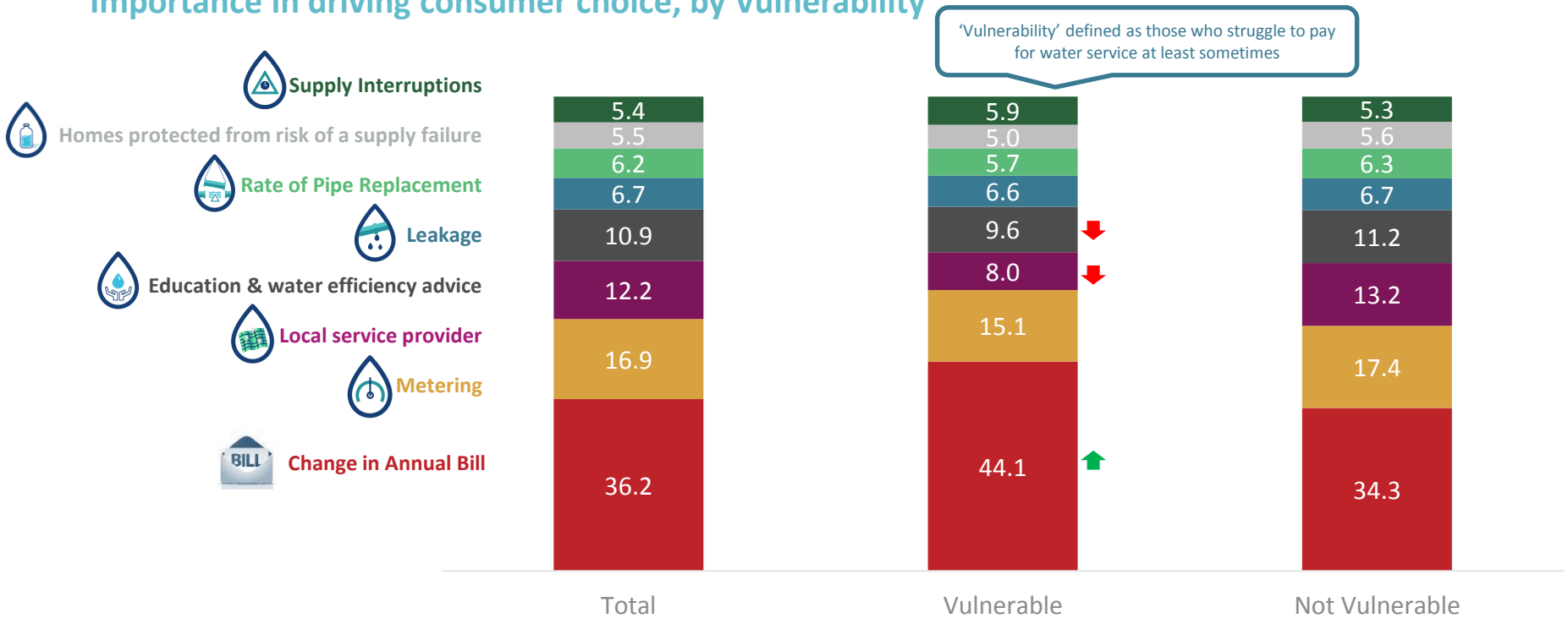
Importance of attributes in driving consumer choices made within the conjoint exercise



Q. Conjoint. Base: All (1,002)

Changes in their annual bill is significantly more important to customers classified as financially Vulnerable

Importance in driving consumer choice, by Vulnerability

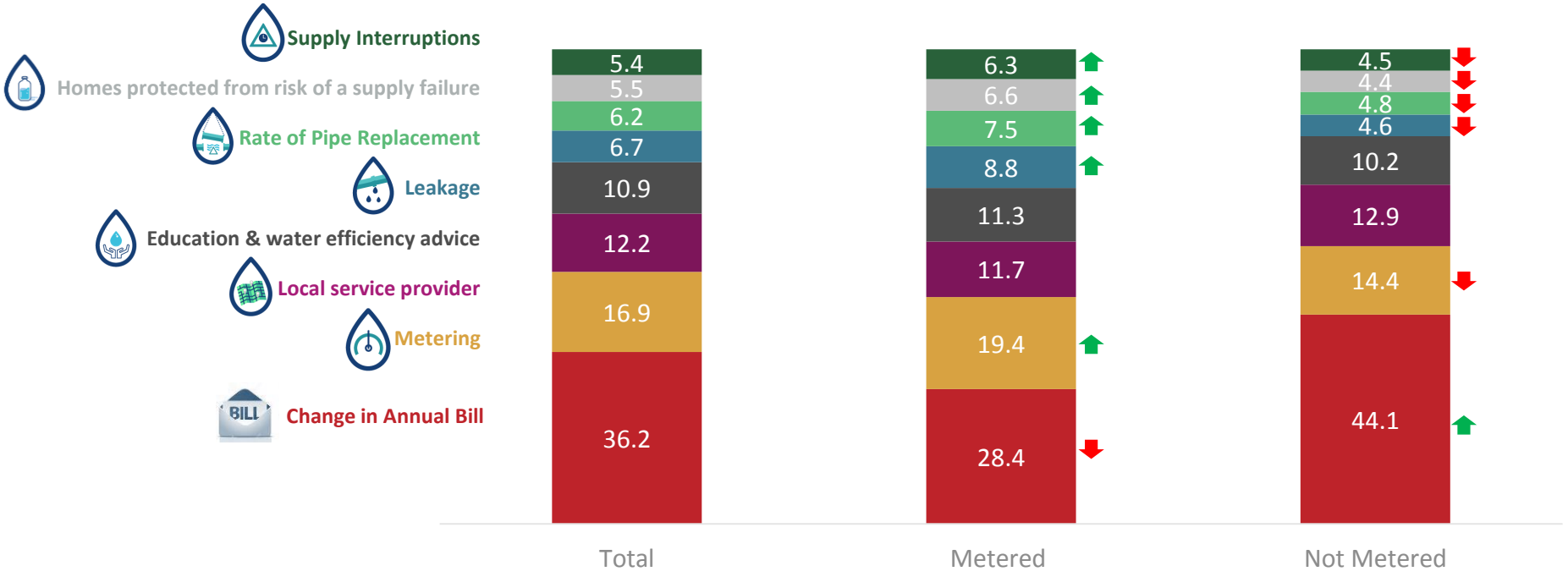


Q. Conjoint. Base: All (1,002), Vulnerable (193), Not Vulnerable (809)

KEY: ▲ ▼ Significantly higher / lower than total

Overall cost is more important for those not on a water meter…

Importance in driving consumer choice, by Meter

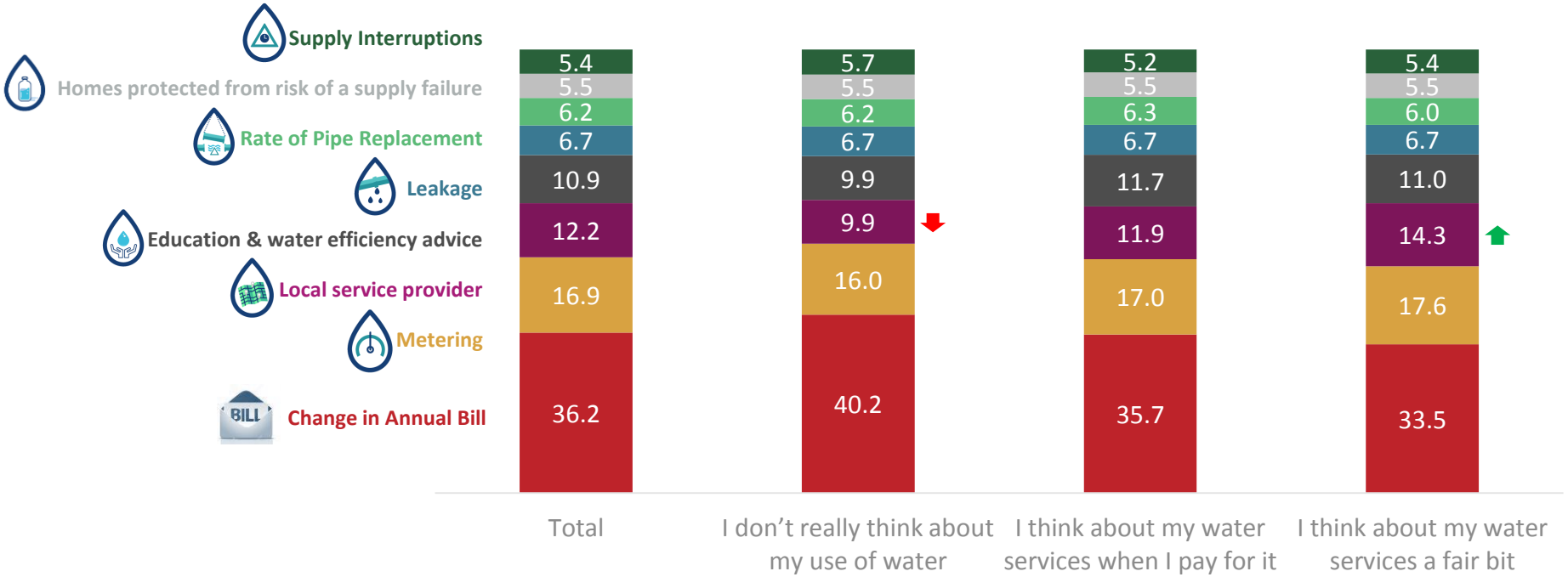


Q. Conjoint. Base: All (1,002), Metered (473), Not Metered (489)

KEY: Significantly higher / lower than total

The more people engage with their use of water / water services, the more importance they place on where the customer service centre is located…

Importance in driving consumer choice, by attitude



Q. Conjoint. Base: All (1,002), I don't really think about my use of water (306), I think about my water services when I pay for it (283), I think about my water services a fair bit (413)

KEY: ↑ ↓ Significantly higher / lower than total

Those in the higher social grades place more importance on being a local service provider

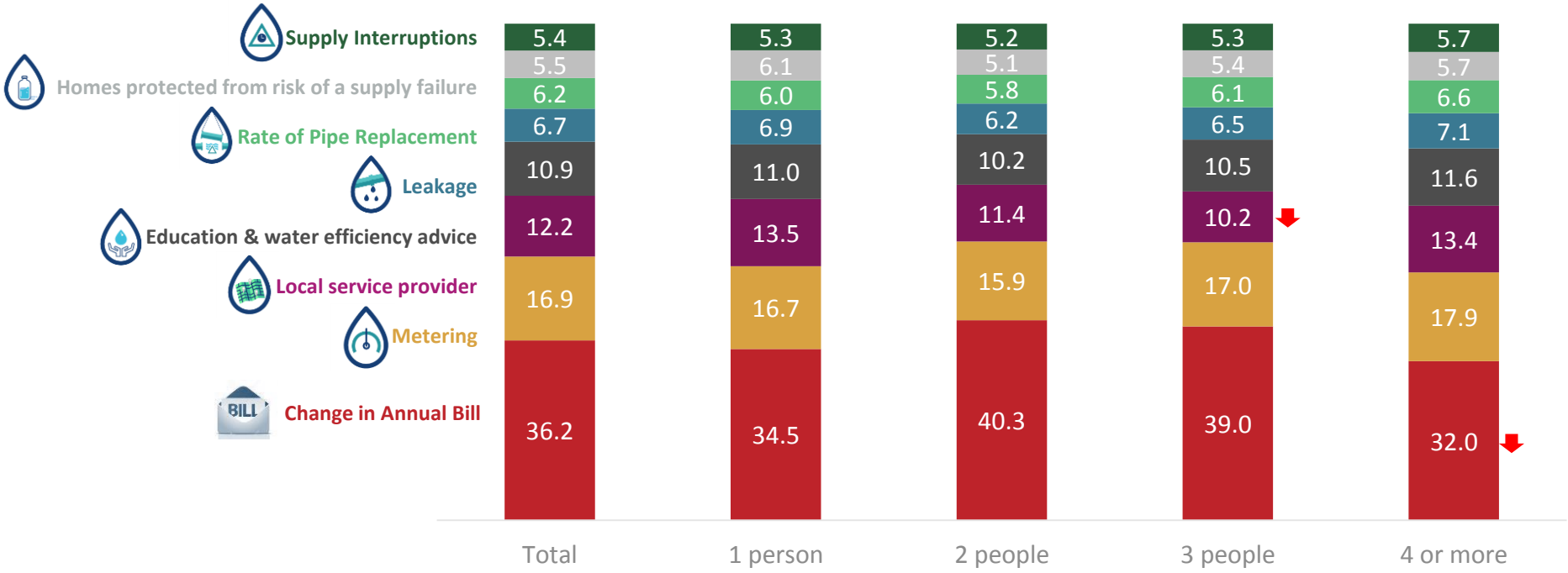
Importance in driving consumer choice, by SEG

Q. Conjoint. Base: All (1,002), ABC1 (502), C2DE (428), REFUSED / No MIE (72)

KEY: Significantly higher / lower than total

Those with 4 more in the household place the least emphasis on change in bill

Importance in driving consumer choice, by Household Size

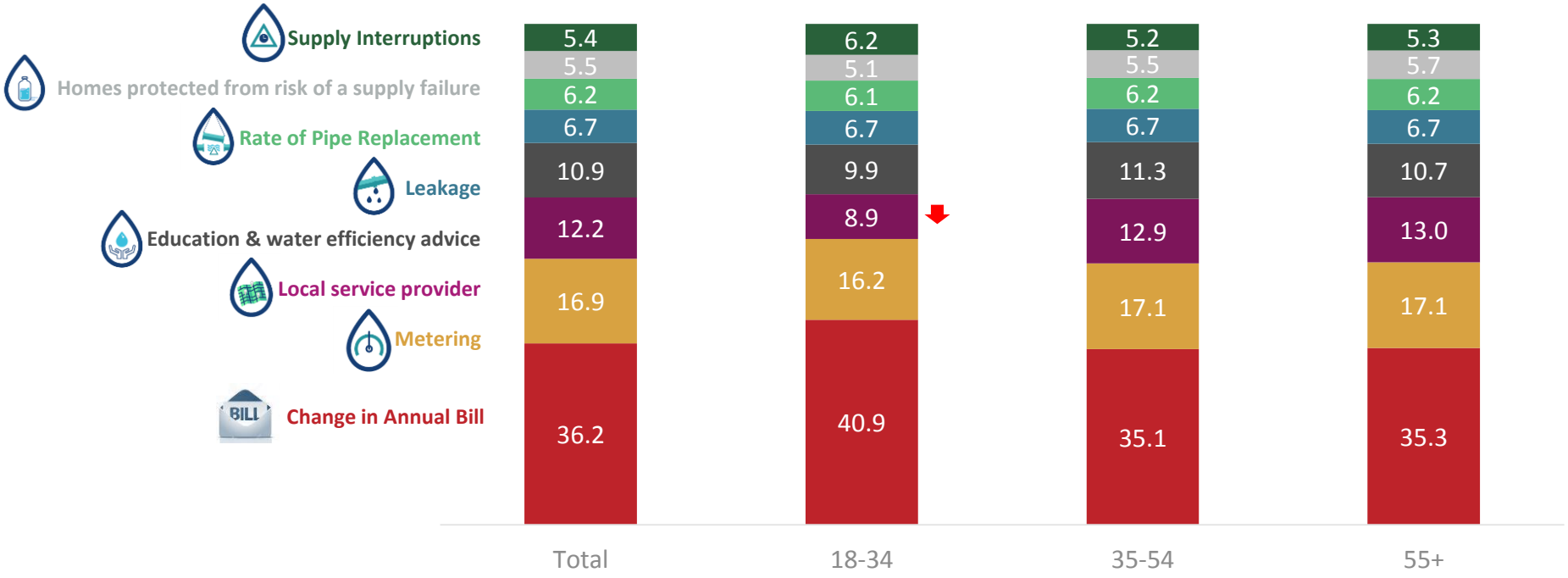


Q. Conjoint. Base: All (1,002), 1 person (120)2 people (312), 3 people (182), 4 or more (387)

KEY: Significantly higher / lower than total

Few significant differences by age group, although younger consumers place less value on local service provision

Importance in driving consumer choice, by Age

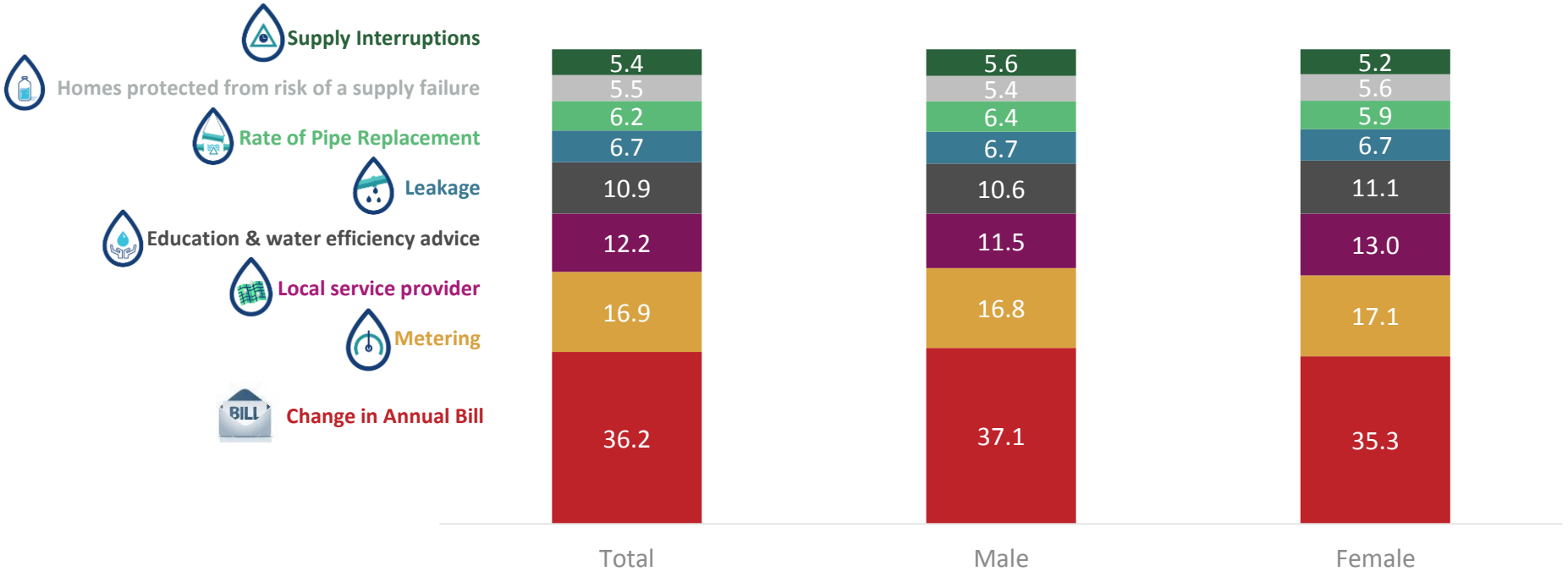


Q. Conjoint. Base: All (1,002), 18-34 (186), 35-54 (475), 55+ (340)

KEY: Significantly higher / lower than total

No significant differences by gender

Importance in driving consumer choice, by Gender



Q. Conjoint. Base: All (1,002), Male (510), Female (492)

KEY: Significantly higher / lower than total

What is the perceived value that consumers attach to each level of service we could offer?

Within the conjoint exercise respondents are constantly trading different levels of service and cost off against one another

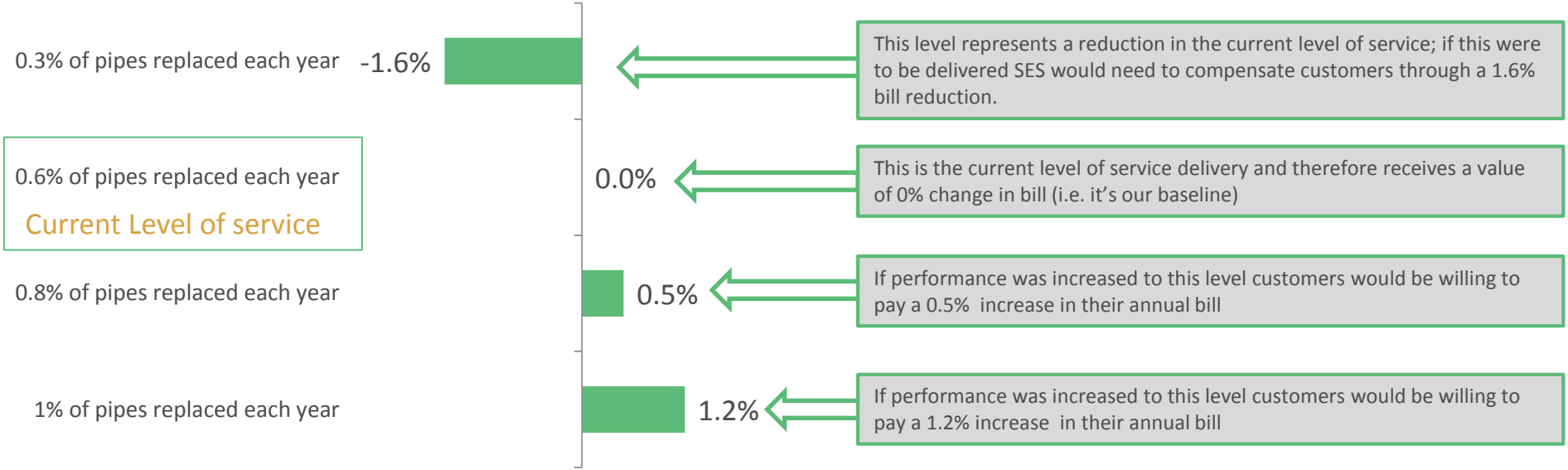
Through the analysis we are able to calculate the monetary value they attribute to each level of service

These values are expressed in % change in bill and they are calculated relative to the current level of service within each attribute

How to interpret “Willingness To Pay Valuation” Analysis

Rate of Pipe Replacement

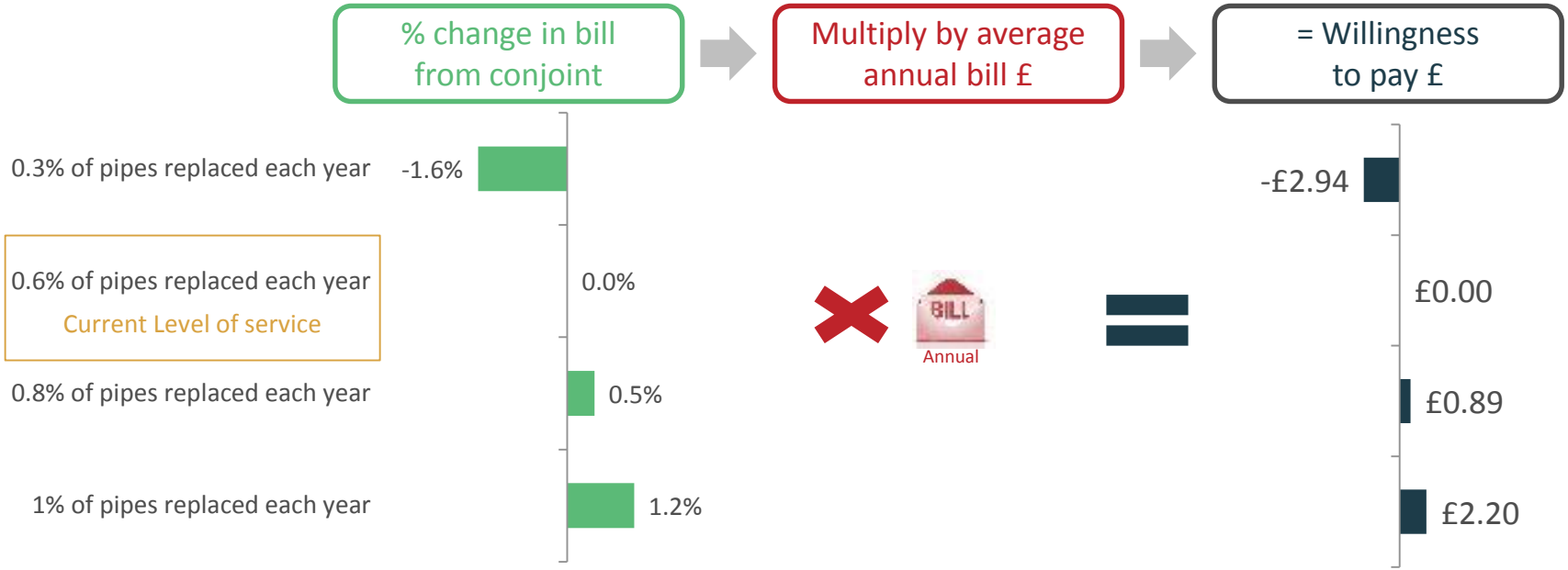
- Let’s look at the attribute relating to Rate of pipe replacement
- There were four levels of service tested within this attribute
- The chart below quantifies the willingness to pay figures from the conjoint exercise



Converting % willingness to pay in bill to £ willingness to pay

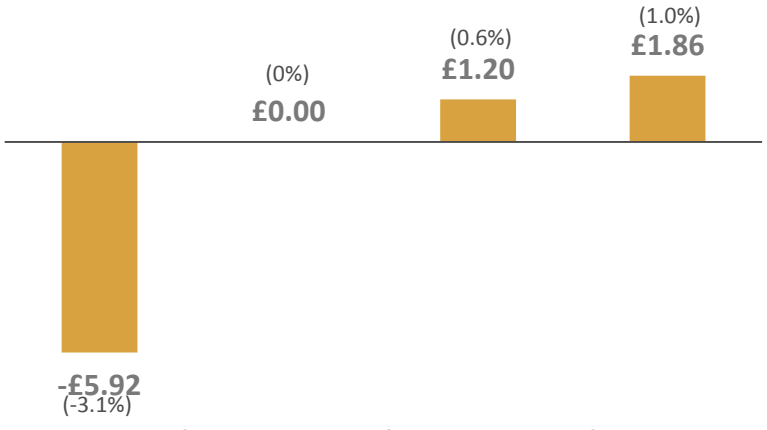
Rate of Pipe Replacement

- By multiplying the % change in bill consumers expect (from the conjoint) by the average annual bill value we can calculate the actual amount consumers are willing to pay for each level - relative to the current level of service…

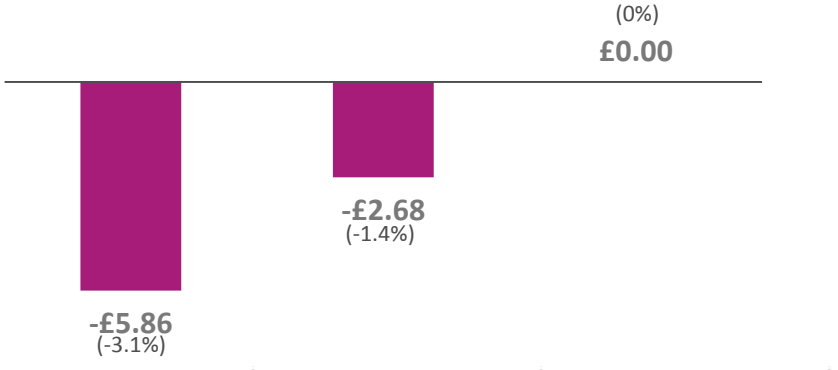


No more metering to existing properties has the highest expectations for a decrease in bill, closely followed by changes to the customer service centre…

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



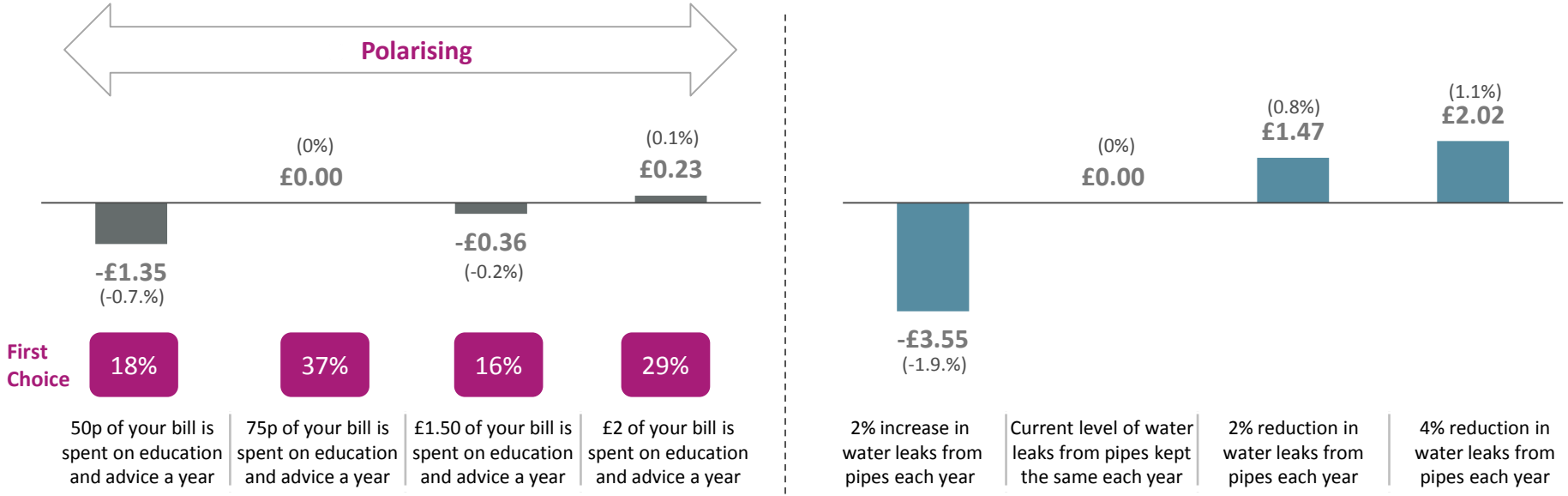
Metering



Local service provider

Opinion on investment in education is split, but people are willing to pay more to decrease the level of leakage from pipes

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

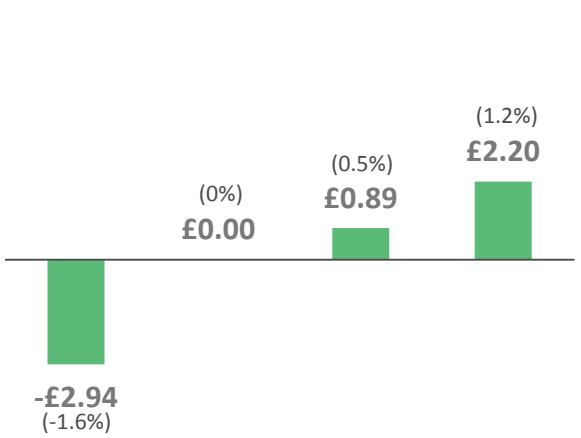


Education & water efficiency advice

Leakage

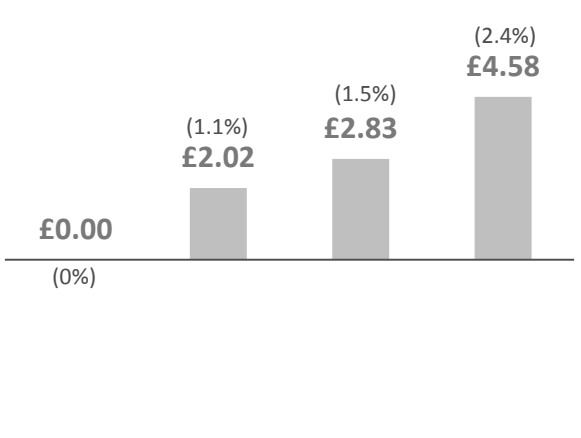
Consumers expect greater compensation for a drop in the rate of pipe replacement than they are prepared to pay for improvements

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



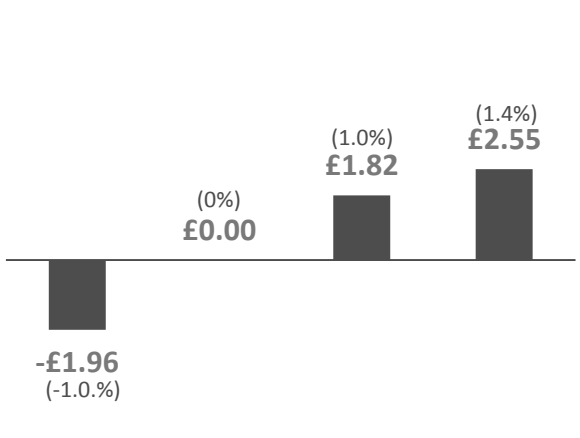
0.3% of pipes replaced each year	0.6% of pipes replaced each year	0.8% of pipes replaced each year	1% of pipes replaced each year

Rate of Pipe Replacement



56% of homes protected	65% of homes protected	76% of homes protected	100% of homes protected

Homes protected from risk of a supply failure

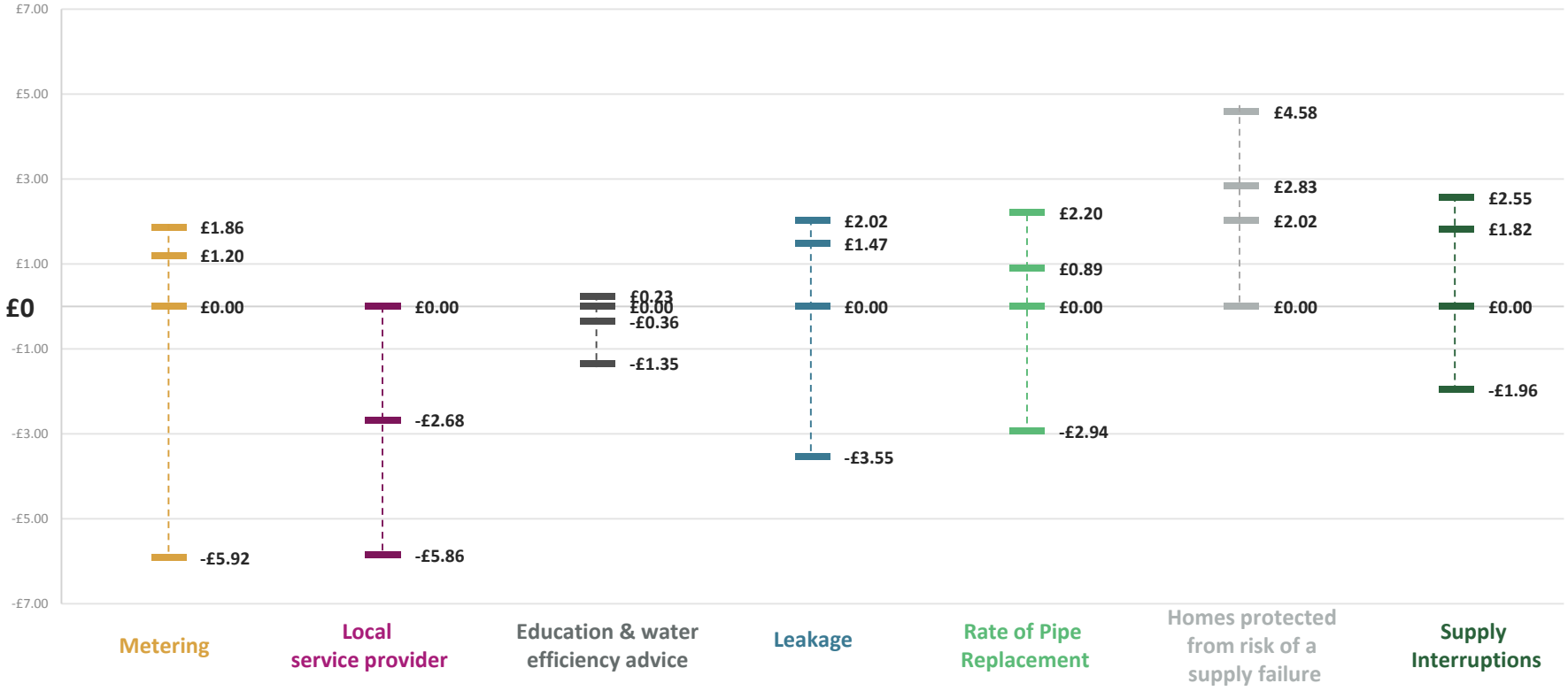


8 minutes per property on average per year	6 minutes per property on average per year	4 minutes per property on average per year	2 minutes per property on average per year

Supply Interruptions

Consumers willingness to pay for increases in services are highest for protection against a risk of failure / interruption

Valuation Analysis Summary: Annual value attached to each feature relative to current level



Evaluating the impact of Framing

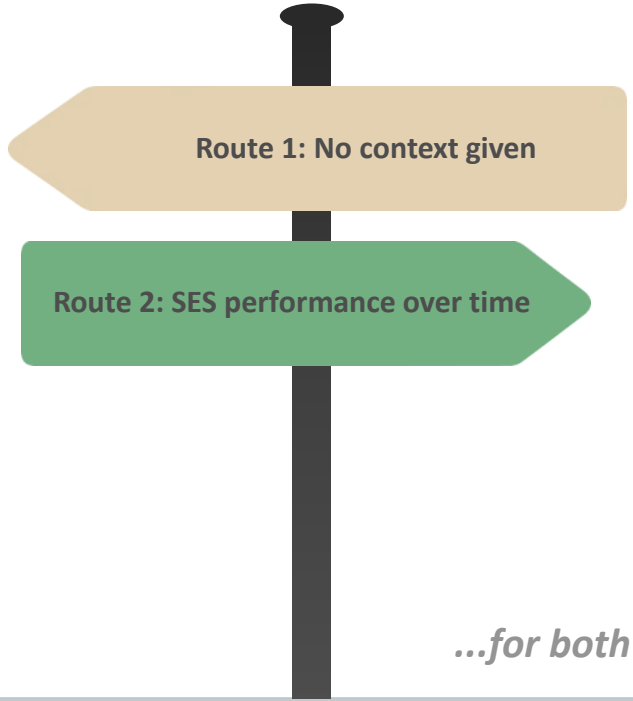
- Within the study we've assessed the impact of 2 different contexts around the consumer communications

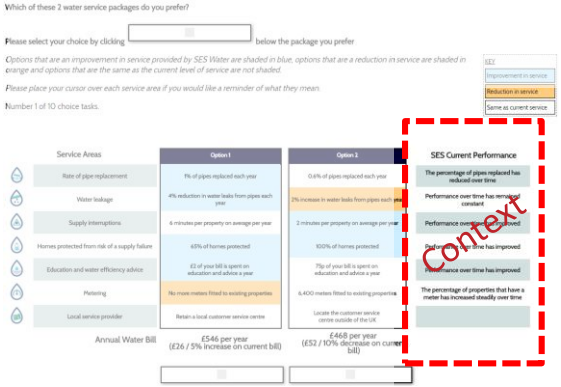
There is little evidence to suggest that framing has an impact on consumer perception

- There are no significant differences in the average change in annual bill from the services picked in the BYO by the context seen

Context:

Each respondent was assigned to one of 2 'Context Routes'….





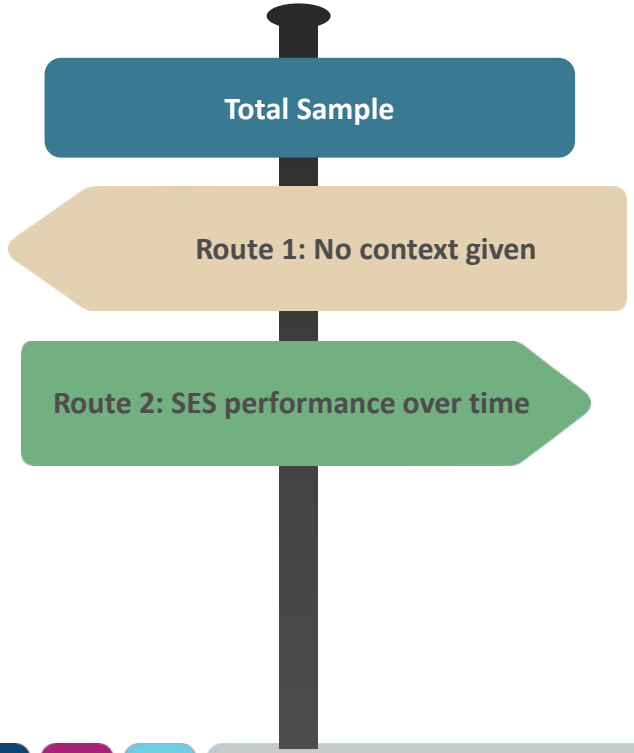
For example:

Performance over time has… improved

…for both the conjoint and the BYO exercise

There are no significant differences in the average change in annual bill from the services picked in the BYO by the context seen…

BYO Choices Impact on Annual Bill, by context seen



Average change in bill selected = **1.24%**

Average change in bill selected = **1.22%**

Average change in bill selected = **1.25%**

If every attribute was reduced the change in bill would = -3.6%

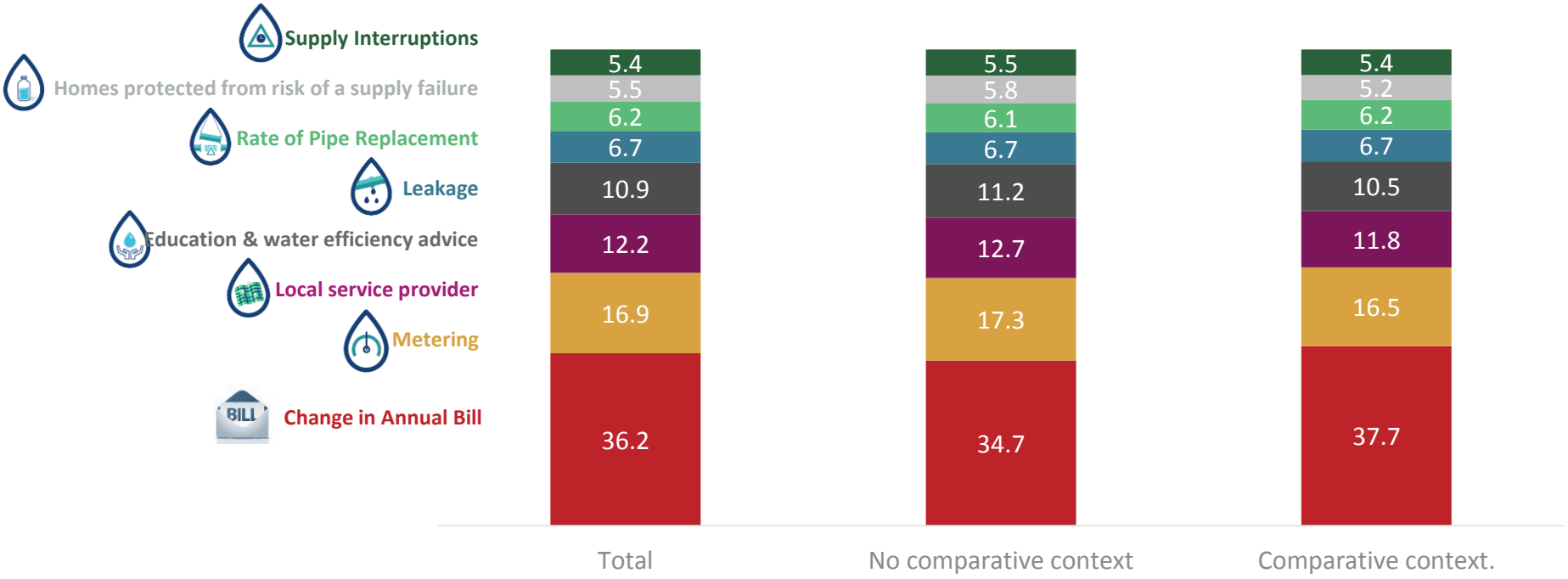
Range

If every attribute was increased to the "best" delivery, change in bill would = 5.7%

KEY: ↑ ↓ Significantly higher / lower than total

There are no significant differences in importance of the attributes by the context seen

Importance in driving consumer choice, by context seen

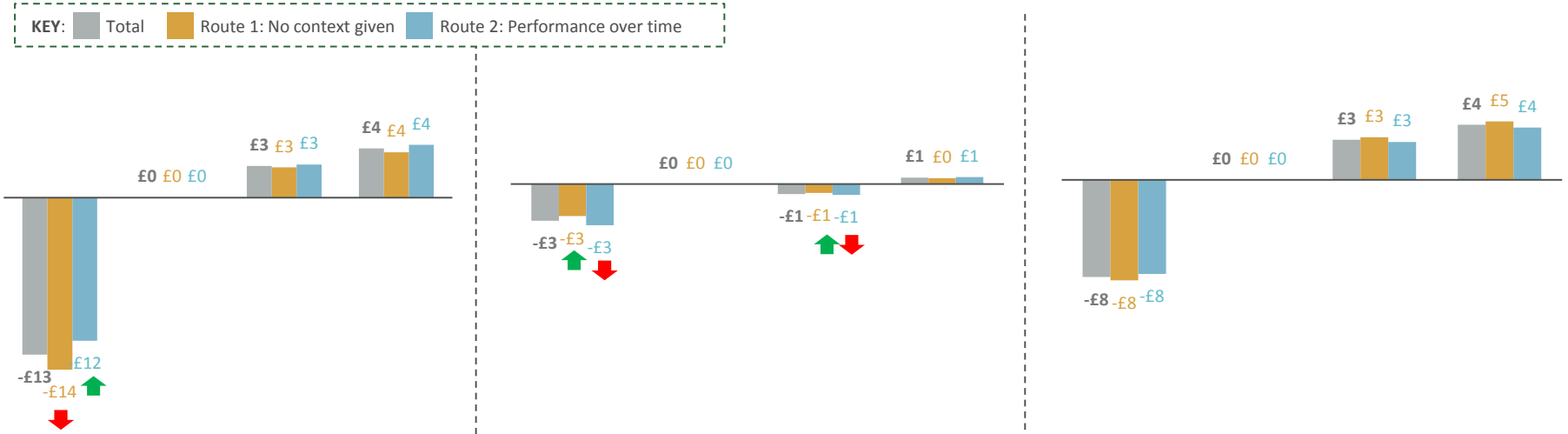


Q. Conjoint. Base: All (1,002), No comparative context(502), Comparative context.(500)

KEY: ▲ ▼ Significantly higher / lower than total

Those who knew the percentage of properties with a meter has increased over time expect a slightly lower decrease in bill if no more meters were fitted

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



No more meters fitted to existing properties	6,400 meters fitted to existing properties	9,600 meters fitted to existing properties	12,800 meters fitted to existing properties
50p of your bill is spent on education and advice a year	75p of your bill is spent on education and advice a year	£1.50 of your bill is spent on education and advice a year	£2 of your bill is spent on education and advice a year
2% increase in water leaks from pipes each year	Current level of water leaks from pipes kept the same each year	2% reduction in water leaks from pipes each year	4% reduction in water leaks from pipes each year

Metering

CONTEXT: The percentage of properties that have a meter has increased steadily over time

Education & water efficiency advice

CONTEXT: Performance over time has improved.

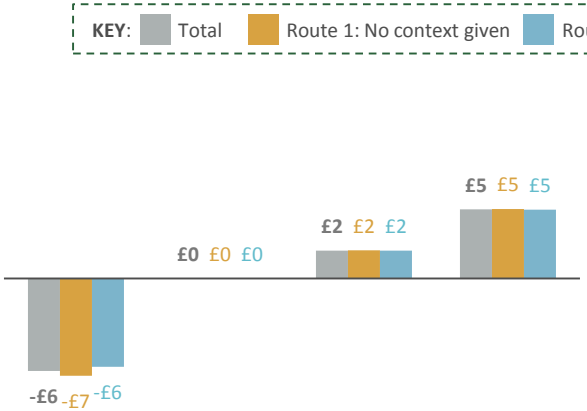
Leakage

CONTEXT: Performance over time has remained constant.

KEY: ↑ ↓ Significantly higher / lower than total

Those who know supply interruptions have improved over time are willing to pay slightly less for further improvements

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

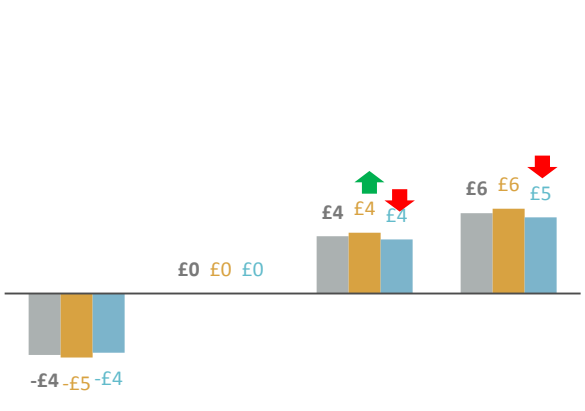


Rate of Pipe Replacement

CONTEXT: The percentage of pipes replaced has reduced over time.

Homes protected from risk of a supply failure

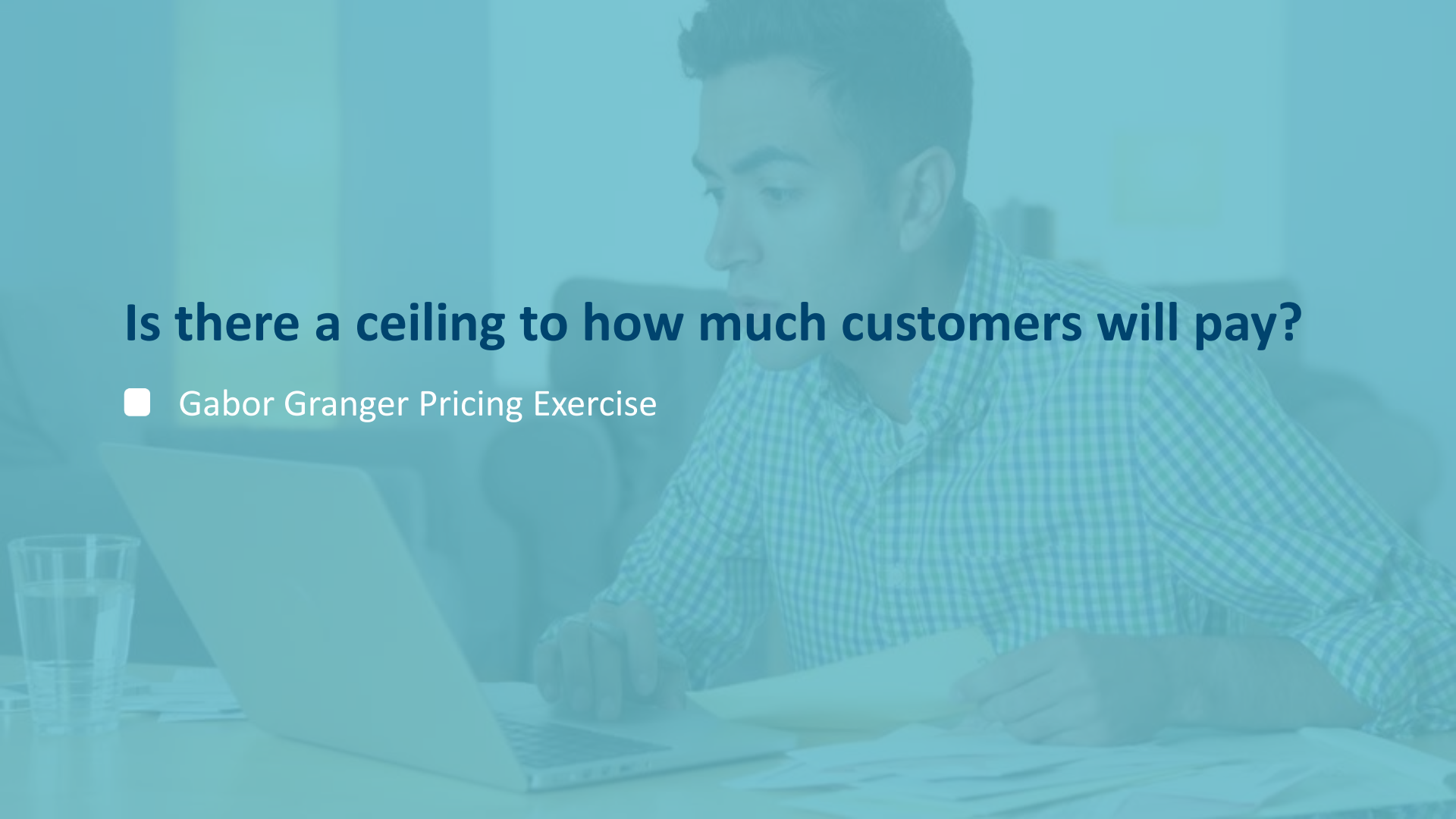
CONTEXT: Performance over time has improved.



Supply Interruptions

CONTEXT: Performance over time has improved.

KEY: ▲ ▼ Significantly higher / lower than total

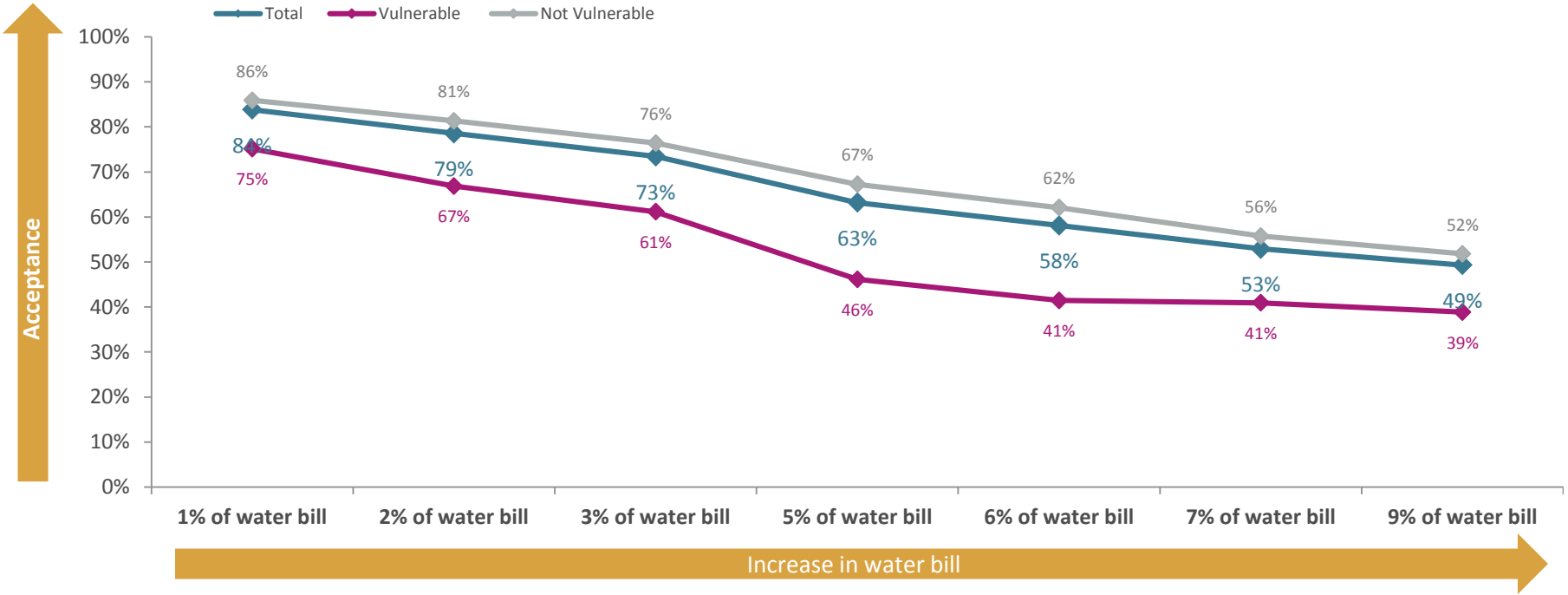


Is there a ceiling to how much customers will pay?

- Gabor Granger Pricing Exercise

Whilst acceptance is lower amongst those already financially vulnerable, there are still a significant majority who would accept at least some increase in bill for improvements

Likely acceptance at different price points, by vulnerability



Q5. If SES Water delivered the service changes that matter to you from the choice task you've just completed would you be willing to accept a <£X/X%> increase in your <annual / half yearly /quarterly / monthly / fortnightly / weekly> bill to pay for these services? Base: All (1,002), Vulnerable (193), Not Vulnerable (809)

Establishing our PR19 mandate

- Market simulation tool analysis

Simulation Tool…

We've also develop an Excel-based simulation tool capable of predicting preference for changes to our delivery and willingness to pay for these changes…

SES Consumer Conjoint

Simulation Name: Enter simulation name here

Filter 1: ALL

Input

On/Off									
	Proposition 1	Proposition 2	Proposition 3	Proposition 4	Proposition 5	Proposition 6	Proposition 7	Proposition 8	Proposition 9
Proposition Name	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE
Rate of pipe replacement	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year	0.6% replaced each year
Water leakage	Current level	Current level	Current level	Current level	Current level	Current level	Current level	Current level	Current level
Supply interruptions	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver	6 mins per property on aver
Homes protected from risk of a supply failure	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected	56% of homes protected
Education and water efficiency advice	75p of your bill	75p of your bill	75p of your bill	75p of your bill	75p of your bill	75p of your bill	75p of your bill	75p of your bill	75p of your bill
Metering	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir	6,400 meters fitted to existir
Local service provider	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC	Retain a local CSC
Change in annual bill (10% decrease - 10% rise)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Results

			Proposition 1	Proposition 2	Proposition 3	Proposition 4	Proposition 5	Proposition 6	Proposition 7	Proposition 8	Proposition 9
	Base size	Sub group	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE	ENTER NAME HERE
Total	1002	Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Water Meter	473	Yes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	489	No	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	19	No but I've asked for one in the past	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	21	Don't know	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financially Vulnerable	193	Yes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	809	No	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Attitude	306	I don't really think about my use of water	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	283	I think about my water services when I pay for it	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	413	I think about my water services a fair bit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Region	439	Southern Area	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	437	Northern Area 1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	126	Northern Area 2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SEG	502	ABC1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	428	C2DE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	72	REFUSED / No MIE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
House Hold	120	1 person	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	312	2 people	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

We've set up a base simulation of 'the current level of service' vs. 'an improved level of service'

Base Simulation:

	Current	Improved
Rate of Pipe Replacement	0.6% of pipes replaced each year	0.8% of pipes replaced each year
Leakage	Current level of water leaks from pipes kept the same each year	2% reduction in water leaks from pipes each year
Supply Interruptions	6 minutes per property on average per year	4 minutes per property on average per year
Homes protected from risk of a supply failure	56% of homes protected	65% of homes protected
Education & water efficiency advice	75p of your bill is spent on education and advice a year	75p of your bill is spent on education and advice a year
Metering	6,400 meters fitted to existing properties	9,600 meters fitted to existing properties
Local service provider	Retain a local customer service centre	Retain a local customer service centre

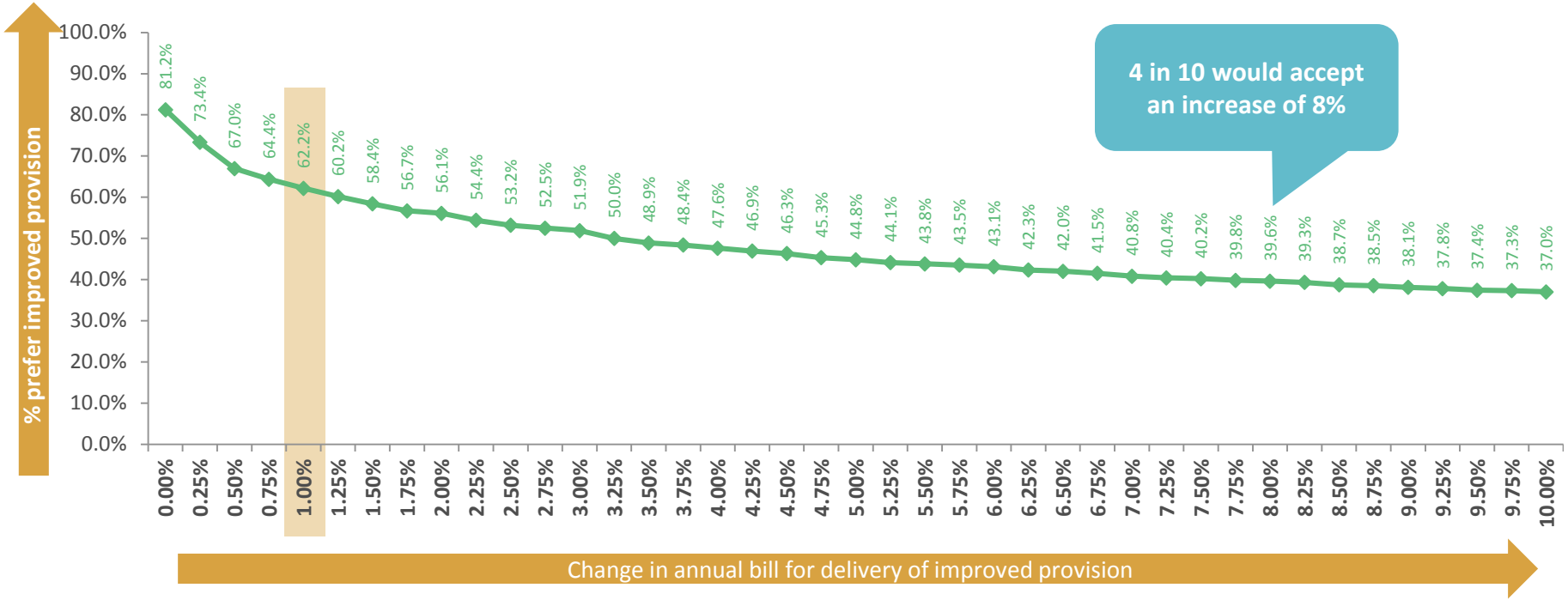
Each attribute improved by one level except for 'Education & water efficiency advice' and 'Local service provider'

Change in Annual Bill

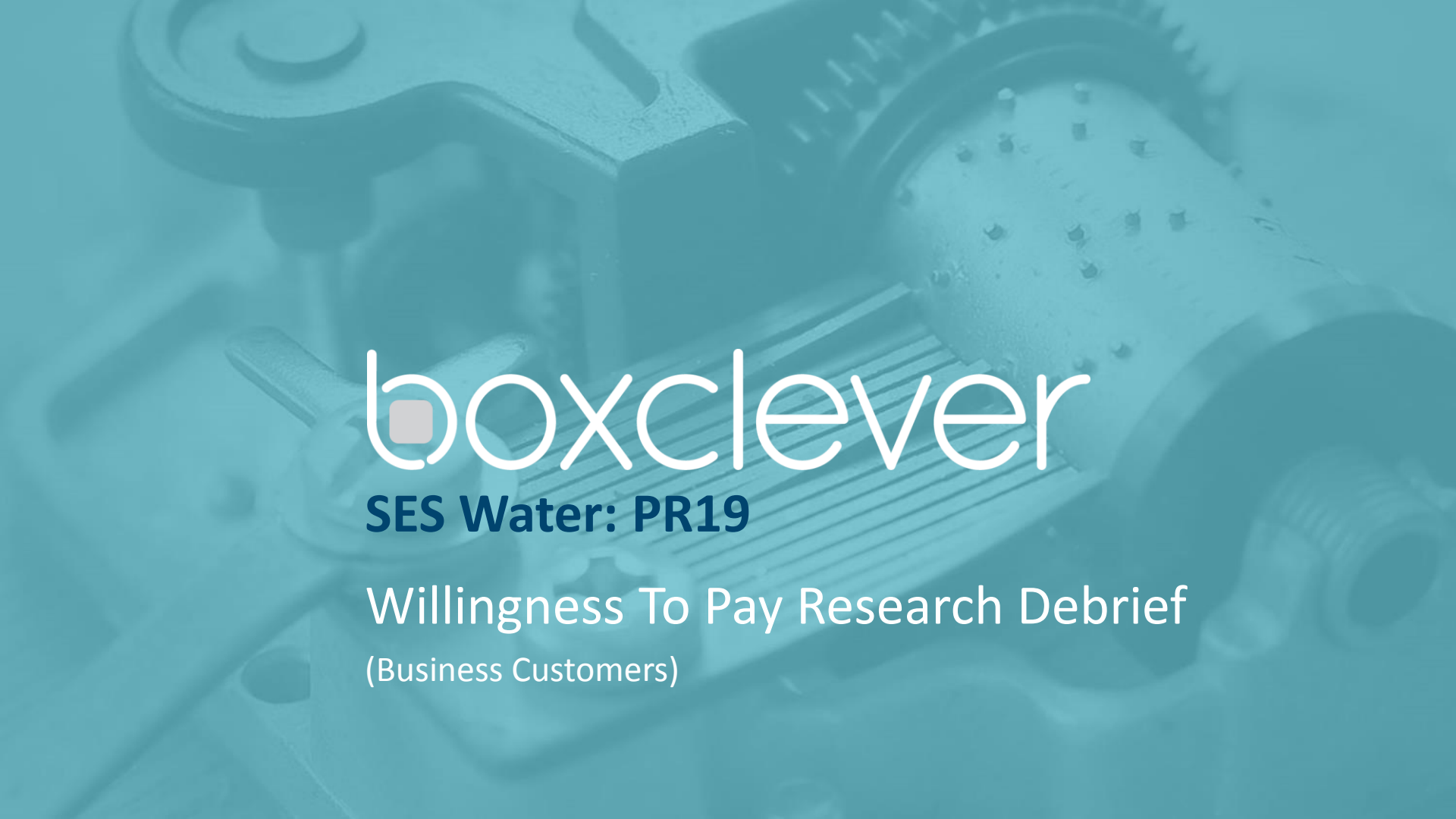
…and we can predict consumer preference for either this current or improved offer at different price points

Almost 2 in 3 customers would accept a 1% increase in their water bill for an improved service

Likely acceptance at different price points




boxclever



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SES Water: PR19

Willingness To Pay Research Debrief

(Business Customers)

The challenge…

As part of the PR19 review SES Water needs to be able to justify its investment and delivery plan through a robust and thorough evaluation of what consumers are willing to pay for various changes in the level of service they receive

The solution…

Using advanced analytical techniques we are able to quantify the extent to which customers are willing to pay / be compensated for changes in the level of service they receive

We are also able to explore how this willingness to pay varies and the extent to which framing and contextualising the topic can drive willingness to pay up or down

The process…

We have undertaken a comprehensive quantitative study amongst SES Water household and business customers to explore and quantify willingness to pay across a range of key service areas:

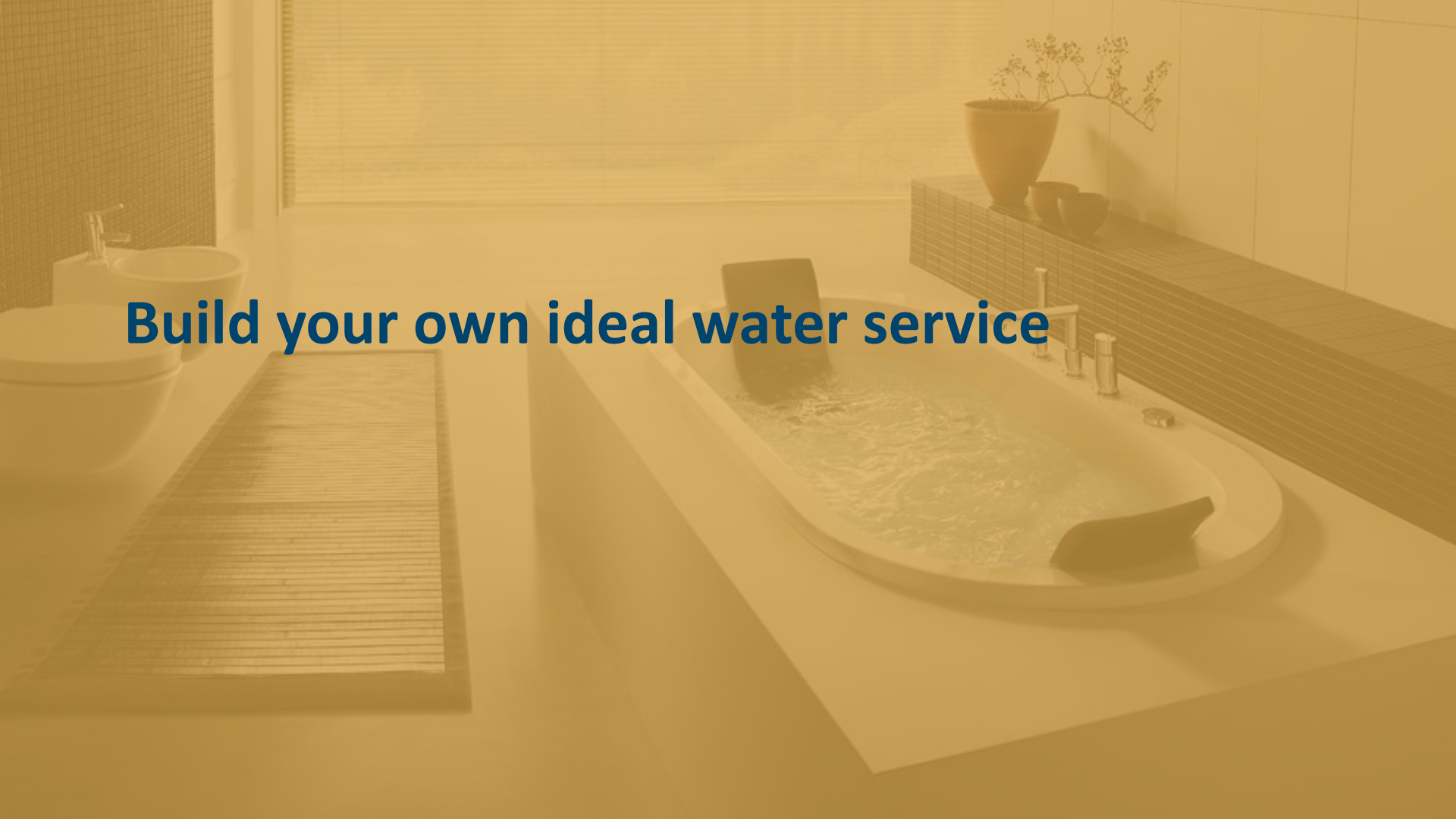
1. What are the key service areas where customers demonstrate the greatest willingness to pay?
2. What is the average level of willingness to pay within each service area and how does this differ, across the range of potential service areas, across the different levels of service that could be delivered?
3. How does framing impact the extent to which consumers are willing to pay for different service levels?
4. Are there any overall limits in the extent to which customers are willing to accept increases in bills to pay for improved service delivery?
5. Do we have a mandate from customers for implementing a specific investment strategy and changing bill amounts accordingly?

Among the business customer sample, a total of 100 interviews were achieved

- We have therefore replicated the Build Your Own, Conjoint and Price Optimisation elements for the business sample, at a total level

- The business sample evaluated against 6 service areas (vs 7 in the consumer sample), so the results are not directly comparable – we have therefore presented these findings separately

- Although not directly comparable, we do see a high level of consistency in findings with the consumer sample, with the top areas from the Conjoint analysis showing the same areas driving choice (change in bill, metering and education)

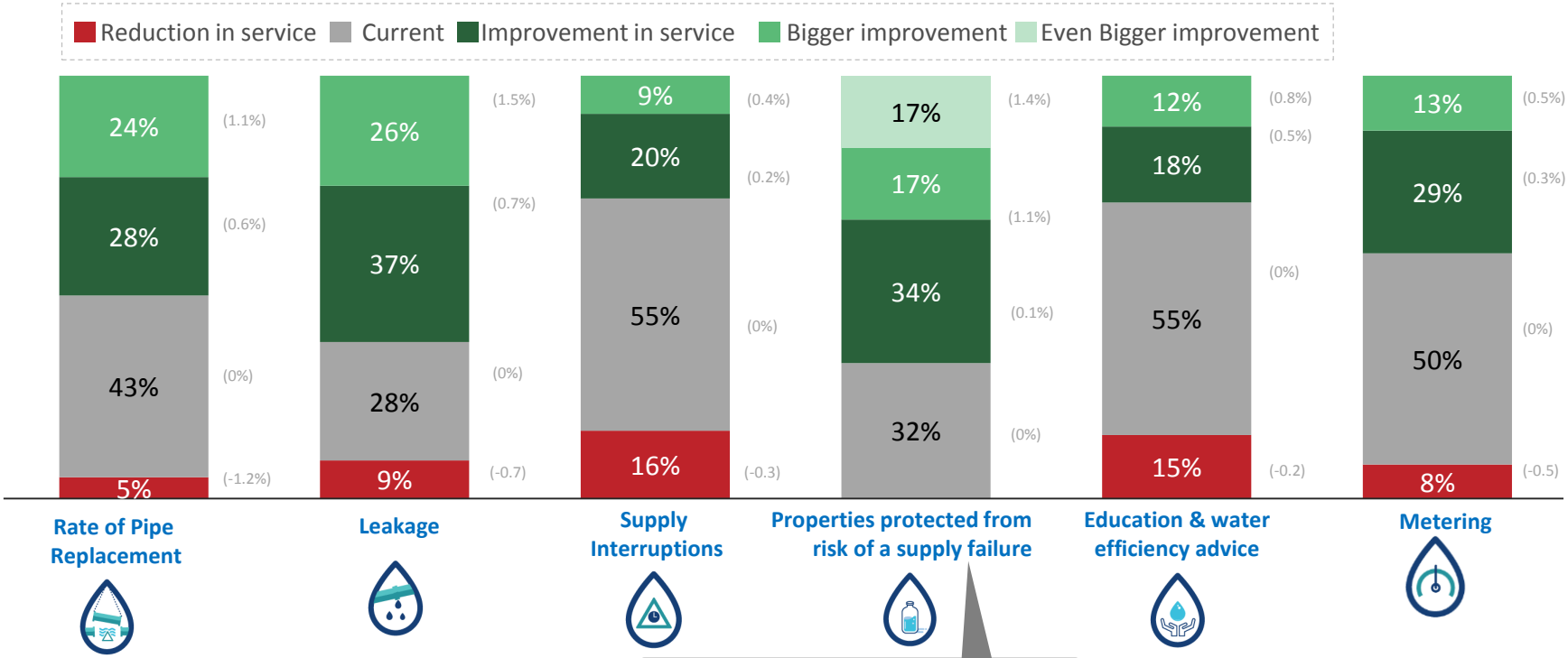


Build your own ideal water service

Although many businesses chose to keep service levels the same, between 3~6 in 10 chose improvements in each service area…

Build Your Own Exercise, Business Sample

(associated cost change)

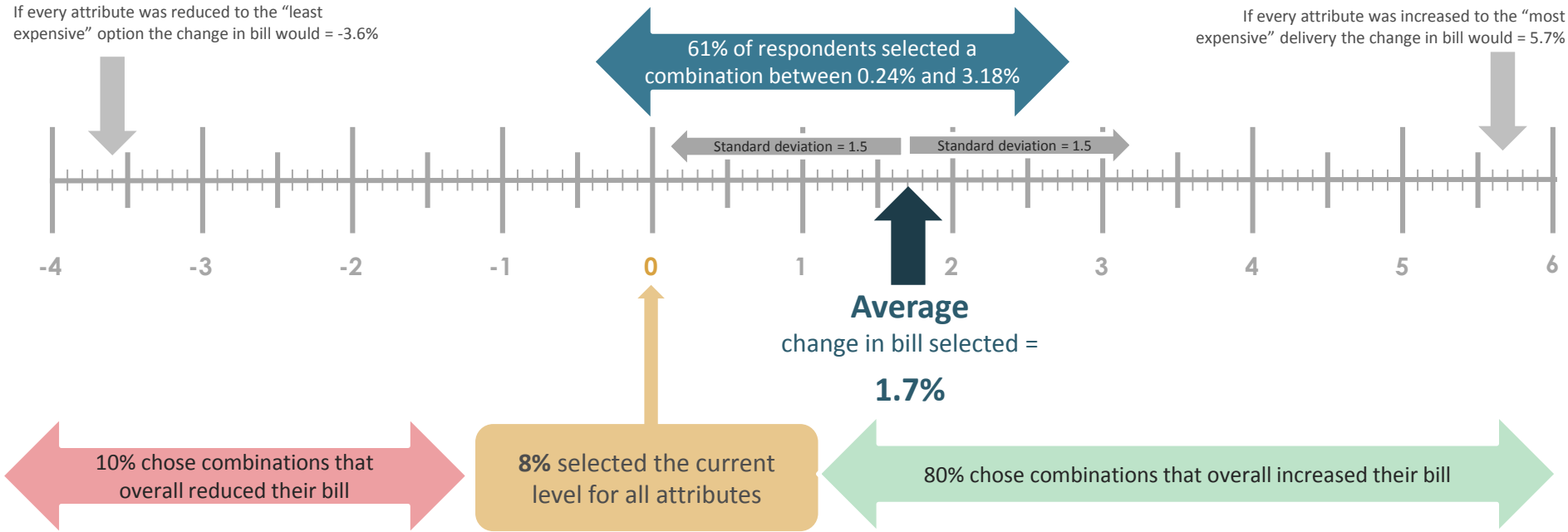


Q. BYO. Base: Business (100)

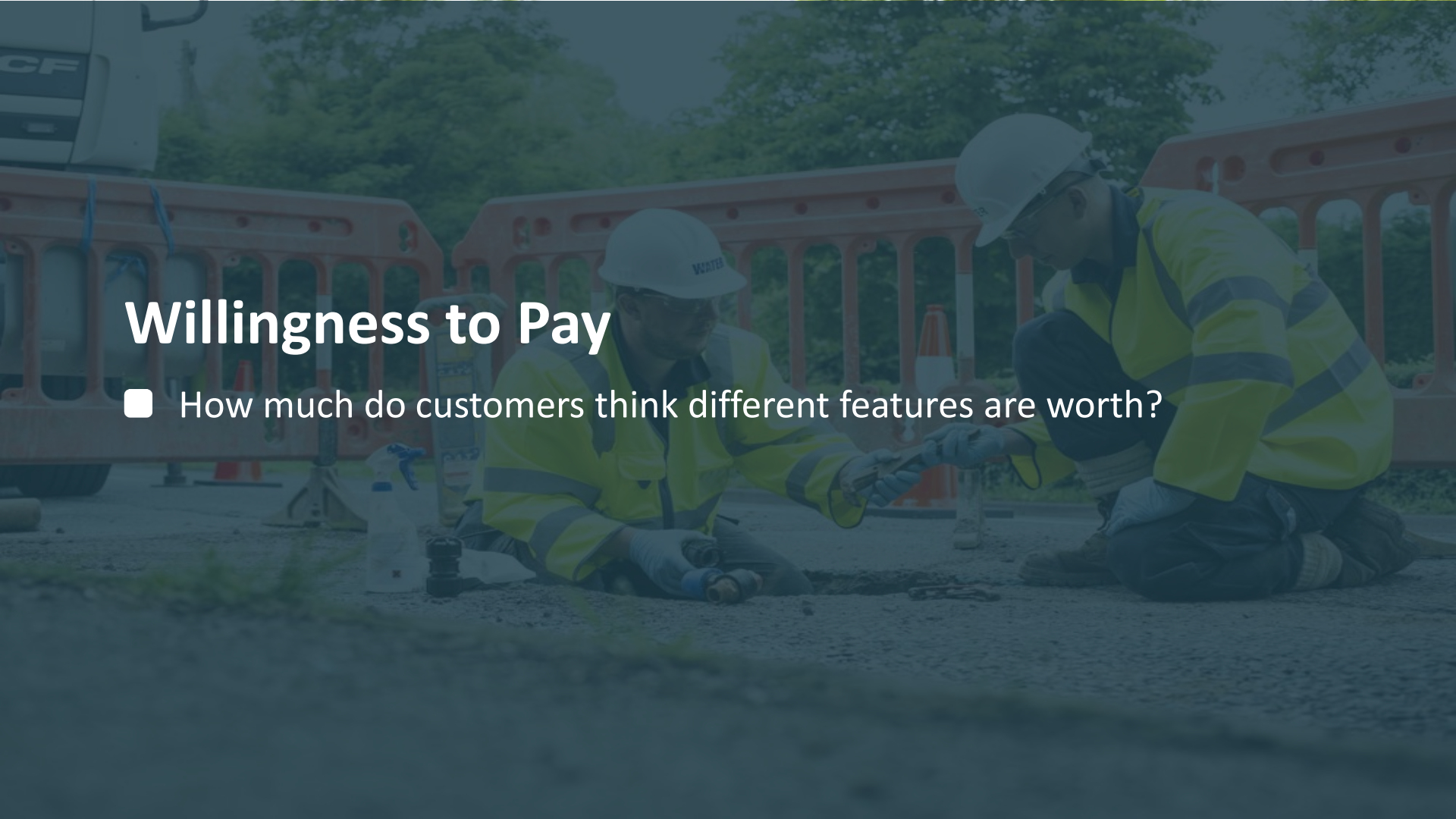
Evaluated with a different set of option levels (current + 3 improvement levels)

On average businesses selected improvements in service that resulted in a 1.7% increase on their annual bill

BYO Choices Impact on Annual Bill, Business Sample



Q. BYO. Base: Businesses (100)

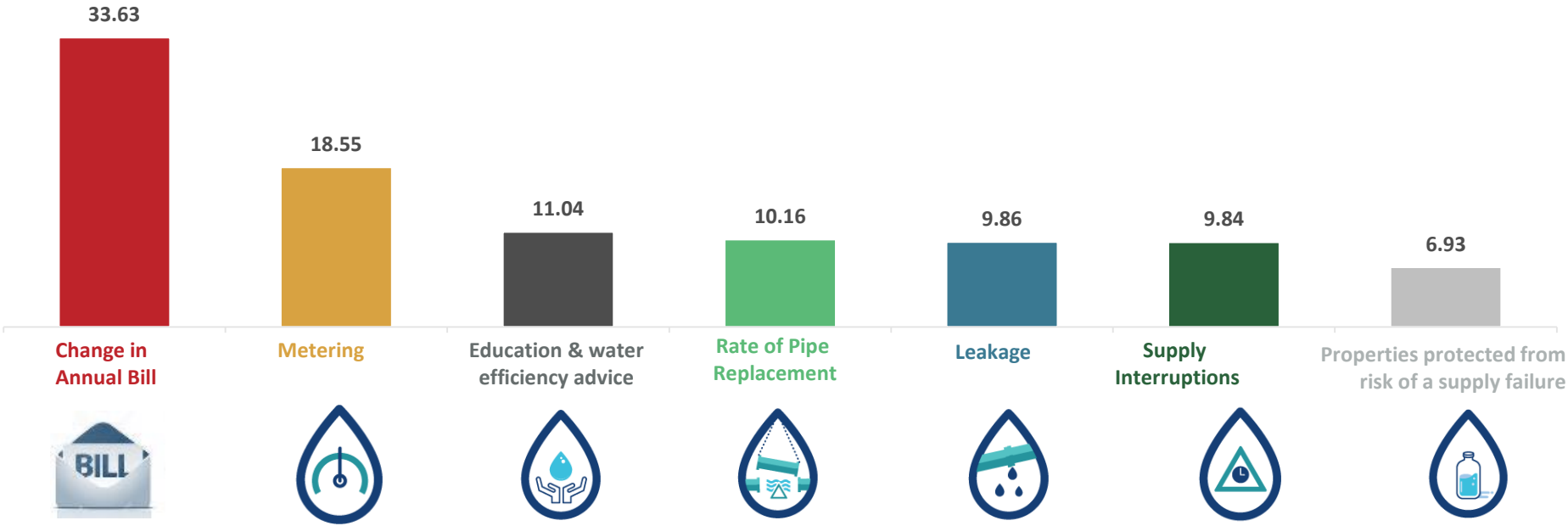


Willingness to Pay

- How much do customers think different features are worth?

Whilst change in bill was most important, other elements accounted for 66% of the choices made. The most influential being metering and education & advice

Importance of attributes in driving consumer choices made within the conjoint exercise, Business Sample



Q. Conjoint. Base: All (1,002)

What is the perceived value that consumers attach to each level of service we could offer?

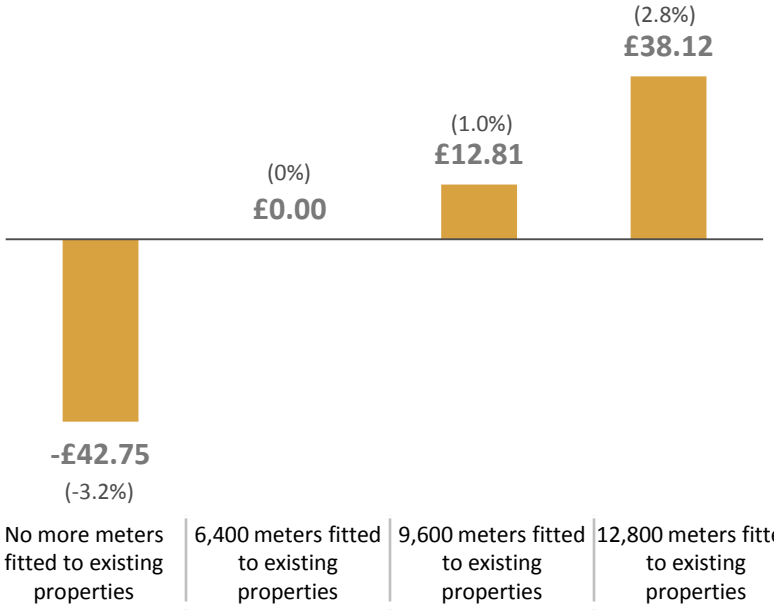
Within the conjoint exercise respondents are constantly trading different levels of service and cost off against one another

Through the analysis we are able to calculate the monetary value they attribute to each level of service

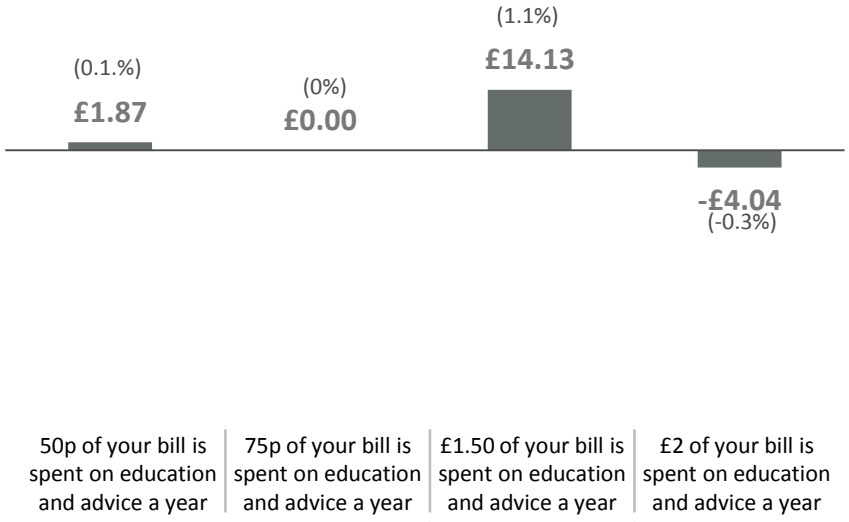
These values are expressed in % change in bill and they are calculated relative to the current level of service within each attribute

No more metering to existing properties has the highest expectations for a decrease in bill…

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



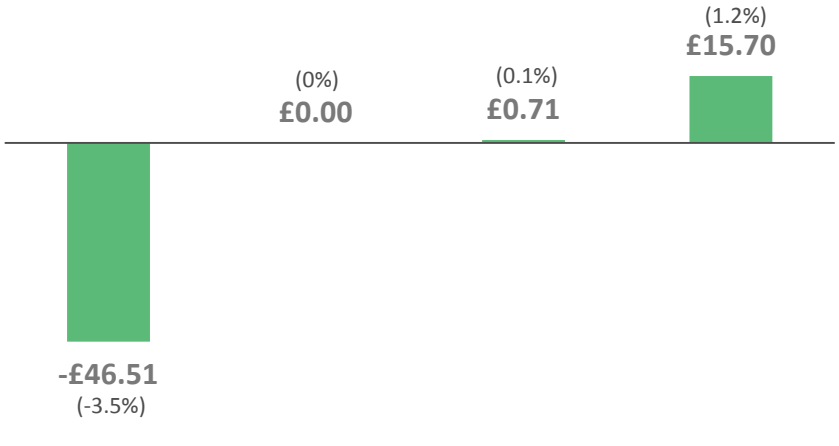
Metering



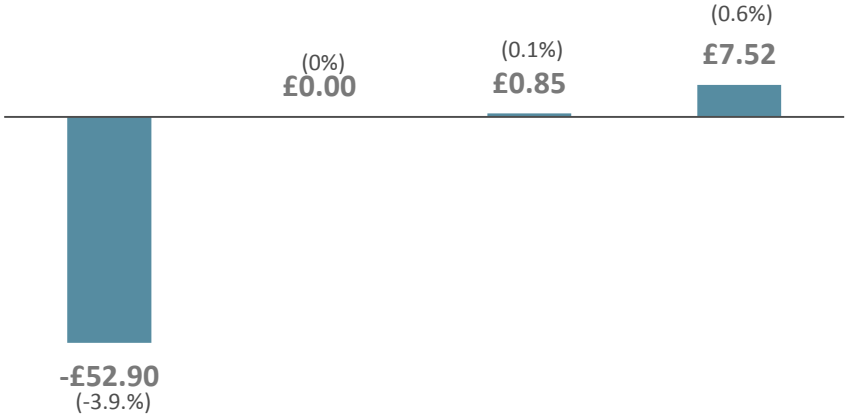
Education & water efficiency advice

Businesses expect greater compensation for a drop in the rate of pipe replacement or an increase in leaks, than they are prepared to pay for improvements in these areas

Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)



Rate of Pipe Replacement



Leakage

Businesses also expect greater compensation for increases in supply interruptions than they are prepared to pay for improvements, and are willing to pay to protect against failure

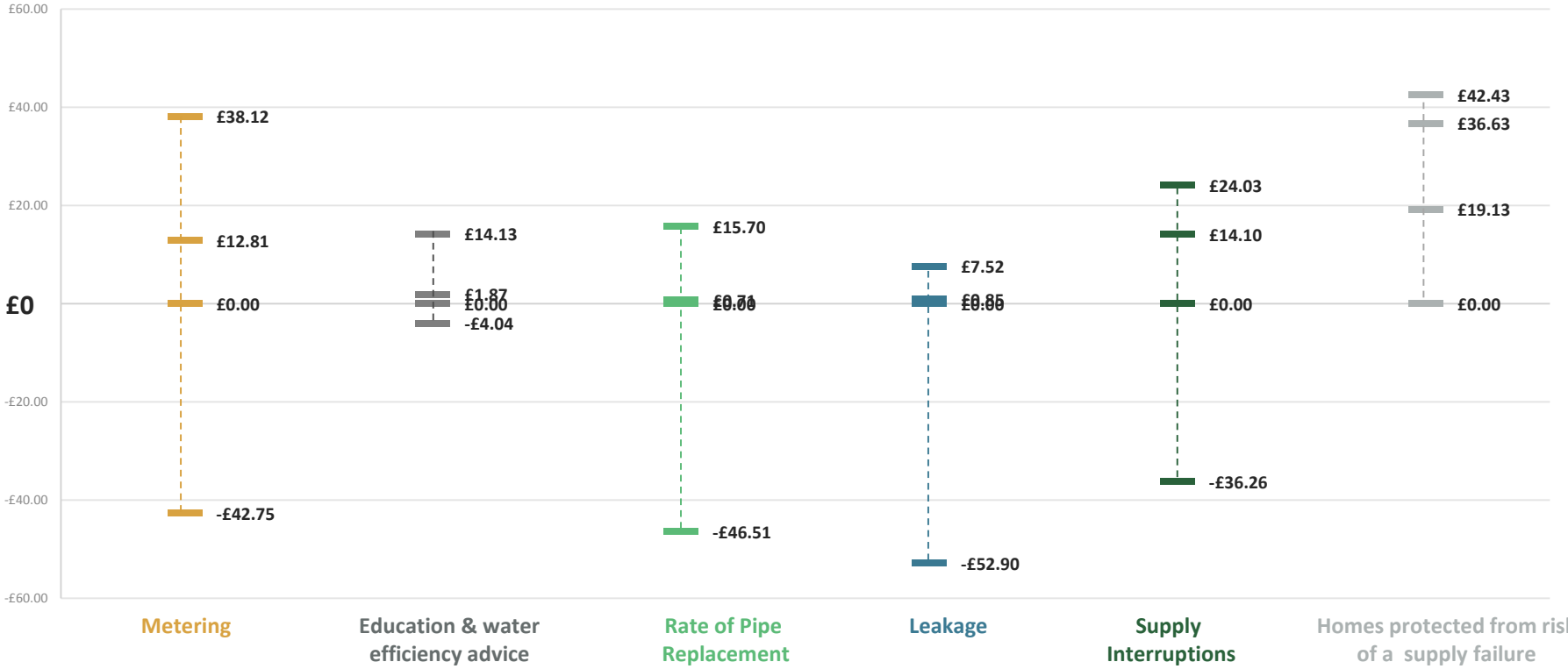
Valuation Analysis: annual value attached to each feature relative to current level (% change in bill)

Supply Interruptions

Properties protected from risk of a supply failure

Consumers willingness to pay for increases in services are highest for protection against a risk of failure / interruption

Valuation Analysis Summary: Annual value attached to each feature relative to current level

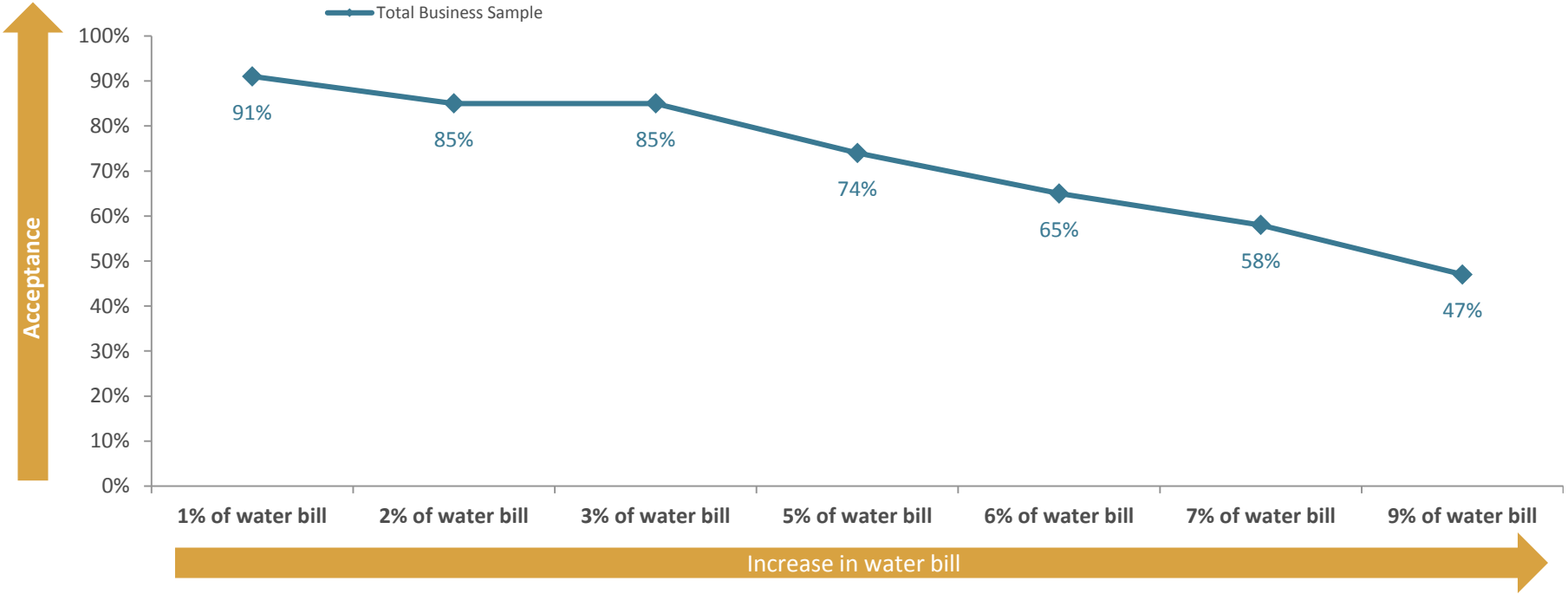


Is there a celling to how much customers will pay?

- Gabor Granger Pricing Exercise

Among businesses, acceptance of price increases drops dramatically above 3%

Likely acceptance at different price points, Business Sample



Q5. If SES Water delivered the service changes that matter to you from the choice task you've just completed would you be willing to accept a <£X/X%> increase in your <annual / half yearly /quarterly / monthly / fortnightly / weekly> bill to pay for these services? Base: Business Sample (100)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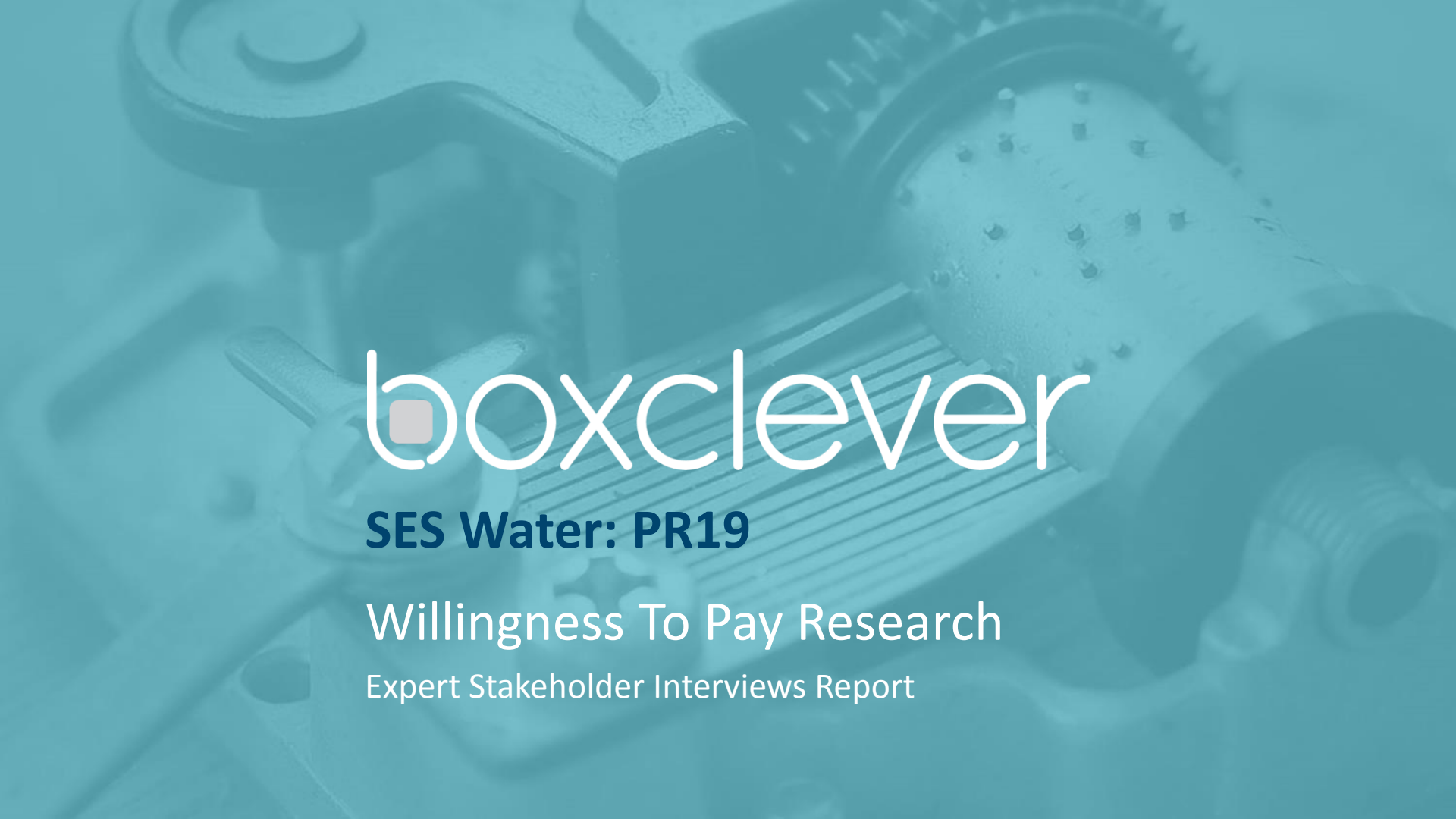

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SES Water: PR19

Willingness To Pay Research

Expert Stakeholder Interviews Report

The challenge…

As part of the PR19 review, SES Water needs to be able to justify its investment and delivery plan through a robust and thorough evaluation of what consumers and businesses are willing to pay for various changes in the level of service they receive.

To provide a rounded understanding of stakeholder views, we have also conducted research to gain the perspective of a range of different experts within the fields of politics, farming, housing, the environment, and charities who support vulnerable people in our area.

The approach…

To provide maximum convenience to our participating stakeholder experts, alongside ensuring a cost-effective research methodology, we have conducted 12 qualitative telephone depth interviews, each lasting c.45 minutes.

The participating experts came from the following organisations:

Tom Brake, MP for Carshalton and Wallington	Community Debt Advice	World Wildlife Fund	Water Innovation Hub, University of Sheffield
London Borough of Sutton	East Surrey Carers Support Association	South East Rivers Trust	Sutton Housing Partnership
SES Business Water	Age UK Surrey	National Farmers Union	A Parish Clerk

The Research Objectives…

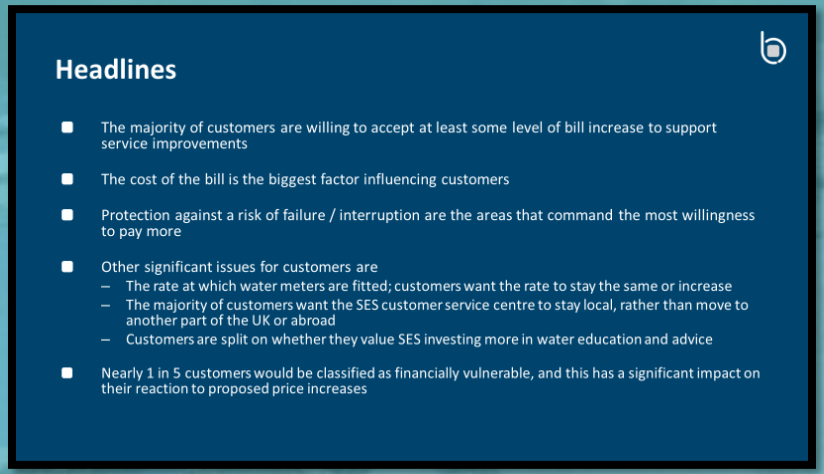
To explore the views and experiences of our stakeholder experts in order to understand:

1. **Their views on and expectations of the role of water companies in society**
2. **Their perceptions of the key challenges facing SES Water, now and in the future**
3. **Their needs and expectations of SES Water in relation to their own organisation**
4. **Their thoughts on some of the key headlines from the customer research to date, in terms of the areas that customers would like SES Water to focus on**

The Stimulus used…

The Long Term Vision Document was shared with relevant participants ahead of their interview.

Key Headlines from the quantitative Willingness to Pay study were shared, verbally, during the interview.



Key Headline Summary

Key Headlines

- All have mainly positive perceptions of SES, but with plenty of challenges seen for the future
- It's about working together
  - All are very keen for SES to engage in more partnership working with themselves and their organisations
  - They want more joined up working and thinking across all of the key 'water stakeholders', which they perceive will be mutually beneficial for all
  - A number of the stakeholders feel that their organisations could be effective intermediaries between SES and customers, creating a win-win-win for all parties
- They think SES should be a more visible and vocal leader in the area, and don't think of SES as a small and hence under resourced organisation
- They want SES to go beyond what is required from a regulatory perspective, and have higher aspirations to engage with the communities you serve and the environment you help manage.

Expectations of the role of water companies in society

Expectations of the role of water companies in society

- There is a hope, if not an expectation, that water companies would more readily go beyond their basic regulatory requirements, and foster a more ambitious environment and community agenda
  - Stakeholders believe that the environmental and CSR activities of water companies and hence SES should be much more widely known about

I don't think they ever really go the extra mile

- Stakeholders are unsure of the actual motive and goal of SES as an organization

Is it to save water and be a good environmental steward, or to make money from selling water, so the more people use, the more money they make?

- Given the fundamental role of water, and being the sole supplier of clean water, our stakeholders see SES as having deep roots and influence in the area you serve
  - One of the key implications of this is that they believe SES should be ensuring you are thinking and planning long term, not just dealing with the here and now

They can get bogged down in the detail and not raise their heads to look at the bigger picture

Perceptions of the key challenges facing SES, now and in the future

Perceptions of the key challenges facing SES

- Increasing demand based on a rising local population, increasing urbanisation, and a lack of customer understanding of the need to be more conscious of water usage
  - And all this in the context of an ageing infrastructure
- Supply challenges caused by the effect of climate change and the lack of new reservoirs and hence reliance on abstraction
  - And an uncertain regulatory environment post Brexit
- The need for a cultural shift at SES to go beyond a perceived narrow focus on just meeting your regulatory requirements, towards embracing a more ambitious aim to be a champion of effective water and environmental management
- The significant numbers of vulnerable customers, which don't appear to be reducing, instead arguably increasing
- A number of stakeholders believe that harnessing technology is key to unlocking more efficiency benefits throughout the whole supply chain

They think it only counts as pollution if its not allowed by regulation

Needs & expectations of SES in relation to their own organisation

Needs & expectations of SES in relation to their own organisation

- Strong desire for SES to engage more with local organisations, such as those represented by these stakeholders, who see clear areas of mutual interest and goals

- Want SES to be more proactive and less reactive to local issues and shared interests
  - Tell us more about how your services and activities can help our organisation and our users
  - Don't hide behind regulations, instead just do the right thing, even if it goes beyond what's required by the 'rules'

- Expect the relatively small size of SES compared to other larger utilities should mean you are more accessible and personal in your relationships with them as stakeholders

We can help SES and their agenda!

Thoughts on key headlines from the customer research to date

Headlines from the quantitative Willingness to Pay survey

- The majority of customers are willing to accept at least some level of bill increase to support service improvements
- Nearly 1 in 5 customers would be classified as financially vulnerable, and this has a significant impact on their reaction to proposed price increases
- The cost of the bill is the biggest factor influencing customers
- Protection against a risk of failure / interruption are the areas that command the most willingness to pay more
- Other significant issues for customers are
  - The rate at which water meters are fitted; customers want the rate to stay the same or increase
  - The majority of customers want the SES customer service centre to stay local, rather than move to another part of the UK or abroad
  - Customers are split on whether they value SES investing more in water education and advice

Thoughts on key headlines from the customer research to date

Headline: **The majority of customers are willing to accept at least some level of bill increase to support service improvements**

- Overall, stakeholders felt that this statement was a reasonable reflection of what they would expect
  - They often viewed this with their consumer hat on too, and hence viewed it in the context of the norm being bills always tend to go up

- Stakeholders who had a significant focus on vulnerable customers (so our Community Debt Advice, Age UK Surrey, East Surrey Carers Support Association and our Sutton Housing Partnership experts in particular), felt that whilst a modest increase was to be expected, there needs to be a continued focus on ensuring financially vulnerable customers were provided for
  - They were keen for social tariffs to be maintained and preferably promoted more in order to ensure any price increase dis not have a disproportionate effect on those with limited means

Thoughts on key headlines from the customer research to date

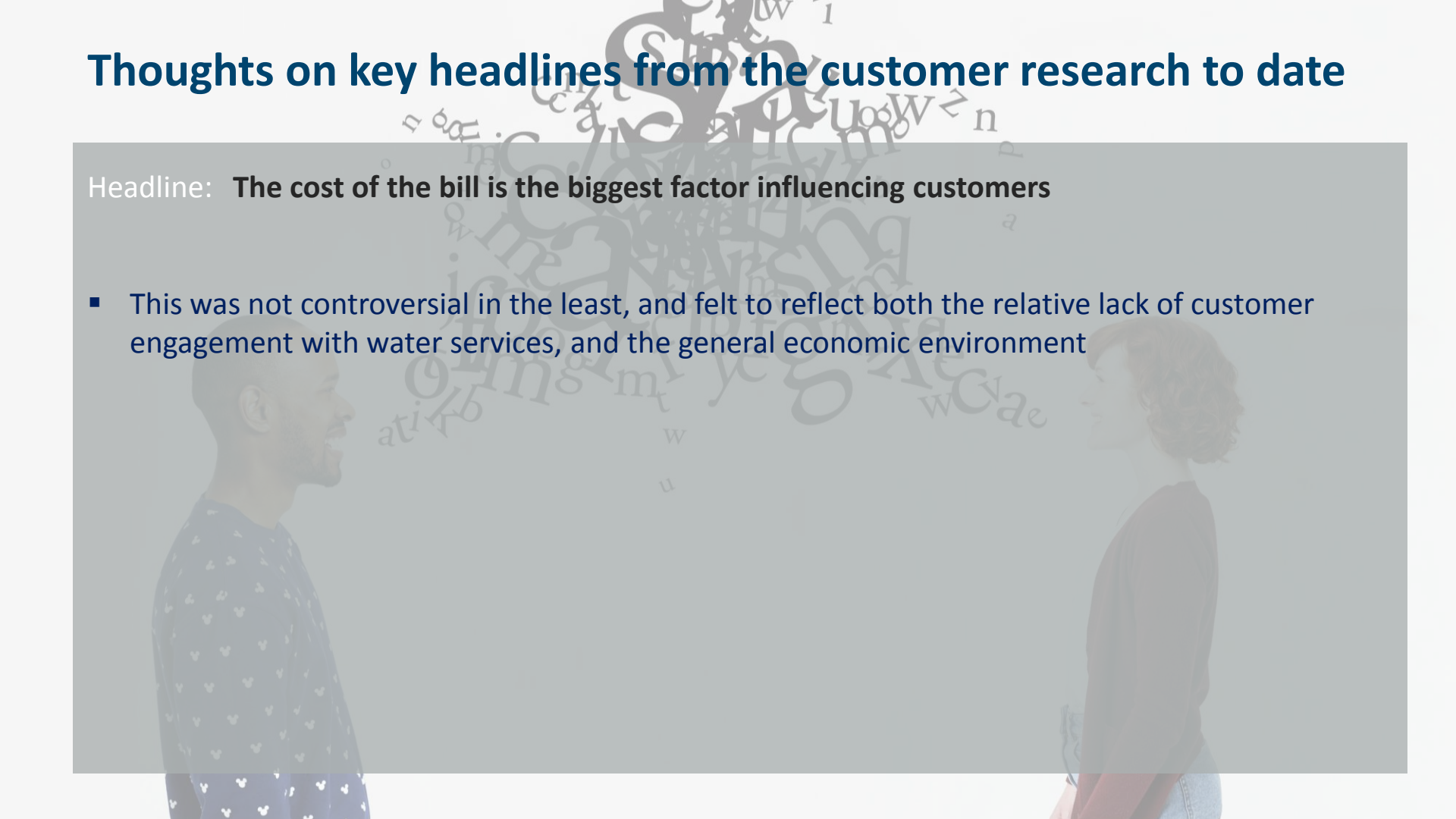
Headline: **Nearly 1 in 5 customers would be classified as financially vulnerable, and this has a significant impact on their reaction to proposed price increases**

- To those stakeholders with a significant focus on financially vulnerable customers, this figure was accepted and was felt to reinforce the need and value of their work
- Response to the figure was not that prices should not rise, rather that price rises needed to be minimal if possible, and supported by social tariffs
- A number of stakeholders also felt that the social tariff programme should be expanded so that more vulnerable people could be supported
  - As the schemes were perceive to often run out of funding in any given year due to the size of demand

Thoughts on key headlines from the customer research to date

Headline: **The cost of the bill is the biggest factor influencing customers**

- This was not controversial in the least, and felt to reflect both the relative lack of customer engagement with water services, and the general economic environment



Thoughts on key headlines from the customer research to date

Headline: **Protection against a risk of failure / interruption are the areas that command the most willingness to pay more**

- All stakeholders were very accepting of the key driver of willingness to pay being protection against risk of failure/interruption
  - As this is seen as a core aspect of the SES service (or indeed any water company's service)
  - The hygiene factor of 'when I turn the tap on, clean water comes out'

- A number of the stakeholders had experienced interruptions that affected them in their professional capacity (River Wandle and Carshalton Ponds issues affecting the MP and environmental organisations, and infrastructure works in the Parish where our stakeholder was the Clerk). Their need and expectations in these situations were essentially threefold:
  1. SES taking ownership and seeing the issue through to agreed resolution
  2. SES using common sense and not having a rigid rules or regulation based response
  3. SES being proactive about solutions to avoiding future issues, not just fixing the present one

Thoughts on key headlines from the customer research to date

Headline: **Customers want the rate at which water meters are fitted to stay the same or increase, not decrease**

- All stakeholders saw meters as a good solution to solving the demand challenge
  - But were slightly surprised that customers seem so pro meters

- Whilst being aware of or perceiving there to be a demand challenge, different stakeholders stated different underlying reasons for this demand
  - More demand: Growing population, vs. Less supply: Climate change

- Stakeholders assume customers find meters appealing due to an expectation of reduced costs
  - So stakeholders think that there's an opportunity for more communication from SES to highlight the additional environmental benefits of meters too
  - Some to the view that that once we reach a tipping point of a majority having meters, it makes sense to push for all to be metered and hence create a 'fairer' system

Thoughts on key headlines from the customer research to date

Headline: **The majority of customers want the SES customer service centre to stay local, rather than move to another part of the UK or abroad**

- With most stakeholders based in SES's region, being local resonated with them too
  - Local was felt to mean an understanding of the specific issues and context relevant to the local area, and that this should mean customers getting a better service

- Stakeholder organisations working with customers who are elderly and/or for whom communication can be challenge, felt that the issue is more about the customer services representatives themselves
  - This was about whether the customer service representatives had easy to understand accents, and less about exactly where the centre was located

Thoughts on key headlines from the customer research to date

Headline: **Customers are split on whether they value SES investing more in water education and advice**

- The perception was that children were pretty environmentally aware these days, much more so than older generations
  - So stakeholders would like to see education aimed at adults too
  - Some stakeholders suggested a focus on meter promotion, as this is more likely to drive behavioural change
  - Stakeholders did, however, recognise the challenges in measuring the impact or ROI of education spend
- Other than the stakeholders working for environmentally focussed organisations, most felt that they didn't understand what water advice was available
  - They expected this to be about strategies and equipment to reduce water consumption
  - A number felt that they could help pass on advice and even equipment to their own end users, and hence benefit both SES and your customers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