

Anglian Water

13D. OUTCOME DELIVERY INCENTIVE RESEARCH





A Report for

Anglian Water

Outcome Delivery Incentive Research

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Executive summary

ES.1 Overview of study

In order to support the development of Anglian Water's Outcome Delivery Incentives (ODIs) over the period 2020-25, a research programme was designed to explore customers' views on a number of key principles underpinning the ODIs.

This research programme involved engaging with customers on ODIs, building on engagement that has already been undertaken by Anglian Water, to ensure that ODIs are well-evidenced and reflect customer views. The research has focused on:

- Customer attitudes to ODIs in principle as well as the application in practice
- What variability around the bill is preferable (i.e. the RORE range)
- The balance of financial incentives around asset health and service-based measures
- What should happen if ODI payments exceed the proposed amount
- Segmentation analysis to understand if different customer types have similar or dissimilar views

Overall targets and quotas

The overall target number of interviews to achieve was 600 households with quotas set to ensure a representative sample. Quotas were set for age, gender and socio-economic group. This target focused on the Anglian Water region only in order to understand views across combined water and wastewater aspects of service.

All fieldwork was managed and delivered by our Market Research partners Facts International.

Feedback and Review with Customers

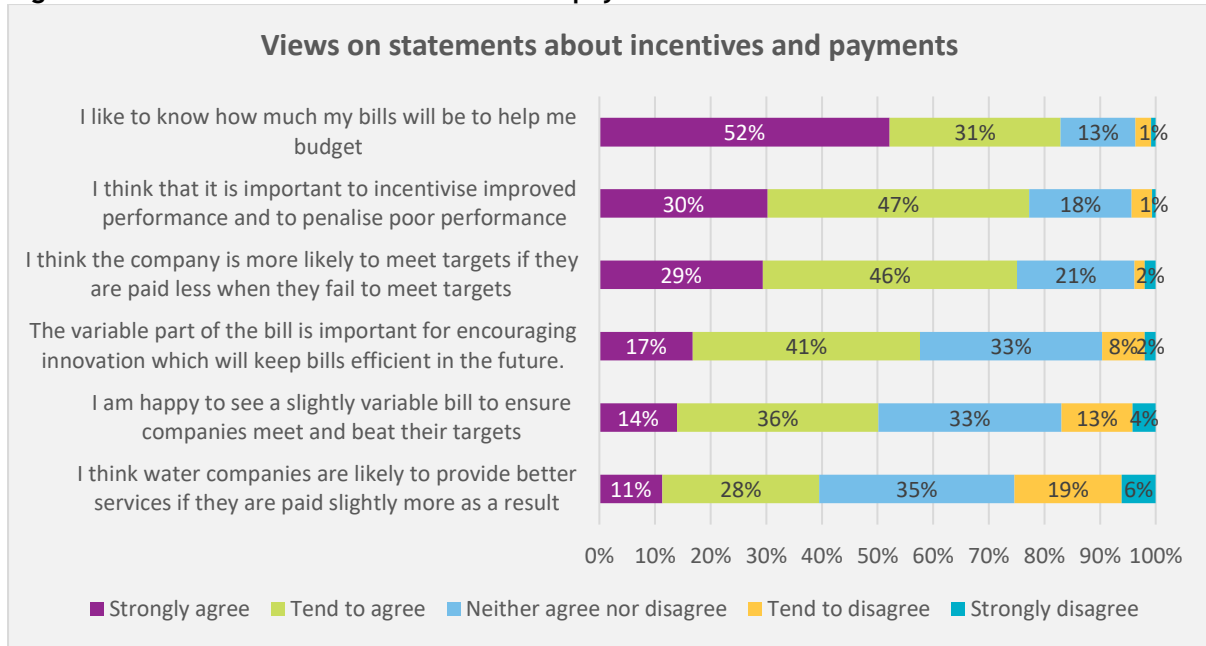
Focus groups presented the key findings from the quantitative survey to customers for review, challenge and interpretation. Feedback in this way is invaluable to validating the survey results prior to use.

ES.2 Key Findings

Attitudes to ODIs - and Bill Impacts

Figure E.1 shows that customers support financial incentives, but the impact on the average bill needs to be affordable. This is evidenced by 77% of customers agreeing it's important to incentivise performance, whilst 83% of customers agree it is important to know their bills in order to budget.

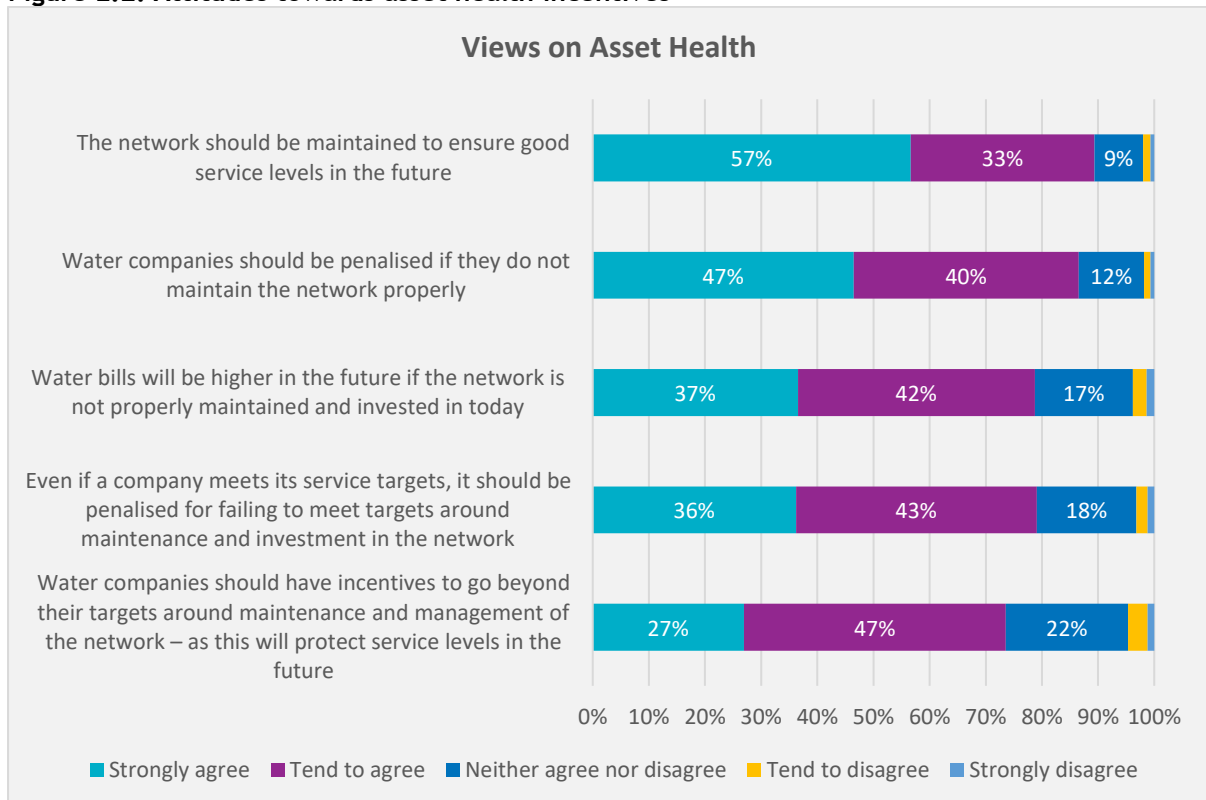
Figure E.1: Attitudes towards incentives and payments



Respondents = 602

There was also strong support for financial incentives being applied to asset health and service-based performance commitments.

Figure E.2: Attitudes towards asset health incentives



Respondents = 602

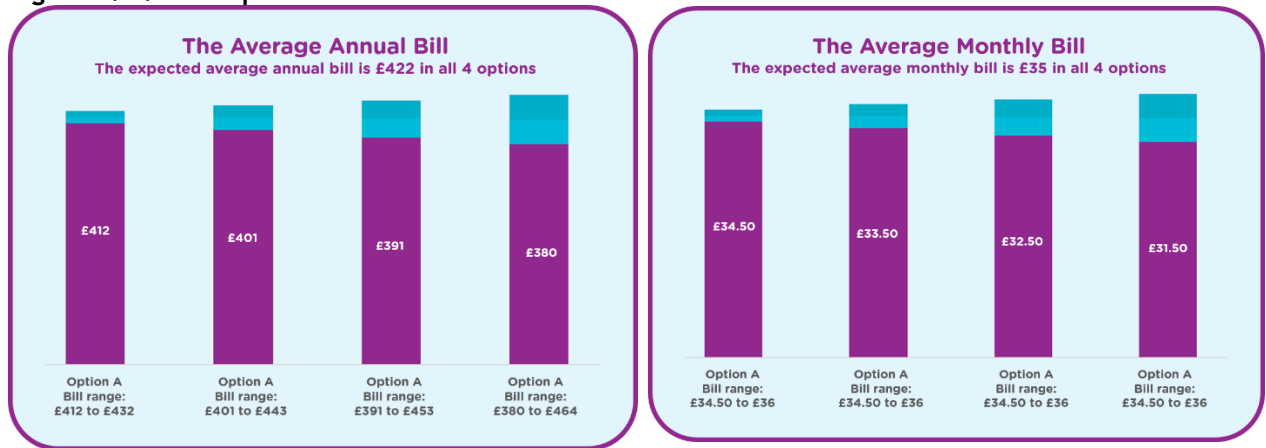
Respondents see asset health and service are similarly important to incentivise. There is however a slight bias towards service measures.

The size and form of the ODI package

Customers were presented with four incentives packages. The impacts were presented both in annual and monthly terms:

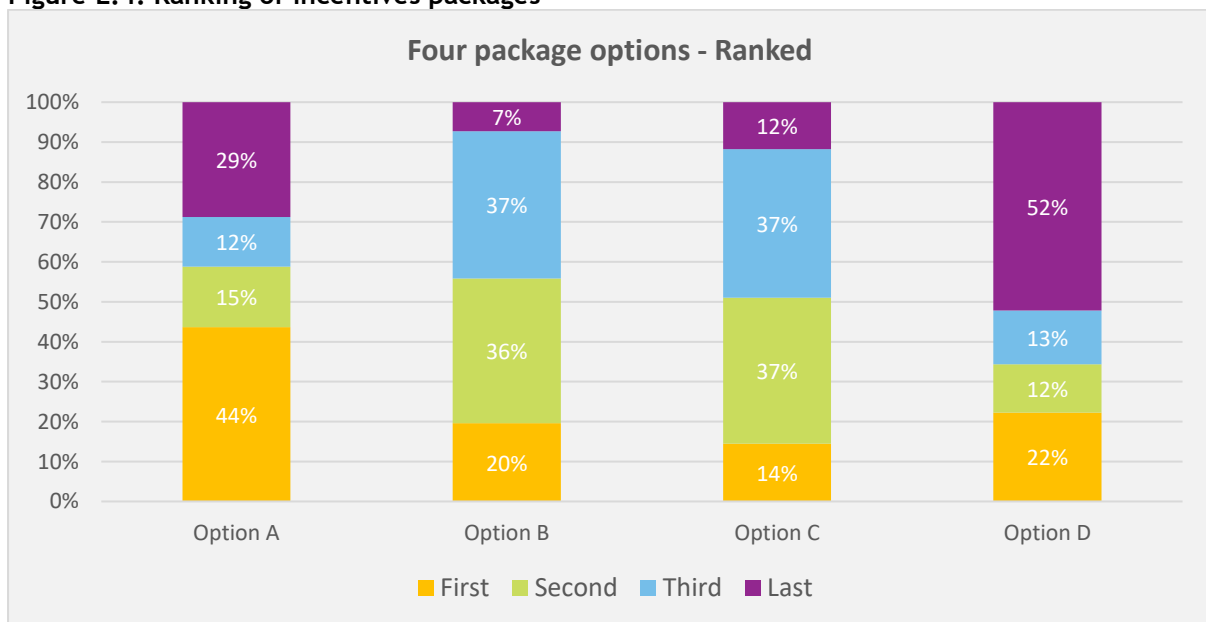
- Option A - RORE range = 1%
- Option B - RORE range = 2%
- Option C - RORE range = 3%
- Option D - RORE range = 4%

Figure E.3 : Four options for overall financial incentives



The results show that Option A and Option D were the most common first choice but also the option picked last for many. Options B and C were both popular but appear to be the least disliked.

Figure E.4: Ranking of incentives packages



Respondents = 602

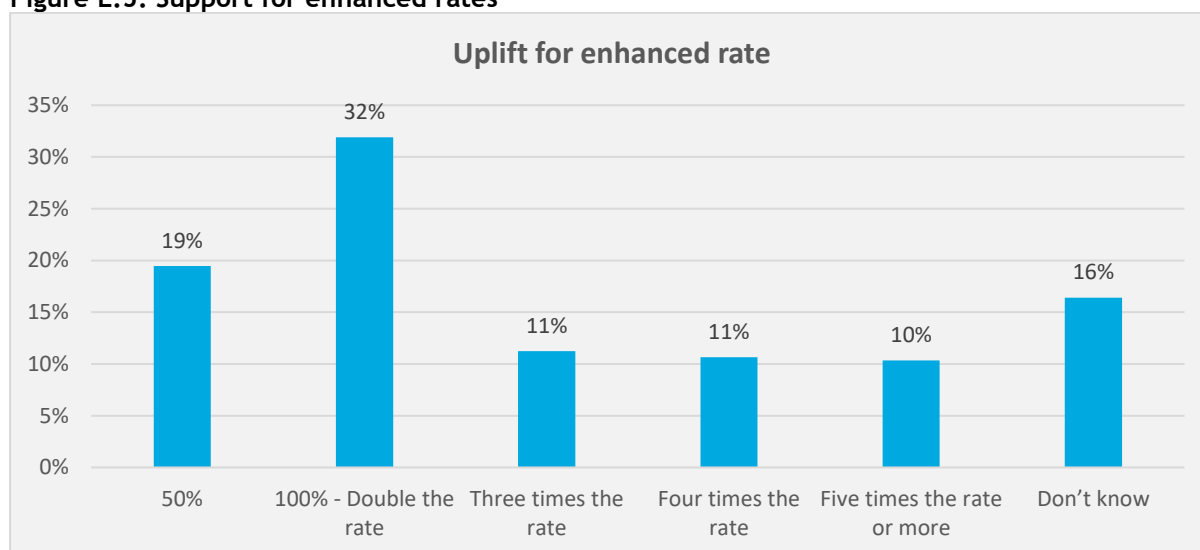
Focusing just on all respondents' first choice package, the average RORE range is 2.2% which falls between B and C.

When the RORE range is met customers are divided between a hard cap and a roll over. The natural compromise therefore is to carry a portion over. However in the focus groups customers were set against any carry over on the basis that starting a year with penalties or outperformance payments from the outset could reduce incentives to invest in the year.

Enhanced rates

Figure E.5 shows when those customers in favour of enhanced rates were asked what the rate of uplift for enhanced rates should be; the average is 164%, and one third want the rate to be three times or more, showing good support for these enhanced rates to be material.

Figure E.5: Support for enhanced rates



Respondents = 329

Customers support a cap on individual measures so that no one measure should carry too much penalty or payment. The average of those that want a cap for any one measure is £4.40. However, the focus groups showed that this is for the most important measures only and does not apply uniformly. The general view from customers in the focus groups was that at least 5 measures should be significantly better or worse than target to receive maximum outperformance payments or penalties respectively.

Segmentation summary

Across the segments similar views were expressed, i.e., the majority of customers from all groups support financial incentives.

Typically, however, customers aged 65+ desired financial incentives more than those aged 18-29.

The average RORE range for customers' first choice went from 1.8% to 2.3% This suggested most customers had similar views on the scale of incentives.

There was more variation in the amount of incentive individual measures should carry, with SEG DE preferring a lower cap (£3.43) and some groups content with levels as high as £5.33 (Tech-savvies).

Except for the RORE range WaterSure customers were more supportive of incentives, which may be in part due to the protection they have through their tariffs.

Conclusions

The research has considered the views of a diverse and representative range of customers through a mix of a quantitative survey and qualitative focus groups.

The survey has shown there is considerable support for financial incentives. But these to be reasonable and affordable for customers. The proposed range around 2% of the RORE range in any one year. Customers have mixed views about what should happen when the RORE range is reached - but on balance more consider it to be appropriate to ignore any payments in excess of the RORE range, rather than carry them over to the next year.

Caps at the PC level are supported as customers do not want any one PC to max out the payments due. However, the level indicated in the quantitative survey is far higher than should be applied to all measures.

The survey shows the importance of asset health. The asset health measures are on a par with the service measures in general. On balance an asset health incentive should broadly carry a financial risk not dissimilar to that of service measures

These views are consistent across customer segments examined.

1 Introduction

1.1 Project Objectives

A key part of the PR19 business planning process for Anglian Water is to:

- Establish and confirm the set of Performance Commitments (PCs) with which to articulate and measure the service and asset health improvements of the business plan
- Develop a set of Outcome Delivery Incentives (ODIs) to provide the financial and reputational incentives to deliver committed service and asset health, and go beyond these levels where it is economic to do so.

Anglian Water is in the process of finalising its ODIs. This research programme involved engaging with customers on ODIs, building on engagement that has already been undertaken by Anglian Water, to ensure that ODIs are well-evidenced and reflect customer views. The research has focused on:

- Customer attitudes to ODIs in principle as well as the application in practice
- What variability around the bill is preferable (i.e. the RORE range)
- The balance of financial incentives around asset health and service-based measures
- What should happen if ODI payments exceed the proposed amount
- Segmentation analysis to understand if different customer types have similar or dissimilar views

The research has consisted of a mix of quantitative and qualitative research. First, a quantitative survey was undertaken to understand customer views, which was then followed by focus groups to review and test the findings of the survey with customers. The use of focus groups following a quantitative survey is a particularly useful way to test customer understanding and ensure that ODIs reflect and align with customers' views, whilst meeting the challenges and requirements set out by Ofwat.

1.2 Report Structure

This report presents the approach and results of the research. The report is structured as follows:

- Survey Design and Implementation (Section 2)
- Key Research Findings (Section 3)
- Conclusions (Section 4)
- Appendix A contains copies of the survey in layout and word formats
- Appendix B contains the focus groups scripts, showcards and findings

2 ODI Research Design and Implementation

The project involved a quantitative survey, followed by focus groups. This is summarised in the five steps below:

Figure 2.1: ODI Research Programme



2.1 Step 1: Questionnaire Design

We consulted with Anglian Water to confirm the objectives, scope and key requirements for the research. Based on these objectives, an initial survey was designed.

The survey builds on ODI research conducted by a number of companies in PR14, and summarised in the Post PR14 Customer Engagement UKWIR study. To ensure customer understanding the survey was tested via cognitive interviews with customers. This was used to refine the language and ensure customer understanding.

Word and layout versions of the survey are in Appendix A. The questionnaire structure is outlined in the table below.

Table 2.1: Questionnaire structure

Section	Descriptions
Section A: Recruitment and screening	This section confirms the respondents' eligibility to complete the survey. These questions are asked to determine the representativeness of the sample (age, gender, location etc.). Information is collected about customers' water and wastewater supplier and their current bills/charges.
Section B: Role and Use of Financial incentives	Questions on ODIs, attitudes and views on each service based and asset health Performance Commitment (PC).
Section C: Bill Impacts	Views on the packages of ODIs - given the impact on the bill. Included questions on the reasons for choices.
Section D: Respondent profile	These questions are asked to gather information to ensure that the survey provides wide coverage of customers' characteristics. Examples include the composition of the respondents' household. The data in this section can be used to understand how customers' views differ as their characteristics change.

2.2 Step 2: Set Sample Sizes and Quotas

The sample covered the Anglian Water region.

The target sample size was set at 600 households. This is sufficient to apply statistical analysis for households in total whilst also facilitating drill down by customer segments.

2.3 Step 3: Online Fieldwork

The fieldwork ran during May 2018. All fieldwork was managed and delivered by our Market Research partners FACTS.

2.4 Step 4: Analysis

The data collected has been analysed and the results presented in Section 3. The collected fieldwork data has been disaggregated for analysis by breakdown of customer type: e.g., household SEG, age, disability, etc.

2.5 Step 5: Feedback and Review with Customers

Focus groups presented the key findings from the quantitative survey to customers for review, challenge and interpretation. It was important to feedback in this way to validate the survey results.

Figure 2.2: Focus Group Photos





Three focus groups were undertaken in Grantham in June 2018. Each group lasted 90 minutes with the specification set out in Table 2.2 covering a range of age and socio-economic groupings.

Table 2.2: Focus group specification

Group	SEG	Age
Group 1	C2DE	46+
Group 2	ABC1	18-45
Group 3	Mix	25-55

The findings are reported in the next section.

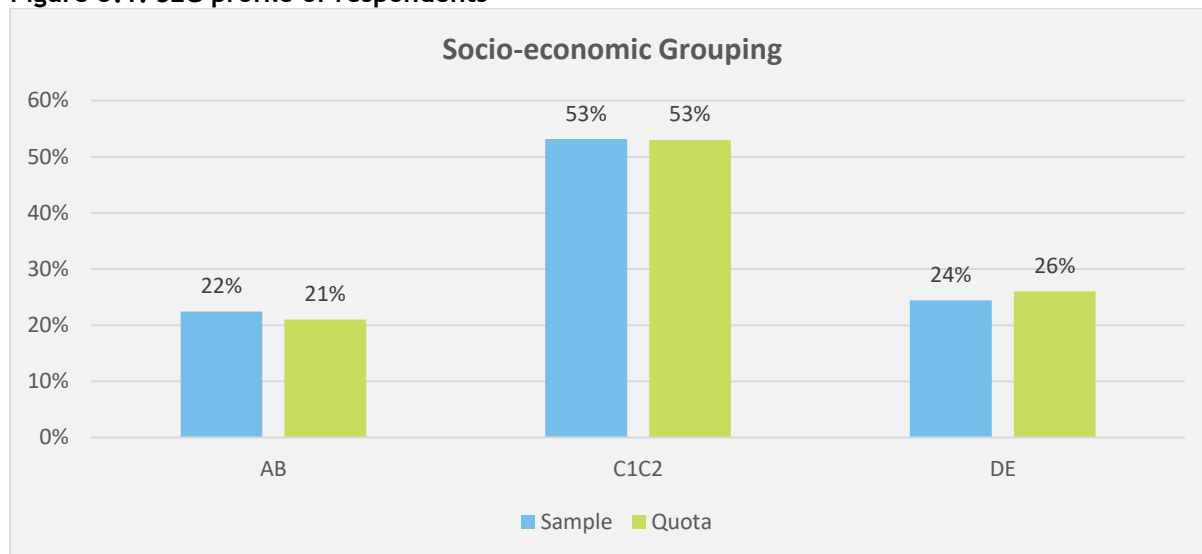
3 Research Findings

3.1 Respondent Background

Within the sample there were 602 respondents from the water and wastewater area of the Anglian Water. All were jointly or solely responsible for paying their household’s water bills.

Figure 3.1 shows the SEG quotas align with the target.

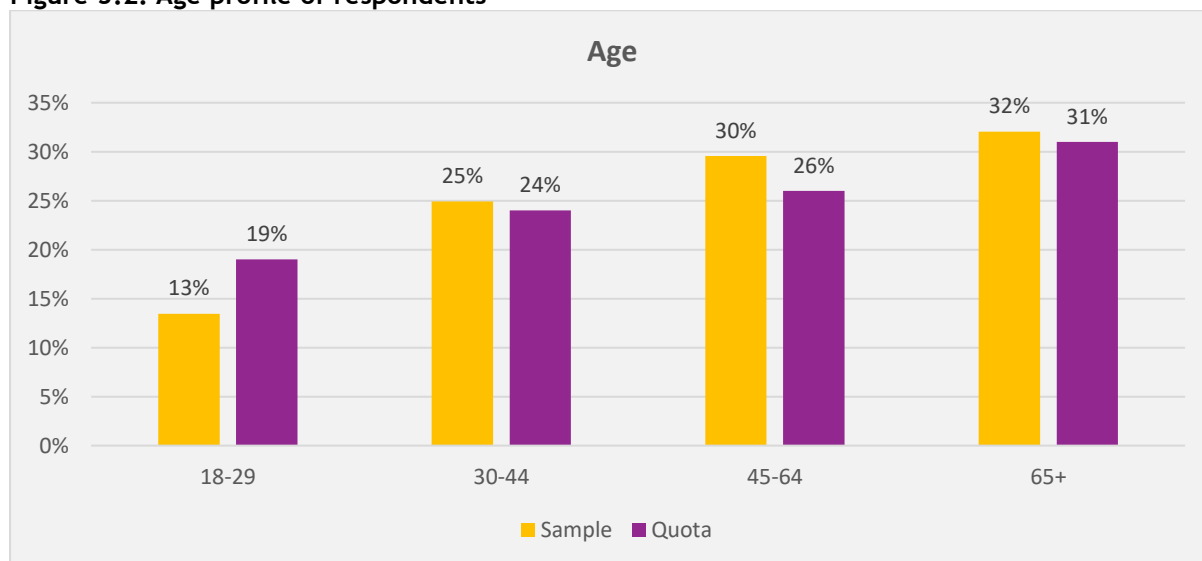
Figure 3.1: SEG profile of respondents



Respondents = 602

The younger customers are slightly underrepresented within the sample, as shown in Figure 3.2. However, there are an appropriate number of responses to drill down to examine their views.

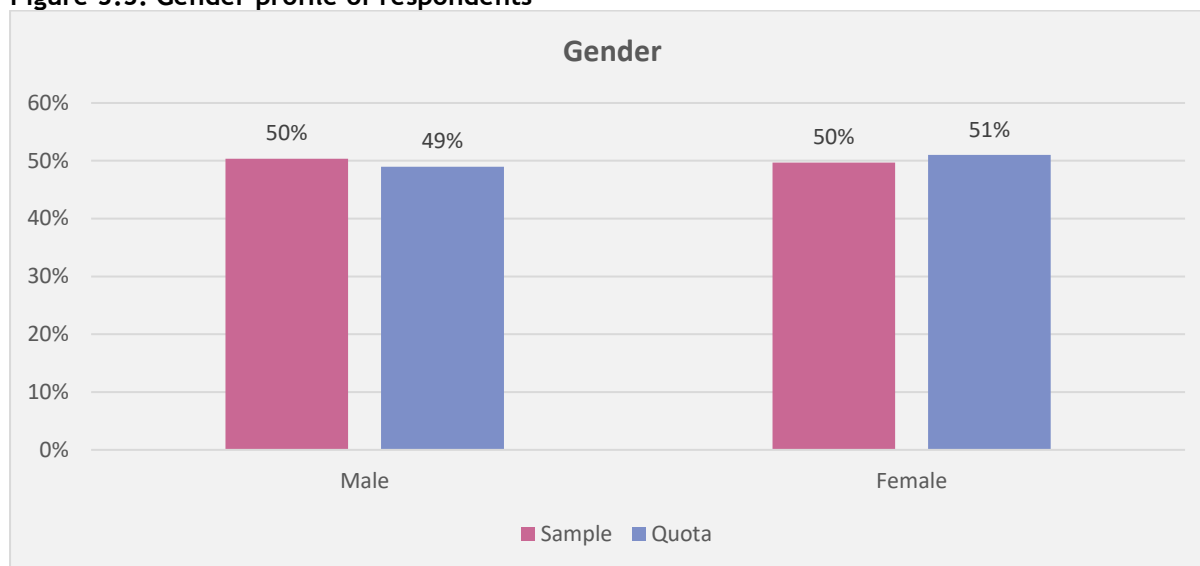
Figure 3.2: Age profile of respondents



Respondents = 602

The samples were well aligned with the quotas set for gender as shown in Figure 3.3.

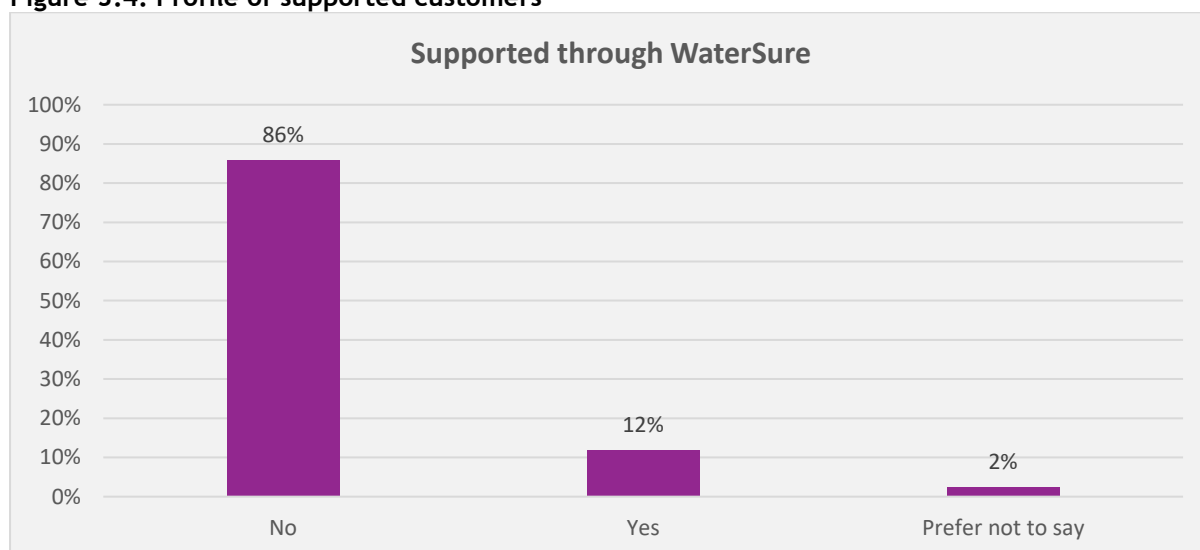
Figure 3.3: Gender profile of respondents



Respondents = 602

Good coverage of those on assistance tariffs was achieved within the sample as shown below.

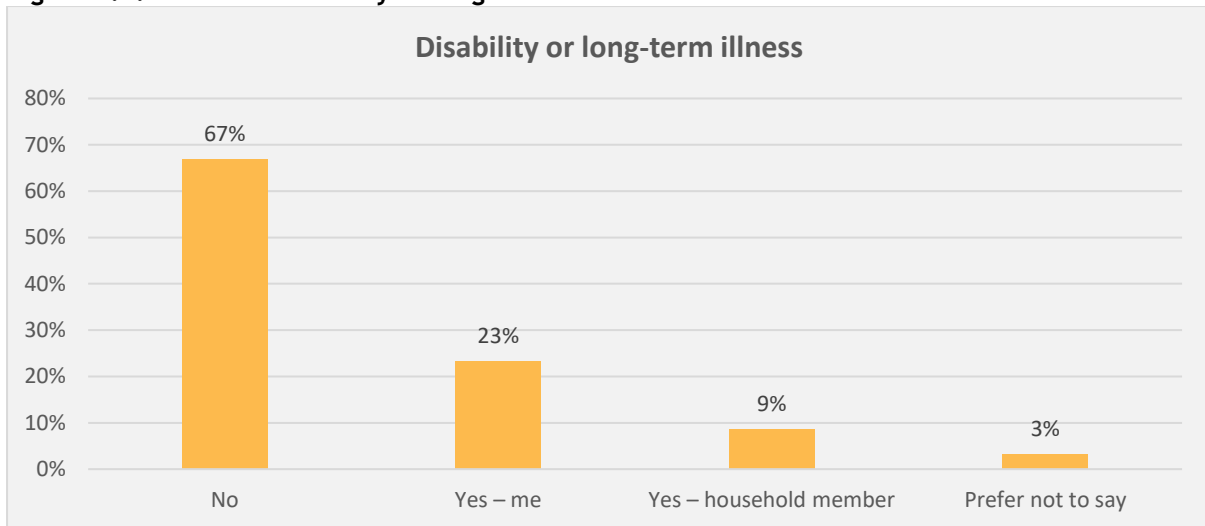
Figure 3.4: Profile of supported customers



Respondents = 602

In addition, a third of respondent households included at least one member with a disability or long-term illness. Most reported this illness or disability limits the household member's daily activity. A small number of these households surveyed require high water use as part of treatment.

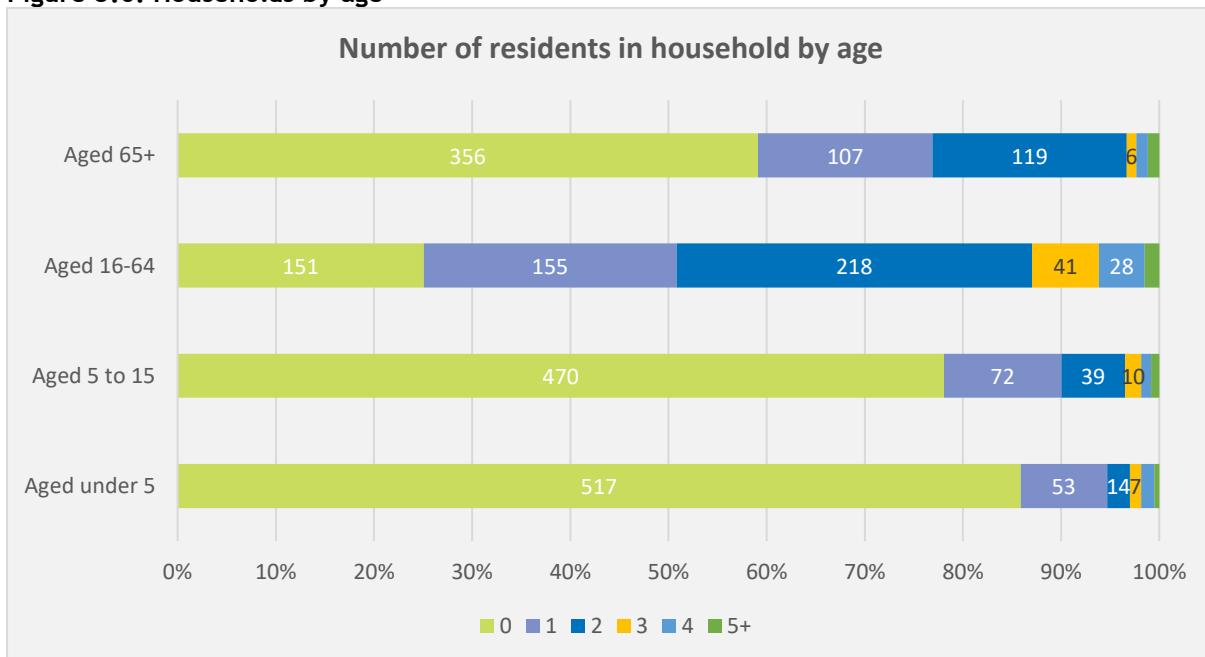
Figure 3.5: Profile of disability or long-term illness



Respondents = 602

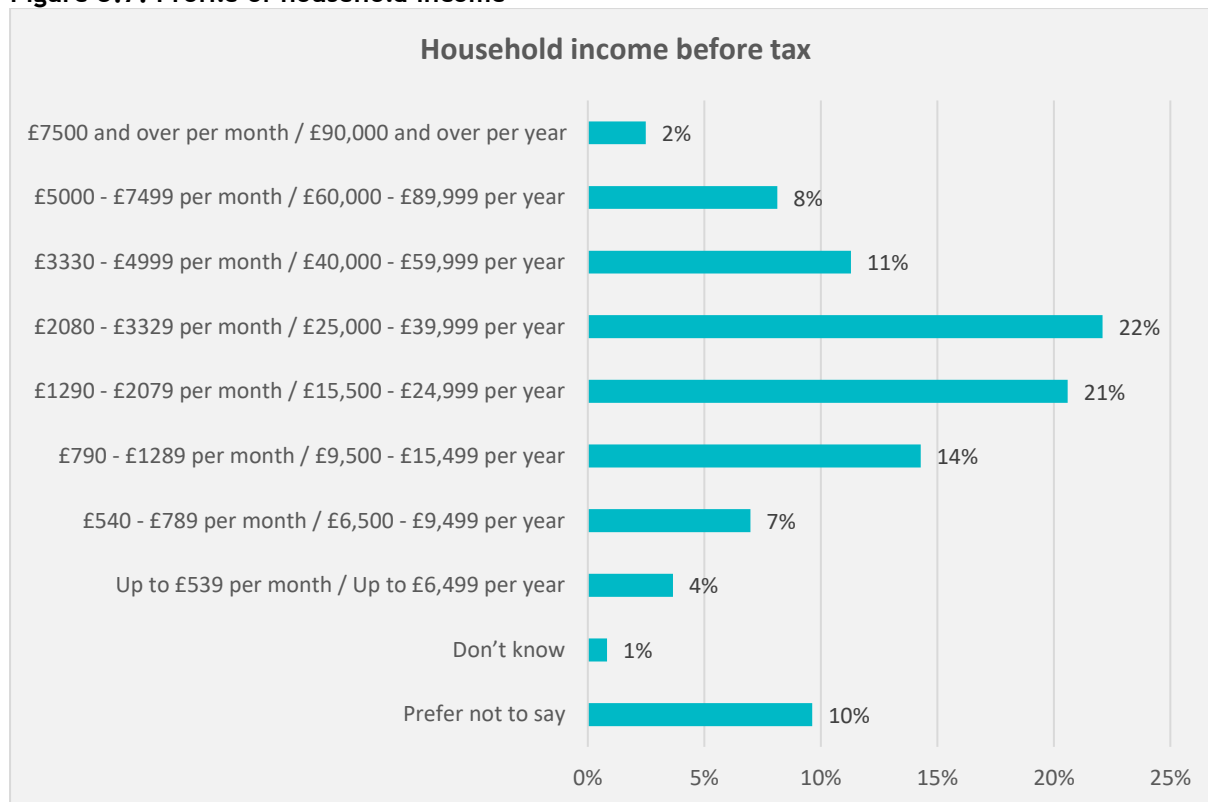
Figure 3.6 and Figure 3.7 shows there is a good spread of household composition and income levels within the sample.

Figure 3.6: Households by age



Respondents = 602

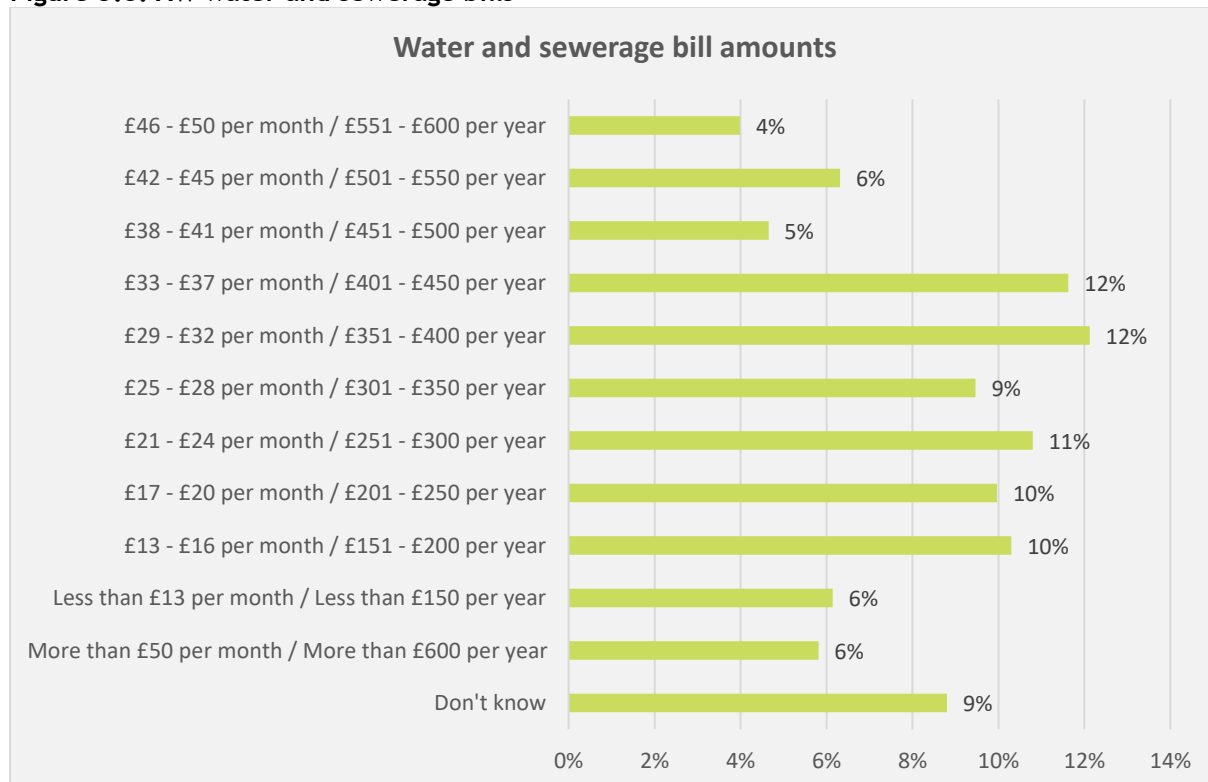
Figure 3.7: Profile of household income



Respondents = 602

There is also a good spread of household bills contained within the sample evident below.

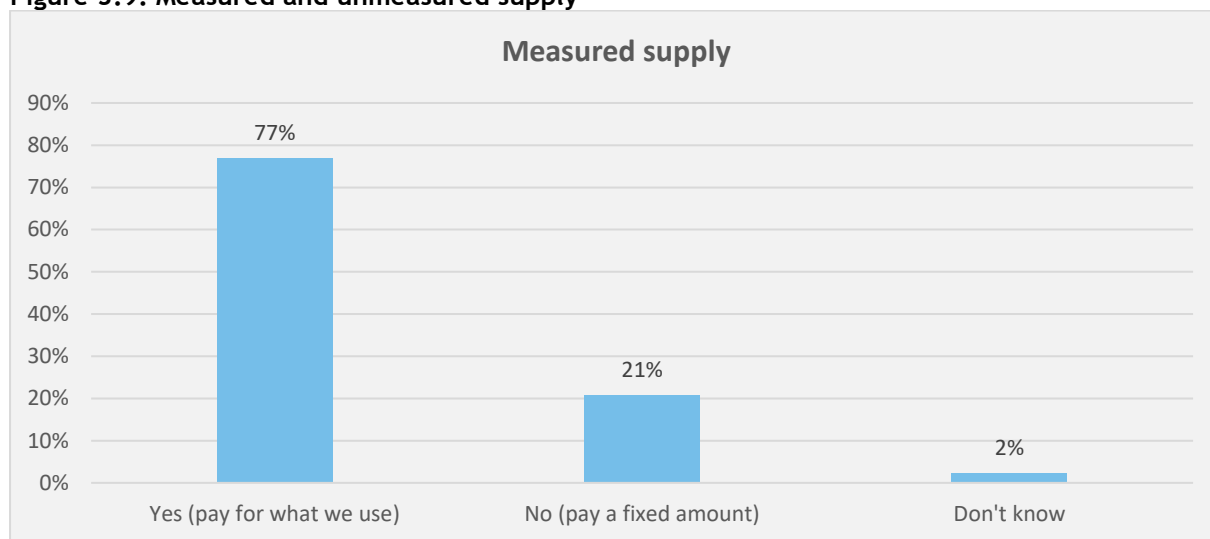
Figure 3.8: AW water and sewerage bills



Respondents = 602

The level of metering in the sample shown in Figure 3.9 reflects meter penetration in the region.

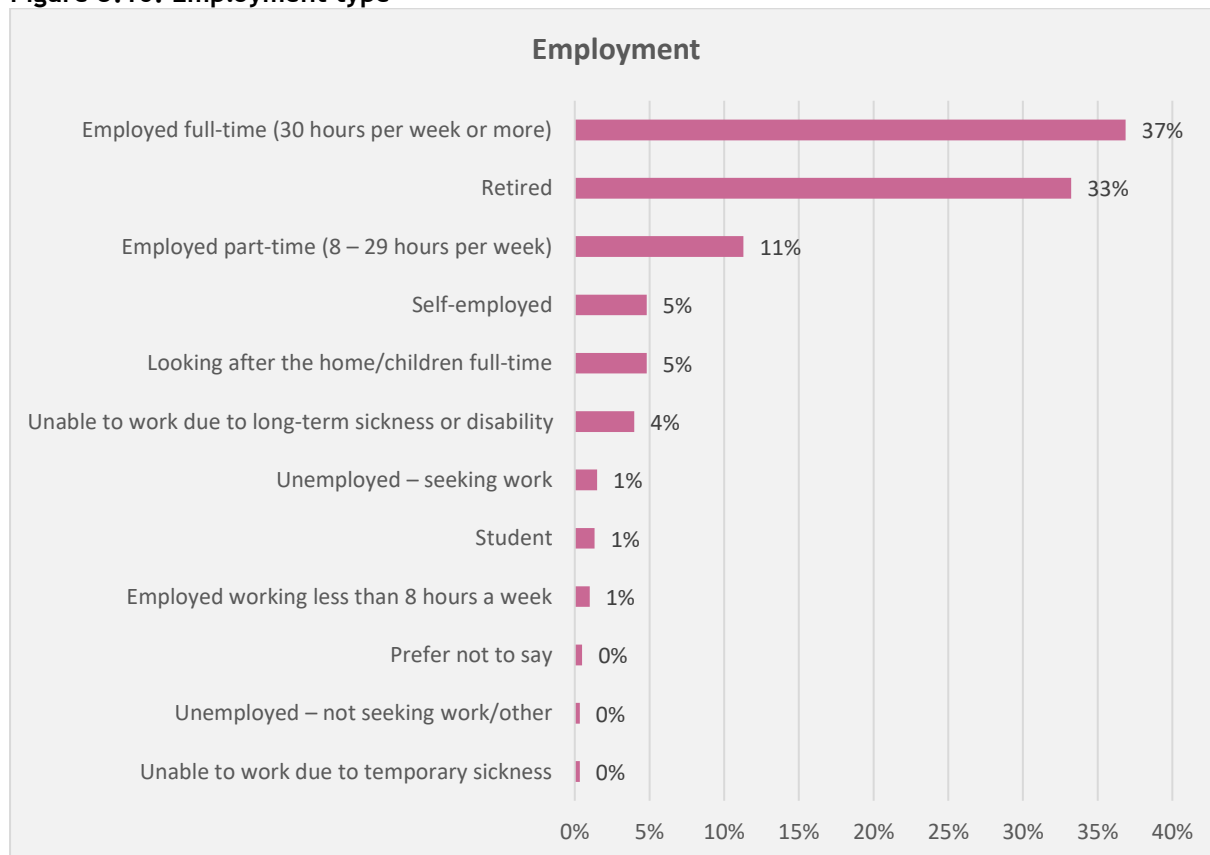
Figure 3.9: Measured and unmeasured supply



Respondents = 602

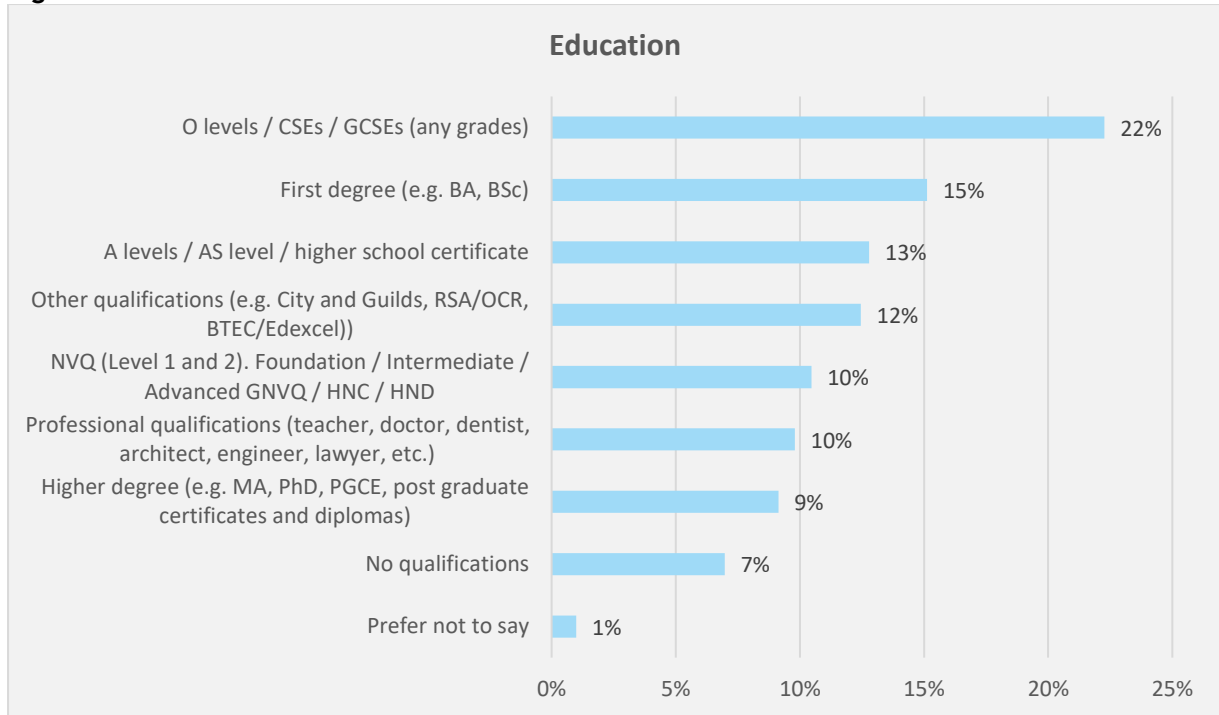
Figure 3.10 and Figure 3.11 show a range of employment and educational levels are captured within the sample.

Figure 3.10: Employment type



Respondents = 602

Figure 3.11: Educational attainment

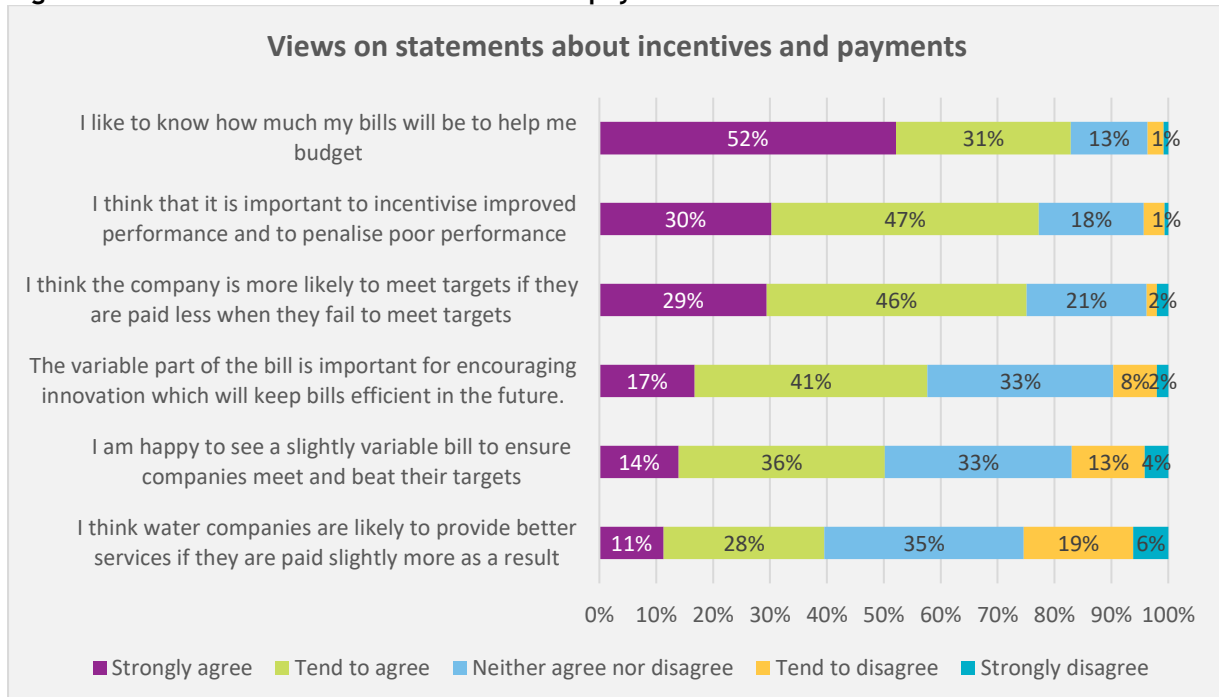


Respondents = 602

3.2 Incentives and payments

This section sets out respondents’ views towards financial incentives. Customers were asked a number of questions in the survey around incentives and payments. Figure 3.12 shows there is evidence for using financial incentives in principle.

Figure 3.12: Attitudes towards incentives and payments

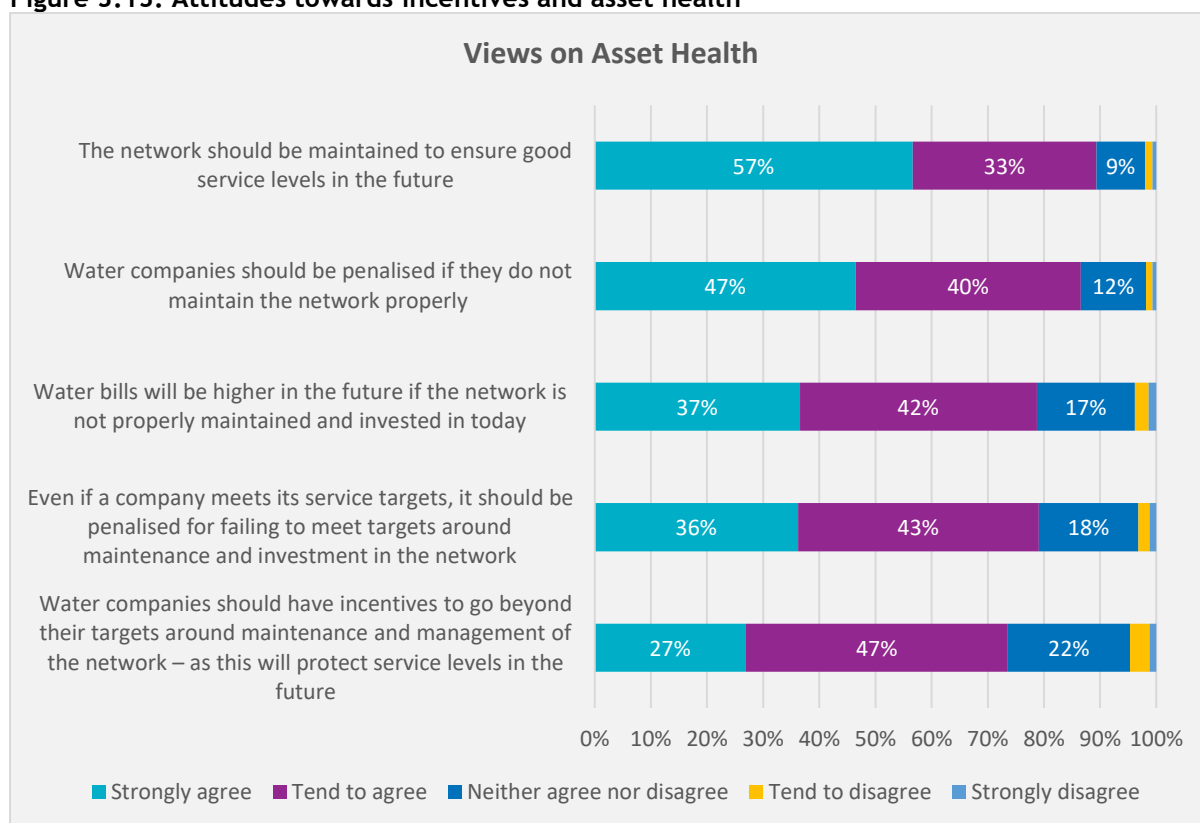


Respondents = 602

The results suggest that customers support financial incentives, but the impact on the average bill needs to be affordable. This is evidenced by 77% of customers agreeing it's important to incentivise performance, whilst 83% of customers agree it is important to know their bills in order to budget.

Figure 3.13 shows there is also strong support for asset health incentives. 90% of customers agree the network needs to be maintained to ensure service levels in the future and 87% agree that water companies should be penalised if they do not maintain the network properly. The results show that even when a company meets its service targets it should face penalties for failing asset health targets.

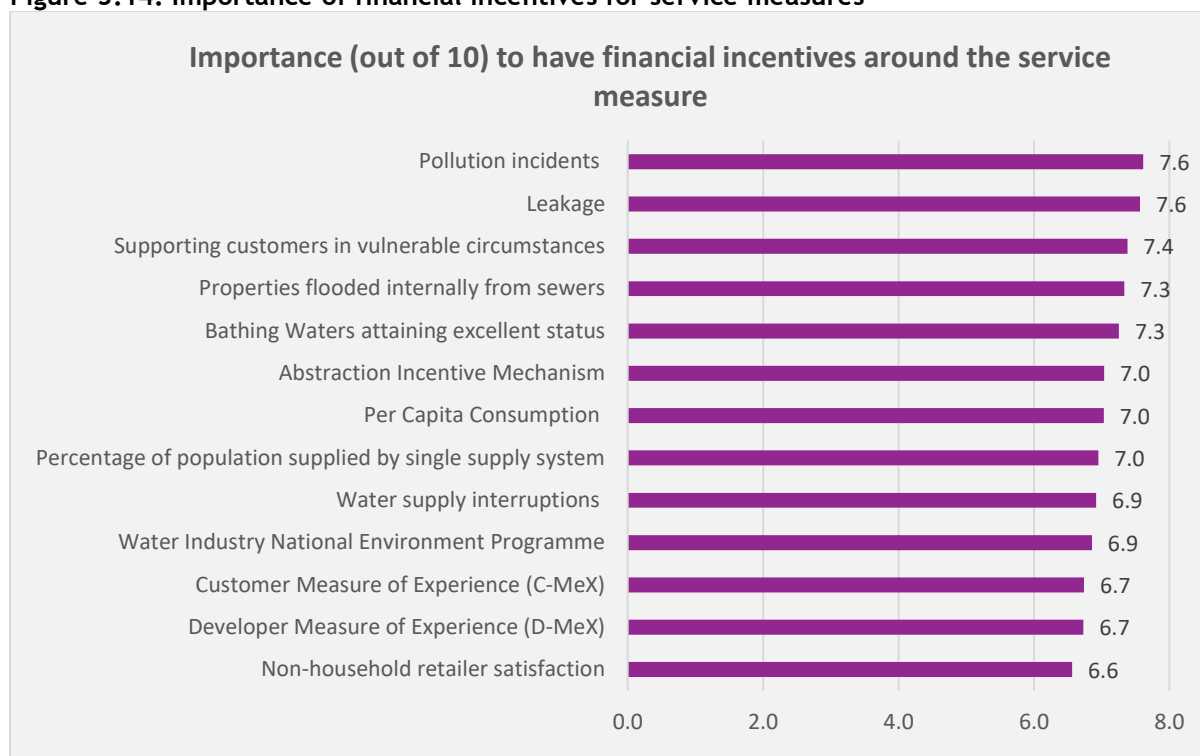
Figure 3.13: Attitudes towards incentives and asset health



Respondents = 602

When customers were asked to rate the importance of having financial incentives for service measures out of ten it revealed where support for financial incentives is strongest.

Figure 3.14 shows all aspects of service presented as suitable for financial incentives, especially so around helping vulnerable customers, leakage and pollution.

Figure 3.14: Importance of financial incentives for service measures

Respondents = 602

These findings were discussed in the focus groups. There was overwhelming support for the findings of the survey in the focus groups, even when it was clearly discussed that the impact of incentives would be for bills to adjust up and down.

Principles of ODIs

When the results were first shared in the focus groups, there was confirmation and support for financial incentives. From the outset in the focus groups only a couple of individuals disagreed with the principles of ODIs, but during the sessions they altered their opinion and saw financial incentives as helpful and useful.

Customers also commented the incentives framework should be simple and easy for customers to understand.

“I think they need something to aim for, so yeah I think that works”
SEG ABC1, Aged 18-45

“In a business, people need to be forward thinking and innovative... and if you puts things into it, you’re going to get things out of it aren’t you, you’re going to get some kind of reward for that”
SEG C2DE, Aged 46+

“The only thing to be careful of I think, is to not make it too complicated”
SEG C2DE, Aged 46+

Customers in vulnerable circumstances

In the focus groups customers supported the results and in particular were reassured to see measures in the framework that are designed to protect customers in vulnerable circumstances. These were found to be a priority to get right.

Customers supported financial incentives around the issues of supporting vulnerable customers, but were keen to avoid any perverse incentives. For example, customers said there should not be an incentive to increase the numbers on the Priority Services Register (PSR) per se - but should be incentives to getting the right people (especially as they considered the PSR to be not well known enough) and to ensure quality support is given when they are on the PSR.

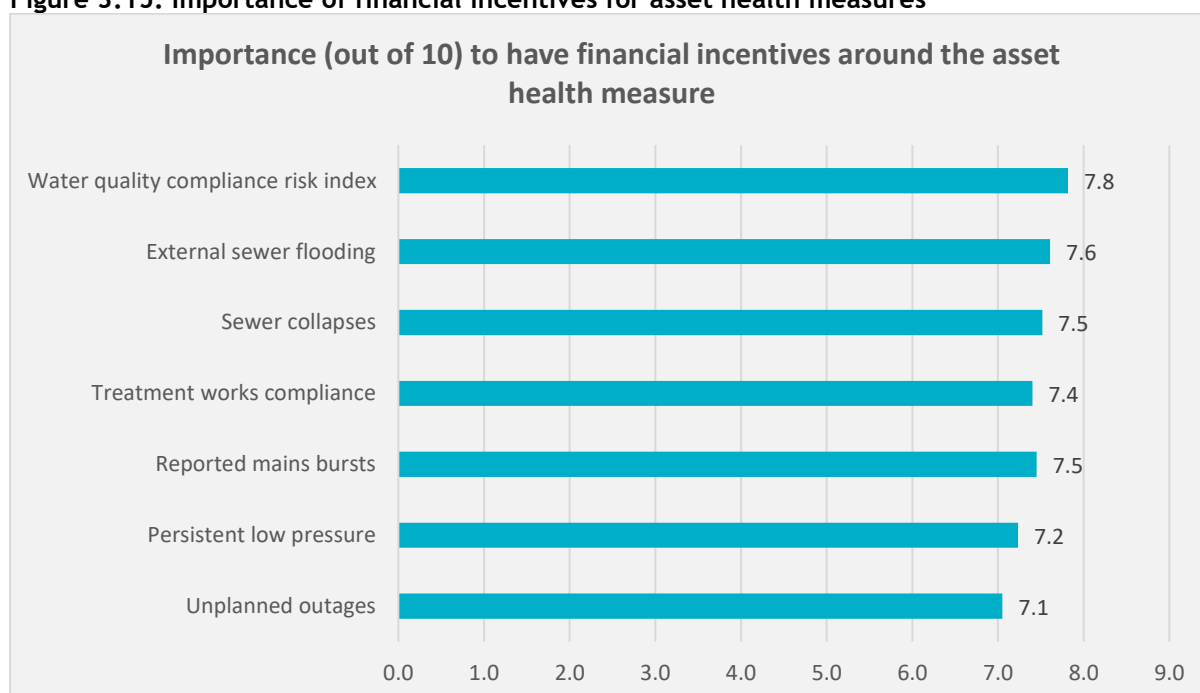
There was unanimous and reasoned support in the focus groups for the quality of support (as part of the panel assessment) and the PSR to focus on outperformance payments only. The rationale was that incentives should encourage other companies to be involved, ensuring they have either a neutral or positive impact from participating; this is an area for co-operation over competition. As such companies should not be disadvantaged by sharing best practice.

Customers also liked the idea of funding being ring fenced in relation to helping vulnerable customers.

3.3 Asset Health

Asset health measures have support to be financial broadly on a par with service, in particular around water quality, external flooding and sewer collapses. This is evident in Figure 3.15.

Figure 3.15: Importance of financial incentives for asset health measures



Respondents = 602

When these results were discussed with customers in focus groups they felt it hugely important to measure asset health and incentivise improvements. When questioned why customers believed it underpins good service and there should be an emphasis on the whole system.

“If you don’t maintain the pipes etc, then the water coming out of the taps won’t be fine. There will come a time when everything starts to go wrong if you don’t look after it”
 SEG C2DE, Aged 46+

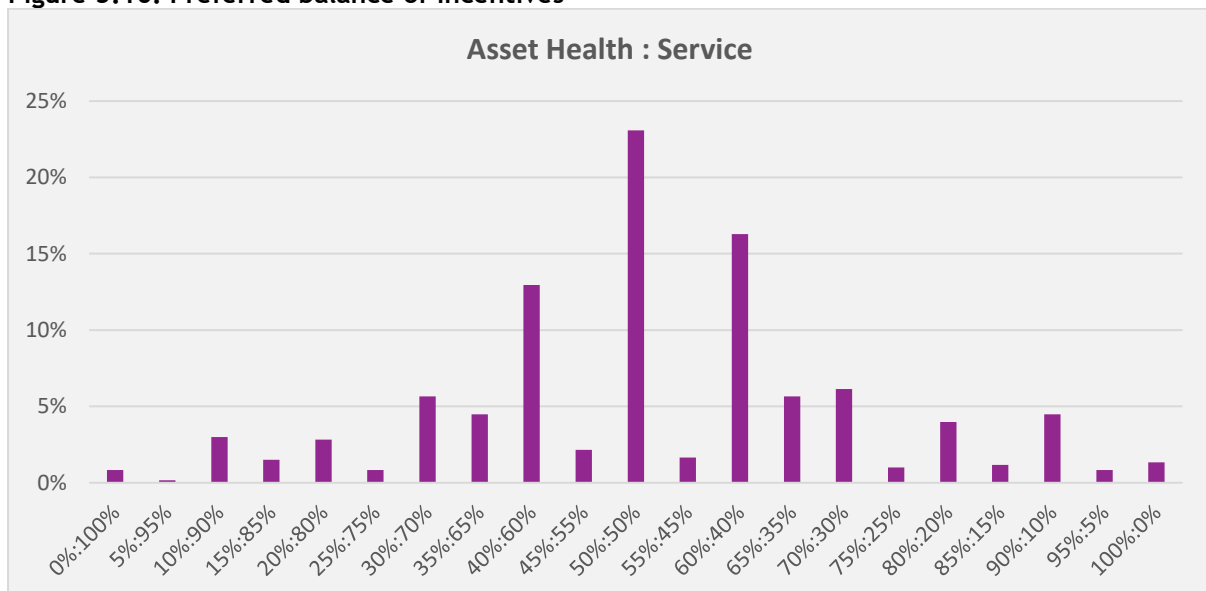
“It’s like a swan on the water. A lot of this we can’t really see, its underwater, but we can see the water coming out of the tap...so if this went wrong that would still be a big problem to us, that’s when the swan will know something is happening”
 SEG C2DE, Aged 46+

“I think it is better to invest and repair... prevention rather than trying to find a cure for it once it’s gone wrong”
 SEG C2DE, Aged 46+

3.4 Balancing asset health and service

The survey findings show that respondents view asset health and service as similarly important to incentivise. The survey results showed a slight bias towards service measures.

Figure 3.16: Preferred balance of incentives

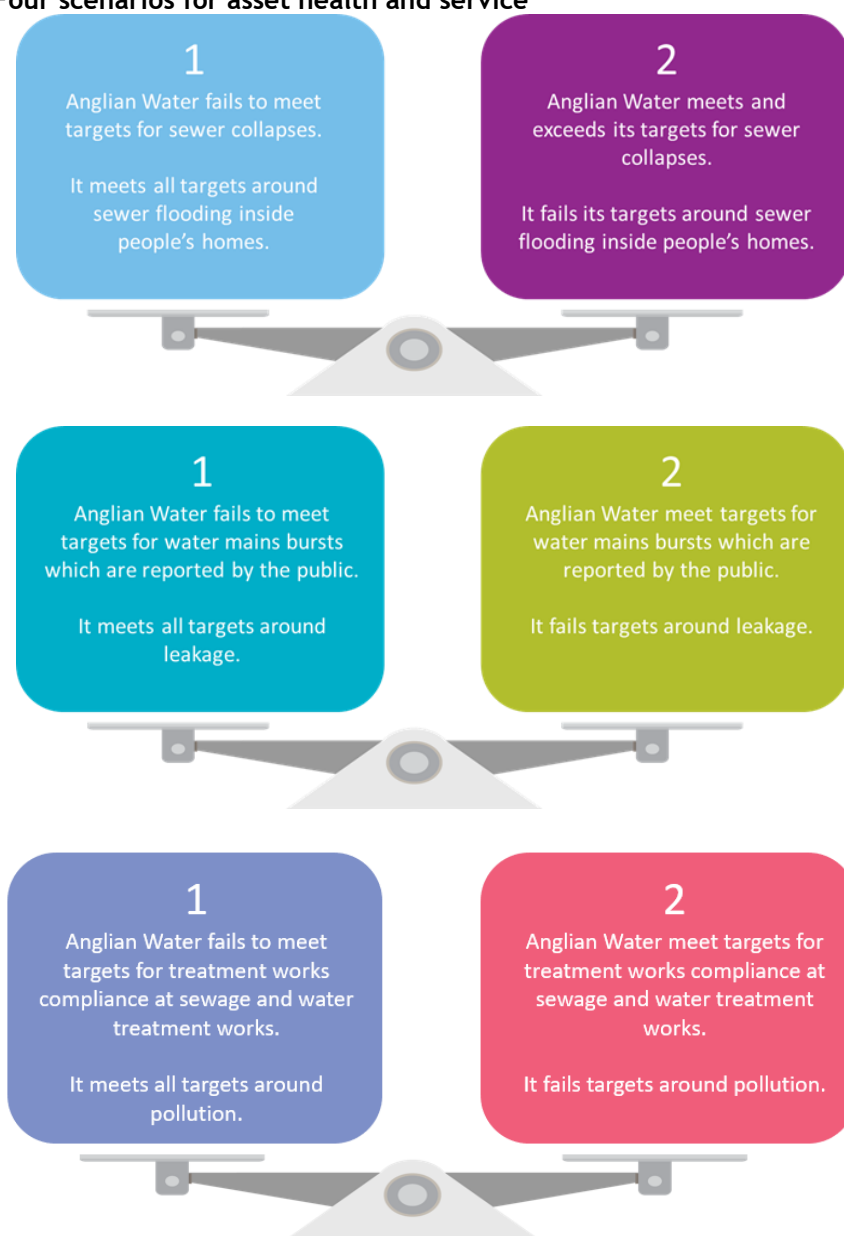


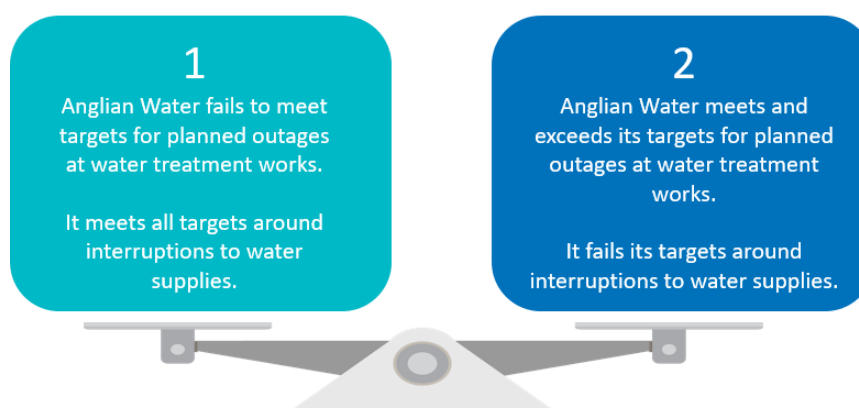
Respondents = 602

The balance between asset health and service was tested in detail in the focus groups. A number of scenarios were presented to customers in the focus groups to challenge and test the survey findings.

Four scenarios around failing/meeting/beating service and asset health targets (Figure 3.17) were presented; focus group attendees were asked to discuss each in turn and state which was the worst situation, and which should carry the most financial impact for Anglian Water.

Figure 3.17: Four scenarios for asset health and service





These scenarios were not easy for the respondents to choose between, but did generate insightful conversations and debates. Customers concluded the survey findings to be accurate and correct. Ultimately the attendees were often split between the scenarios, but agreed that a slight bias towards service based failures were worse than the asset health failures and should be financially more impacting on Anglian Water.

This is because some aspects of service are particularly important to customers such as pollution and internal flooding. The bias towards them is natural and this does not deflect from the general equivalence between an asset health and service measures.

“If they’re not looking after the assets, they’re effectively gambling”
 SEG C2DE, Aged 46+

“I don’t think you can have one without the other”
 SEG C2DE, Aged 46+

“They’re both as bad as each other really aren’t they”
 SEG C2DE, Aged 46+
 (on comparing leakage and bursts)

“You don’t want it messing up your house do you”
 SEG C2DE, Aged 46+
 (on comparing sewer flooding and collapses)

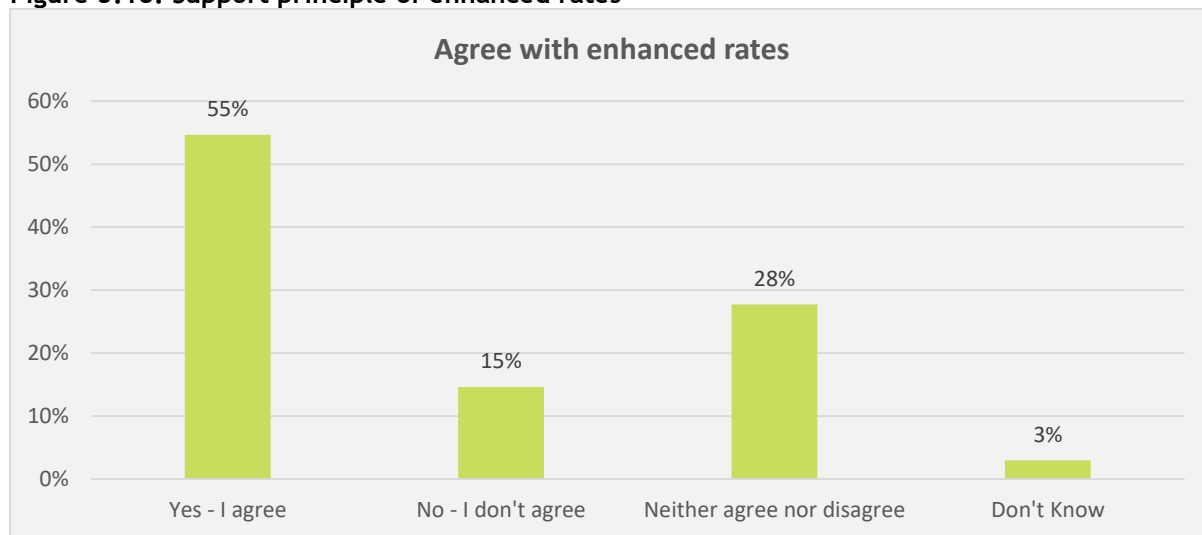
Discussions found there to be no difference by non-infrastructure compared to infrastructure, or water compared to waste.

Despite the importance, changes in asset health need to be gradual. There is no requirement for the best performance quickly.

3.5 Enhanced rates

Figure 3.18 shows that in enhanced rates are supported by the majority of survey respondents, although a high proportion of customers were indifferent.

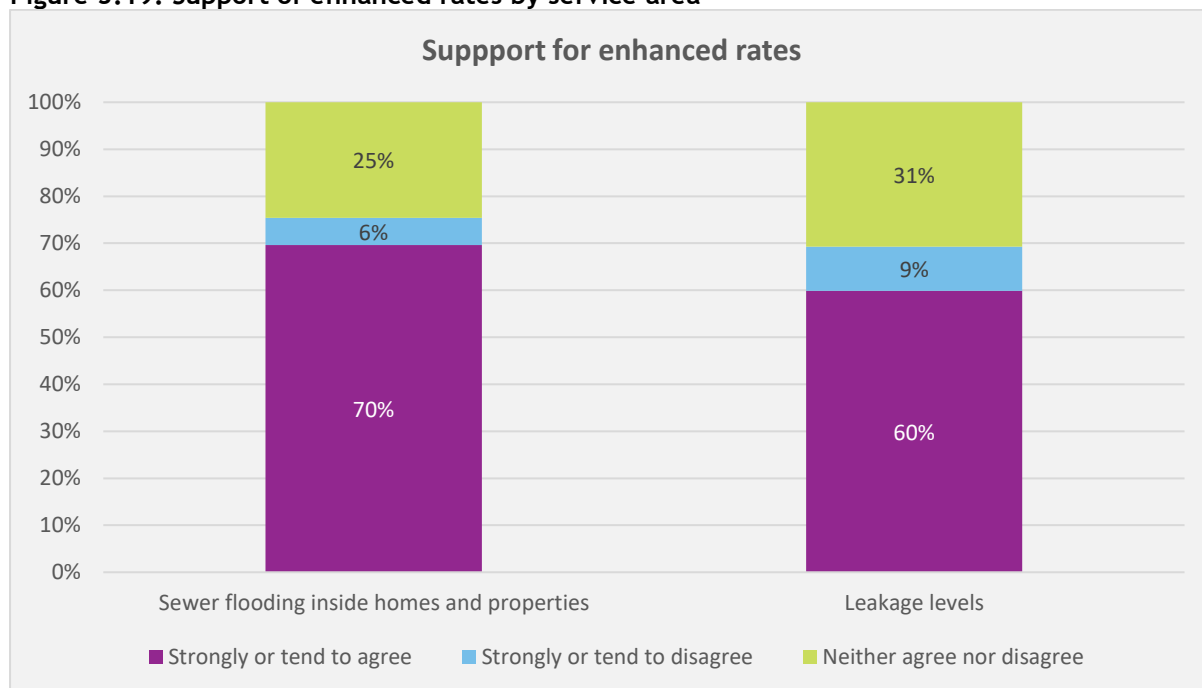
Figure 3.18: Support principle of enhanced rates



Respondents = 605

Those customers who agreed with enhanced rates were very supportive of the service measures tested to which they could apply. Less than ten per cent of customers opposed their application to sewer flooding or leakage as shown in Figure 3.19.

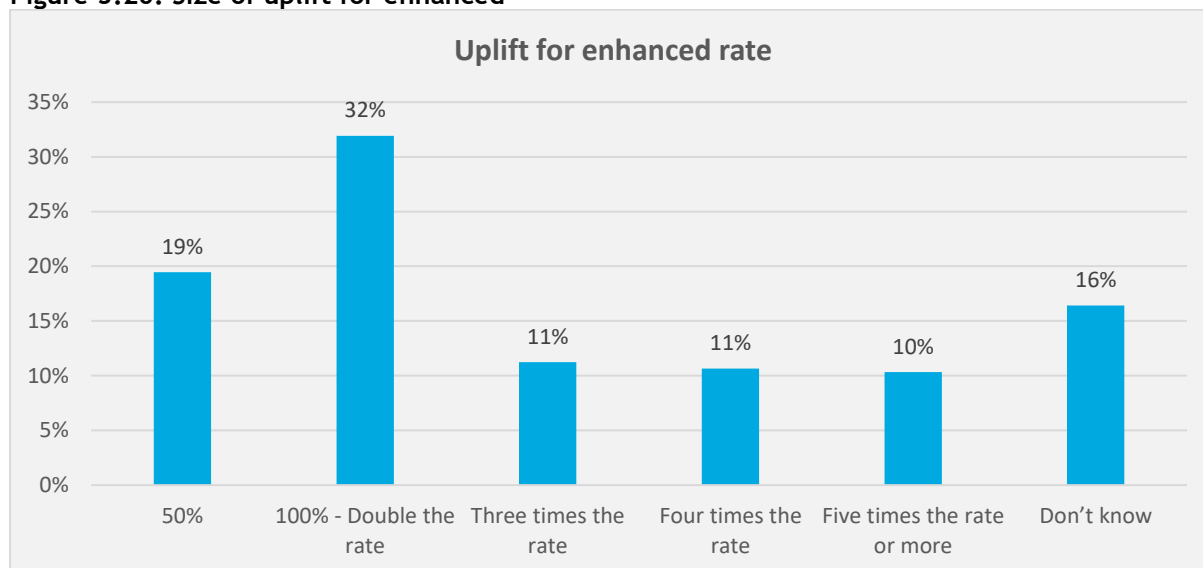
Figure 3.19: Support of enhanced rates by service area



Respondents = 329

When those customers in favour of enhanced rates were asked what the rate of uplift for enhanced rates should be, the average is 164% excluding don't know responses. One third of the survey sample want the rate to be three times or more, showing good support for these enhanced rates to be material.

Figure 3.20: Size of uplift for enhanced



Respondents = 329

When enhanced incentive rates were discussed with customers at the focus groups they received strong support aligning with the survey results.

Customers saw them as a win-win situation if there are caps in place to limit the overall impact on the bills. The view was “we can't lose”. Customers also saw merit in sharing best practice and expected they would benefit from reciprocal arrangements as other companies sought to innovate.

“...It's almost an incentive on top of the incentive, it might make them think 'right let's not just get 10% out of everyone, let's get 150% out of it....it seems like there's more drive there”

SEG ABC1, 18-45

“I think we'd all benefit in the long run, because then those customers in other areas will end up paying more anyway won't they”

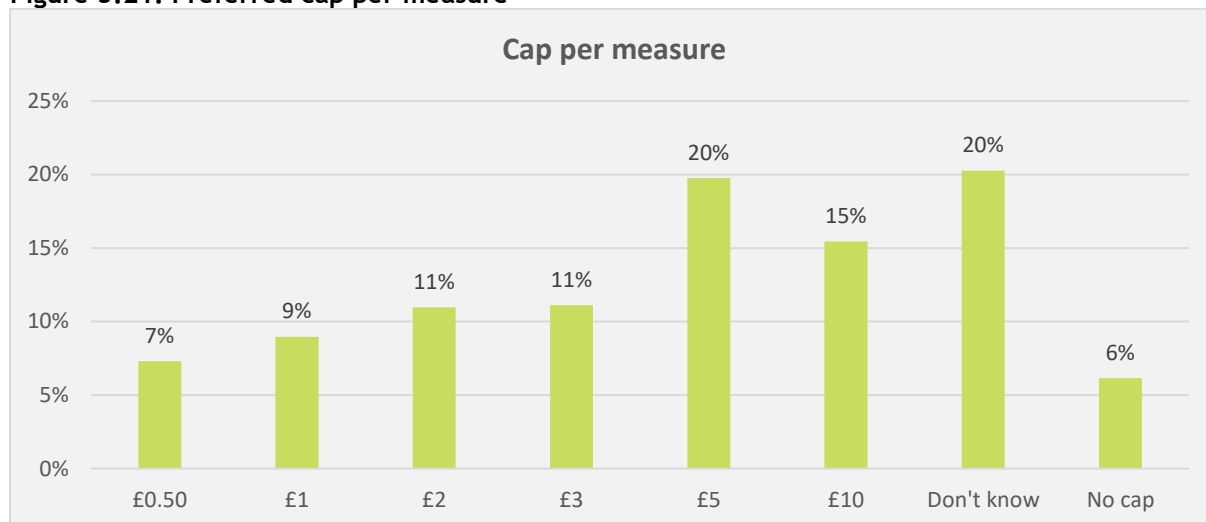
SEG ABC1, 18-45

Focus group participants supported internal flooding and leakage in particular as service measures suitable for having enhanced rates. They also supported the uplift for enhanced rates being a 2 to 3 times multiple of the standard rate in order to be meaningful.

3.6 Caps on individual PCs

The quantitative survey showed customers support a cap on individual measures so that no one measure should carry too much penalty or payment. The average of those that want a cap for any one measure is £4.40.

Figure 3.21: Preferred cap per measure



Respondents = 602

When this was put to customers in the focus groups across the board the view was the survey result was ‘too high’ for all measures - and is a maximum cap for some measures: the most important ones. Customers said that measures are not equally important, so it does not make sense to have such a high cap on all measures.

When questioned why this was the result in the survey customers said the question was a blunt question - and not granular enough to be applied to all measures. The view was that applying the survey results would be too harsh.

“I can understand that being capped, but I think they are being slightly harsh”
SEG ABC1, Aged 18-45

“Obviously you don’t want them to lose the incentive to keep the other ones going”
Mixed SEG, Aged 25-55

The concerns centred around creating the wrong incentives. For example, some noted the situation where Anglian Water would do well on all but one or two measures and still find itself heavily penalised, which was not seen as appropriate. Customers felt the same in the reverse scenario where Anglian Water may do well on one or two measures only and still receive large outperformance payments, which would also be inappropriate. Across the board customers thought Anglian Water should have to do well on at least five measures to receive the maximum outperformance payments.

Some customers also feared that if a company were doing particularly poorly on a couple of measures the potential penalties could be high enough for the water company to avoid investing in other measures, given it would already max out the penalties regardless.

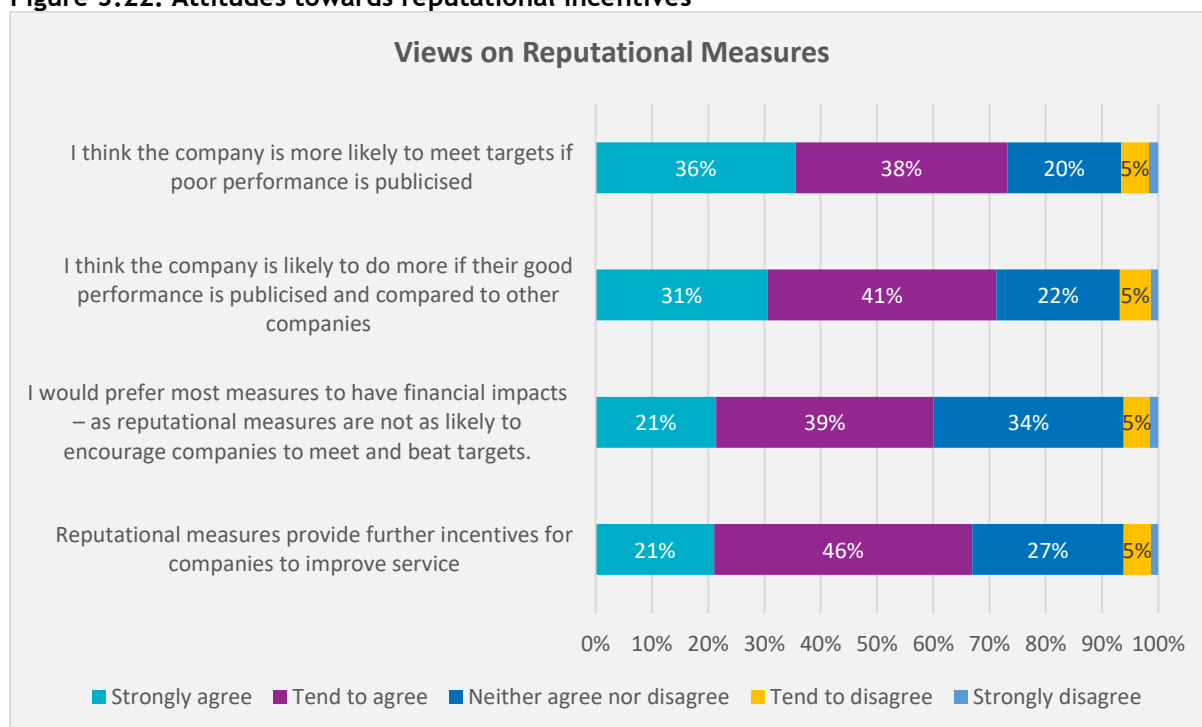
It was therefore the overwhelming view that the cap only applies to key measures and is not appropriate for all measures. Instead customers put forward alternative recommendations for the cap to be applied:

- The cap could be applied as a 5 year limit, not the cap in any one year - except for the highest priority measures
- The cap should be weighted by customer importance/priority for all measures
- The cap should be reached when 5-10 measures reach their maximum, meaning that a value of c. £2 is more appropriate for any one measure

3.7 Reputational measures

Figure 3.22 shows views on reputational measures from the quantitative survey. This shows that reputational measures are supported by customers, the preference and default should be for financial measures in general.

Figure 3.22: Attitudes towards reputational incentives



Respondents = 602

This outcome was reinforced by the focus group discussions. Customers agreed that there is a role for reputational incentives but the prevailing view was financial incentives do more and drive different behaviours.

There was strong support for survey results in that financial measures are preferable given the monopolistic nature of the industry. With customers being unable to change supplier, there were some concerns about the effectiveness of reputational incentives.

“I think it’s going to affect them more though, rather than as customers, as a business...if your company is at the bottom, your shareholders aren’t going to be happy, it’s not so much about the customers, they can’t do anything”.

ABC1, 18-45

“I mean reputation is important, but it’s not as important as financial measures because they are the only people we can get water from, so if they’ve got a crap reputation, there’s not a lot we can do about it (others agreed), so there’s got to be something else that affects them”

C2DE, 46+

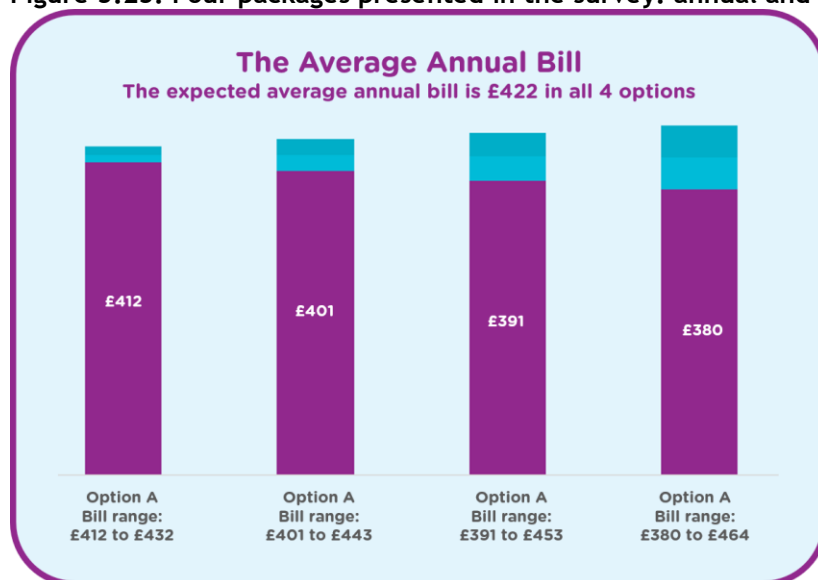
“It’s good but unlike schools, you can’t choose who supplies your water...you can’t shop around”

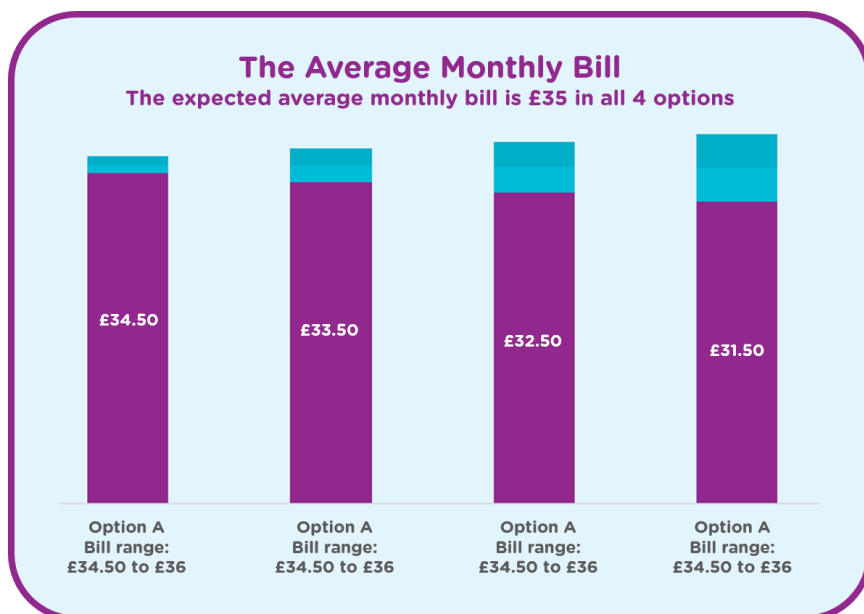
ABC1, 18-45

3.8 RORE Range

A key part of the quantitative survey was for customers to rank four incentives packages in order of preference. The options corresponded to 1%, 2%, 3% and 4% RORE range. This was presented both in monthly and annual figures in the survey.

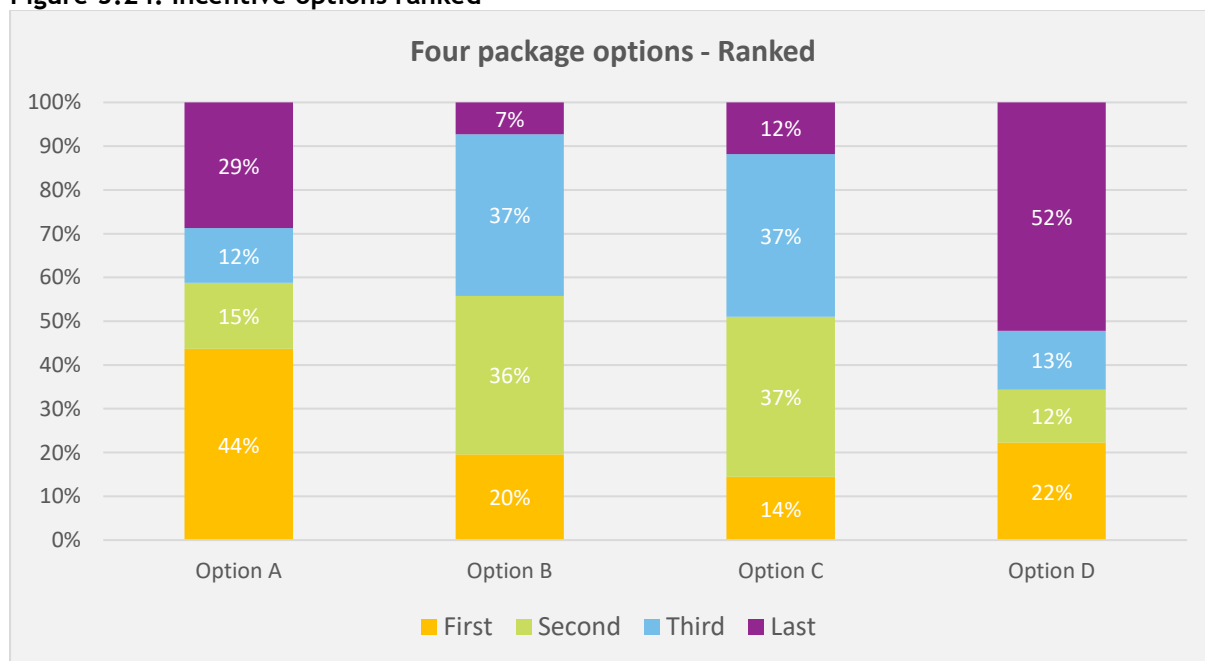
Figure 3.23: Four packages presented in the survey: annual and monthly figures





Option A (1% RORE) and Option D (4% RORE) was both the most common and most disliked options. Options B (2% RORE) and C (3% RORE) popular but less disliked.

Figure 3.24: Incentive options ranked

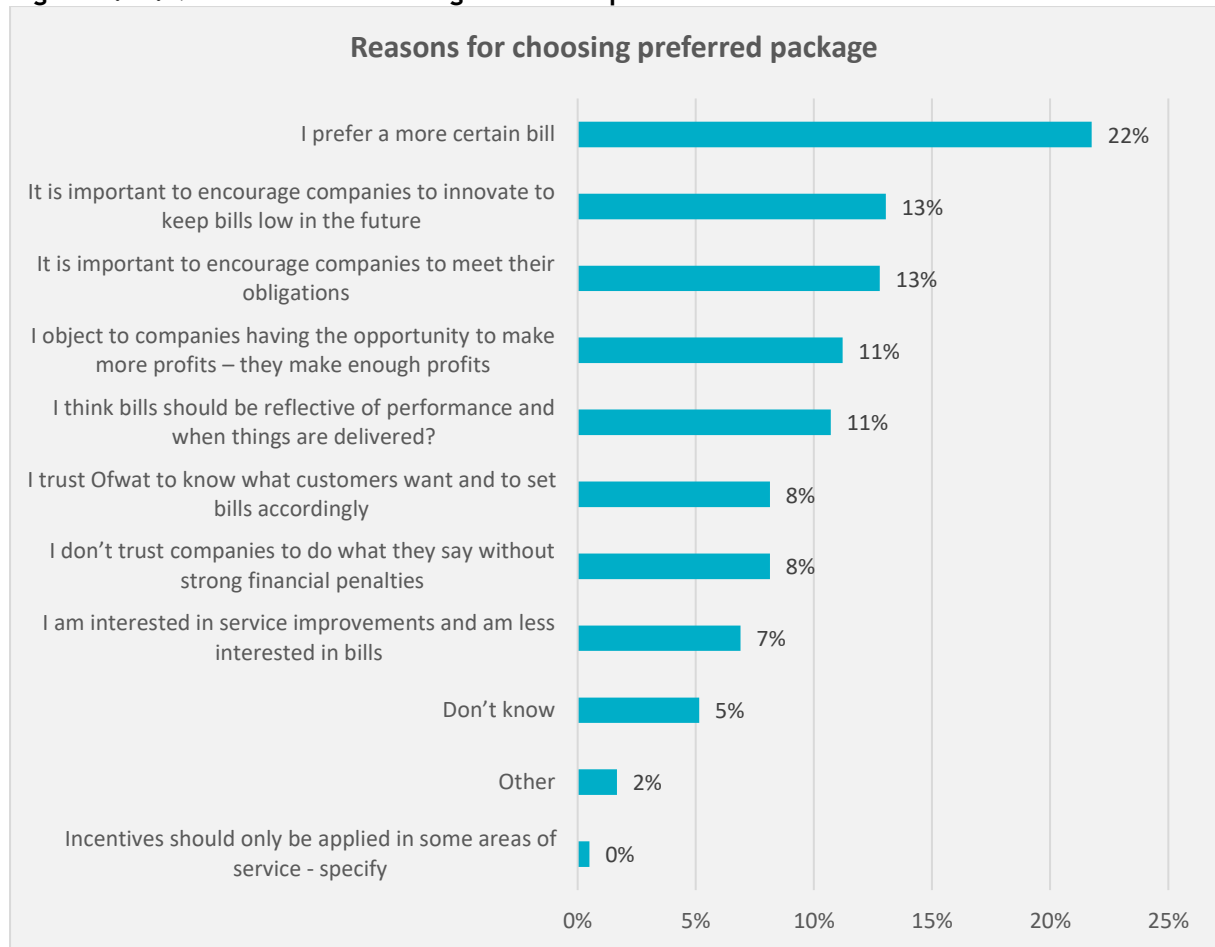


Respondents = 602

Once customers made their choices in the survey, they were asked the reasons for their choices.

The main reason people chose their preferred option in Figure 3.25 was to prevent variation in bills or incentivising innovation and service delivery.

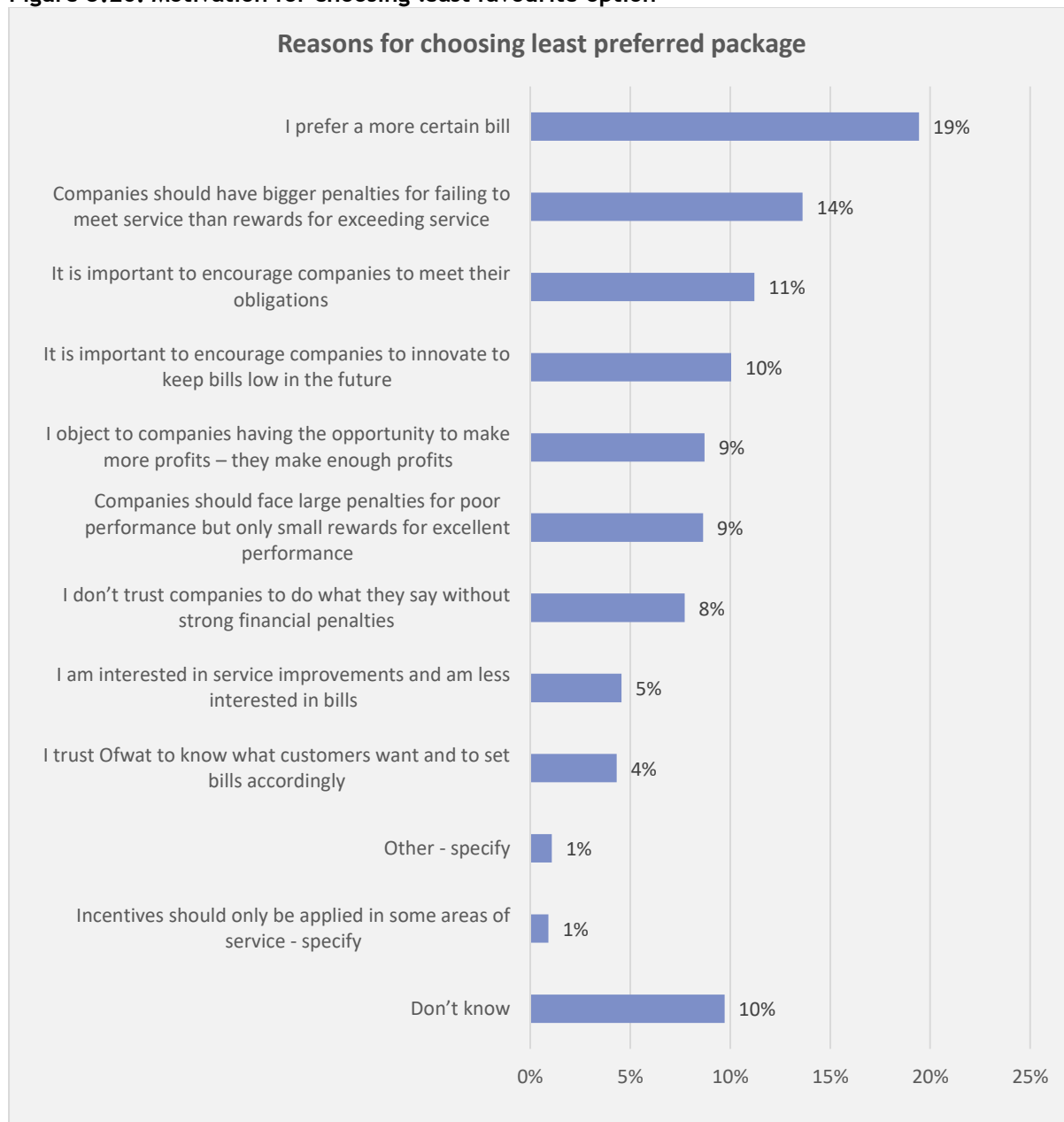
Figure 3.25: Motivation for choosing favourite option



Respondents = 602

The main reasons for choosing least preferred option focused on similar issues with a greater emphasis on penalties.

Figure 3.26: Motivation for choosing least favourite option



The average rank of each option is provided in Table 3.1 and shows that high levels of incentives are unpopular. The mean value across the sample is 2.2%.

Table 3.1: Ranking of options

Option	Average Rank
Package A - 1% RORE	2.26
Package B - 2% RORE	2.32
Package C - 3% RORE	2.46
Package D - 4% RORE	2.96

When the RORE and bill range were discussed in the focus groups, attitudes mirrored the results in the survey. Option A and D were both popular and unpopular.

Those that like Option D did not think bill changes would be a lot in practice - especially when shown previous levels of ODI for the current period 2015-2020; this was more the higher SEG view however.

Overall the balance of opinions is that Option B is the right level as all liked it, no one disliked it. This was also seen as an affordable option.

All customers fully support an incentive range that would be slightly asymmetrical with a small bias towards penalties. One reason for this is a desire to avoid bill volatility as a big reduction then up the next year could be harder to manage.

Interestingly in the focus groups customers could view the bill impacts monthly and annually; most chose to review and provide views on bills and incentives using the monthly presentation of the four options.

“I’d rather pay more and know what I’m paying, rather than you know, have it move about. Yes, you can save money, but you can also be out of pocket as well”
ABC1, 18-45

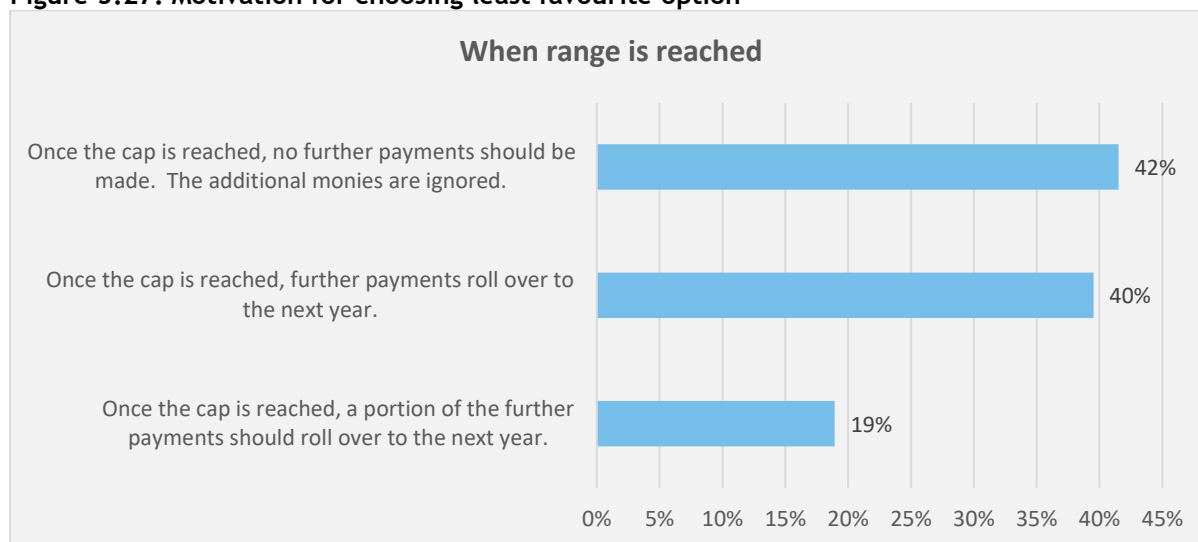
“You wouldn’t want it to be that volatile I don’t think, it might be worse to see it go up once it has been really low, and to have to keep checking it as well”
C2DE, 46+

3.9 Outside the RORE Range

Customers were asked in the survey about what should happen to monies over the RORE range. Views were very mixed with an even split between those that want the monies to carry over and those that do not.

One compromise could be to carry a portion over.

Figure 3.27: Motivation for choosing least favourite option



Respondents = 602

The focus groups also showed mixed views in this area. But following a detailed discussion there was considerably more support for the monies to be lost rather than carried over.

The basis of this was around incentives. Customers said that starting a new year from a position of outperformance payment or penalty due to the previous year's performance could create very negative incentives, which may stop Anglian Water from investing if they have already made enough outperformance payments or are facing too much penalties that cannot be mitigated easily.

Customers do not want any disincentives that would stop Anglian Water from looking to hit its targets in each year.

"If they had really underperformed and got penalties rolled over, then they are playing catch up right from the start. And then they've only got half as much to get to the point where they give up because they can't get any worse"

ABC1, 18-45

The compromise option of carrying over some part of the incentive was not very popular. Some commented that repeated poor performance would surely result in Ofwat stepping in to intervene, so it was considered to be low risk to not carry over any repeat penalties.

3.10 Segmentation analysis

Segmentation approach

This section considers customer segments, i.e. the extent to which different customer types have similar or differing views.

The customer segments of interest are set out in Table 3.2, which also shows the number of customers from each segment providing responses.

Table 3.2: Segmentation sample sizes

Customer Segment	Sample size
SEG - ABC1C2	455
SEG - DE	147
Disability in household	200
No disability	402
Age 18-29	81
Age 30-64	328
Age 65+	193
Tech-savvies	142
Parochials	390
Comfortable and caring	45
Eco-economisers*	6
Family first*	19

*Family first and eco-economisers are not analysed due to the small sample size.

It should be stressed that smaller samples are harder to assess differences across. However in all cases differences have been tested at the 95% level of confidence.

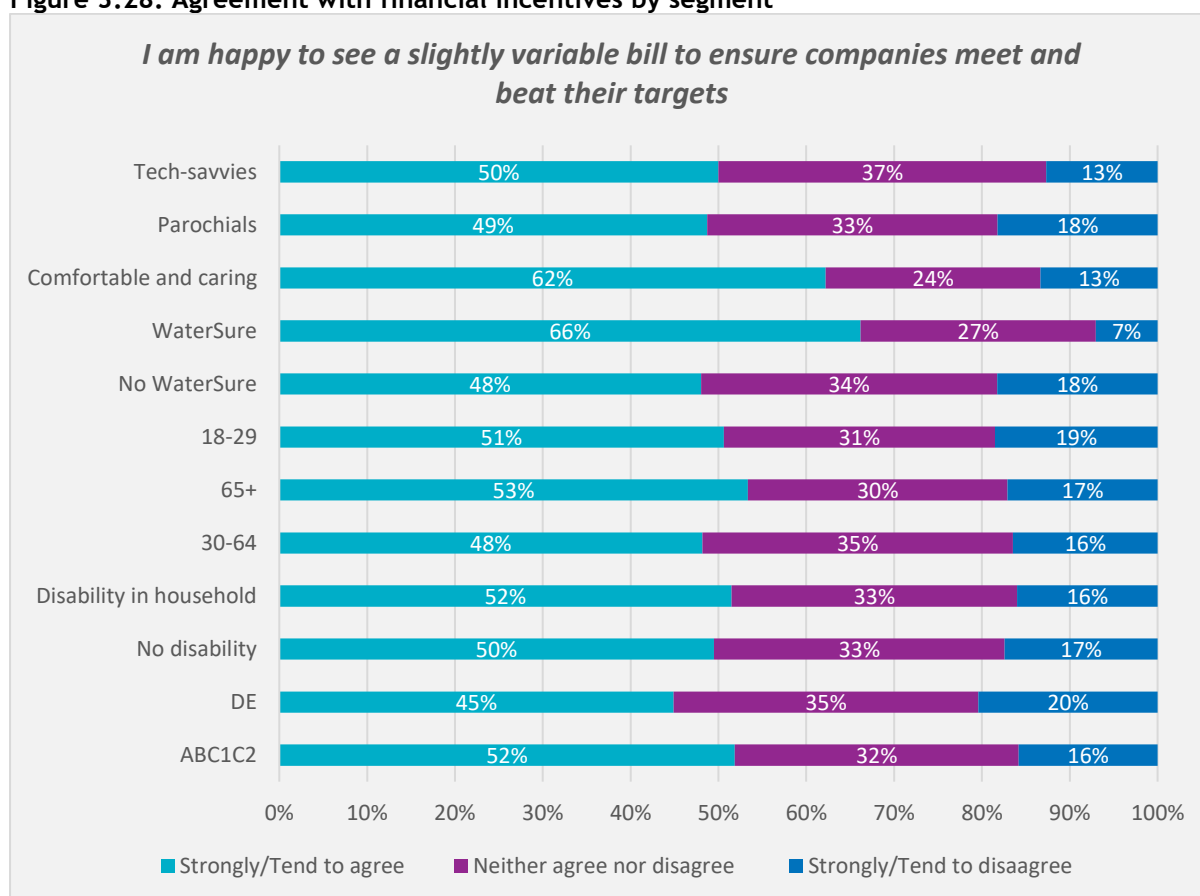
Responses to a number of question have been analysed by these segments focusing on affordability linked issues, specifically:

- Acceptance of financial incentives
- Views on enhanced rates
- The scale of incentive caps
- Preferred packages and associated RORE ranges

Segmentation findings

Figure 3.28 shows a positive appetite for financial incentives from all groups. Interestingly, WaterSure customers were more likely to support variable bills (66%) than those on other tariffs (48%). This could be because they feel more protected by their tariff.

Figure 3.28: Agreement with financial incentives by segment

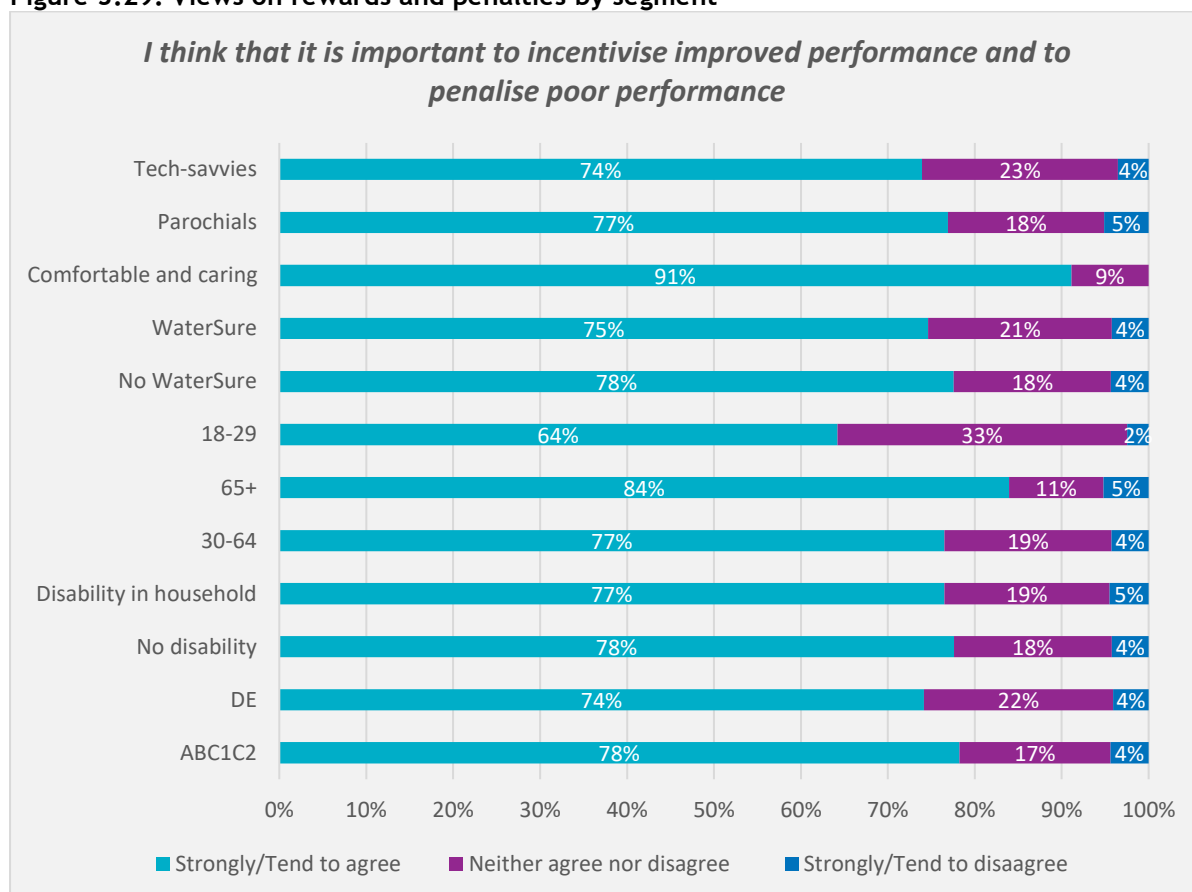


Respondents = 602

Figure 3.29 shows there is also a positive appetite for two-sided incentives from all groups.

There was still some variation in that Comfortable and Caring were more likely to agree with two sided penalties (91%) than Parochials (77%) or Tech-savvies (74%) in the survey. 18-29 year olds were less likely to agree (64%) than other age bands, but only 2% disagreed suggesting they are more ambivalent.

Figure 3.29: Views on rewards and penalties by segment



Respondents = 602

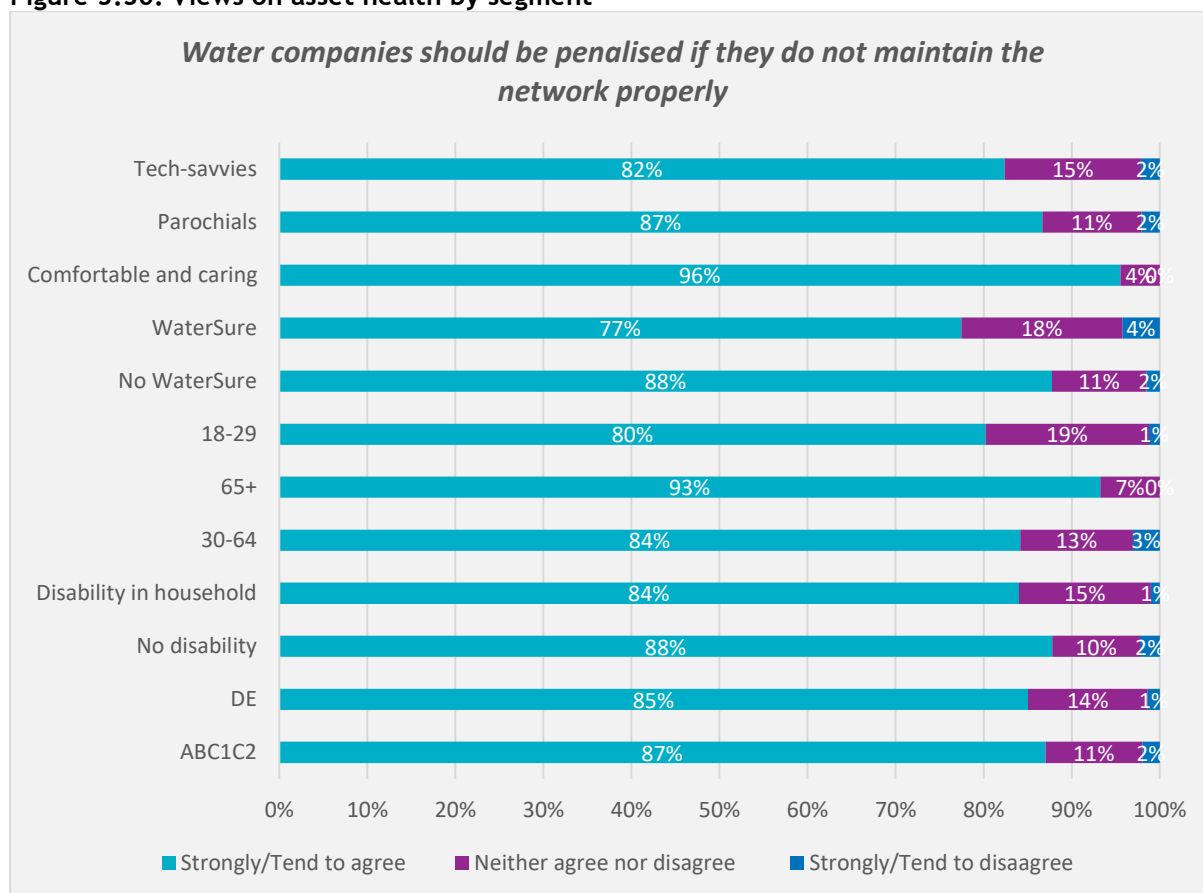
All segments favour penalties for failing to meet asset health targets with some variation in the strength of feeling.

Figure 3.30 shows Comfortable and Caring were more likely to agree with asset health penalties (96%) than Tech-savvies (82%).

Those aged 65+ were more likely to agree with asset health penalties (93%) than those aged 18-29 (80%) or aged 30-64 (84%)

WaterSure customers were less likely to agree with maintenance penalties (77%) compared to those on other tariffs (88%).

Figure 3.30: Views on asset health by segment



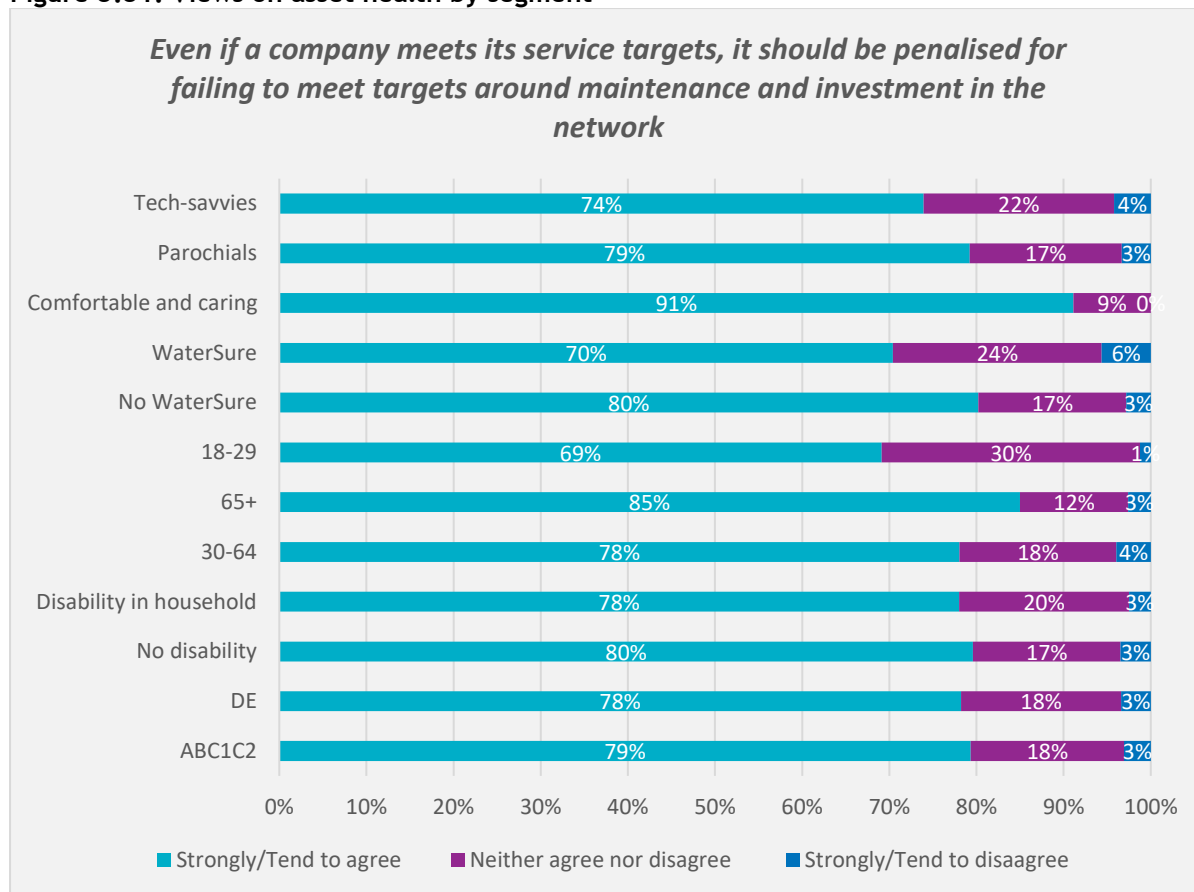
Respondents = 602

All segments favour penalties for asset-health even if immediate service does not change.

Comfortable and Caring were however more likely to support penalties in this context (91%) than Tech-savvies (74%).

Those aged 65+ were also more likely to be in favour of penalties (85%) than younger customers aged 18-29 (69%).

Figure 3.31: Views on asset health by segment

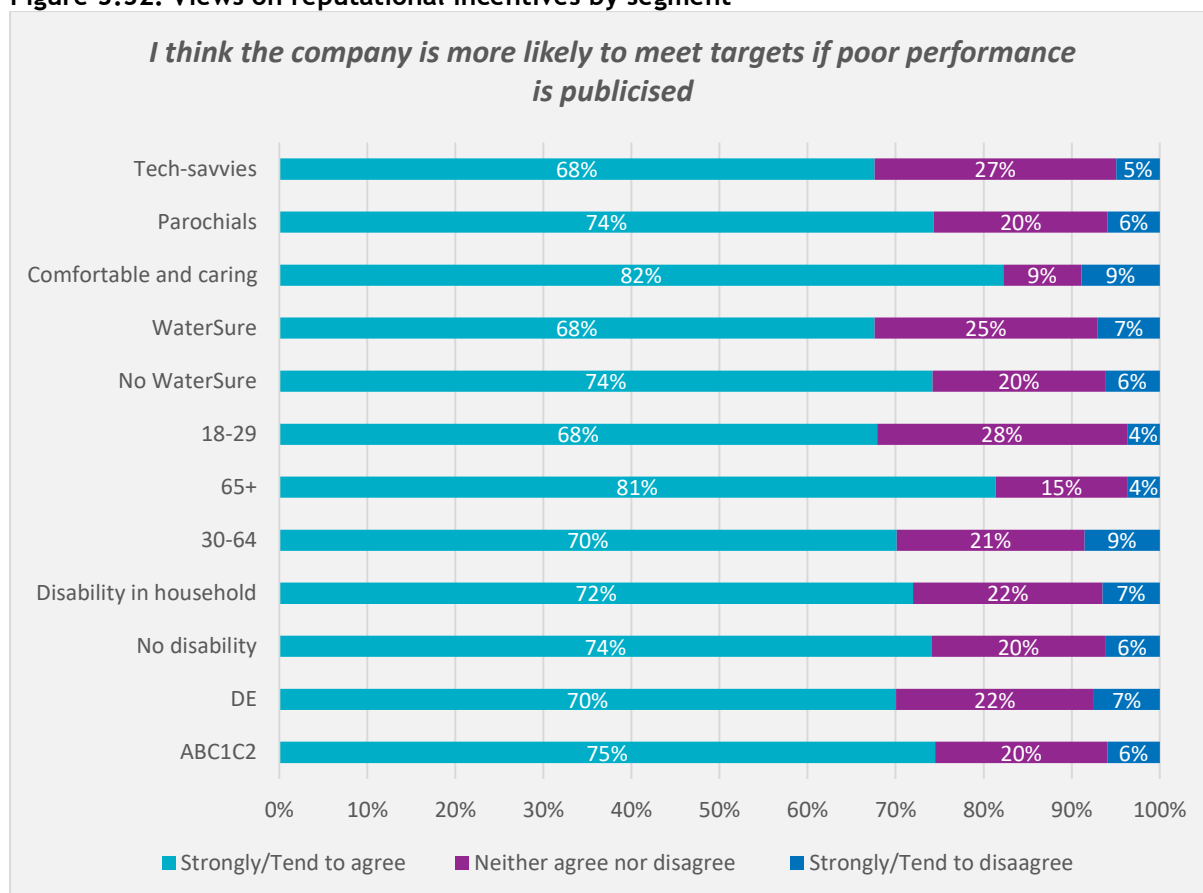


Respondents = 602

All customer groups consider reputational incentives to have a place in encouraging companies to avoid poor performance which is shown in Figure 3.32.

Those aged 65+ were statistically more likely to have this view (81%) than younger people: 18-29 (68%) and 30-64 (70%).

Figure 3.32: Views on reputational incentives by segment



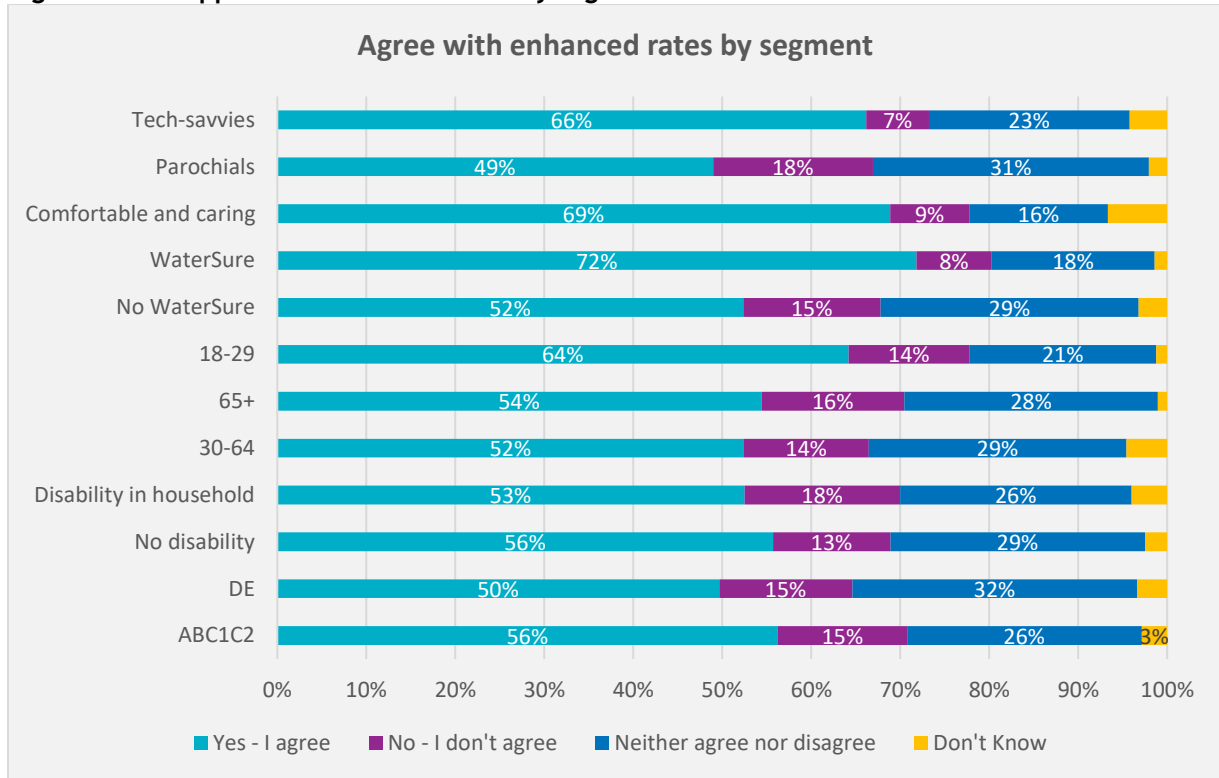
Respondents = 602

Figure 3.33 shows all groups have greater support than opposition for enhanced rates with some variation by degree.

Tech-savvies and Comfortable and Caring were more likely to agree with enhanced rates (66% and 69%) compared to Parochials (49%).

WaterSure customers were more likely to agree with enhanced rates (72%) than customers on other tariffs (52%).

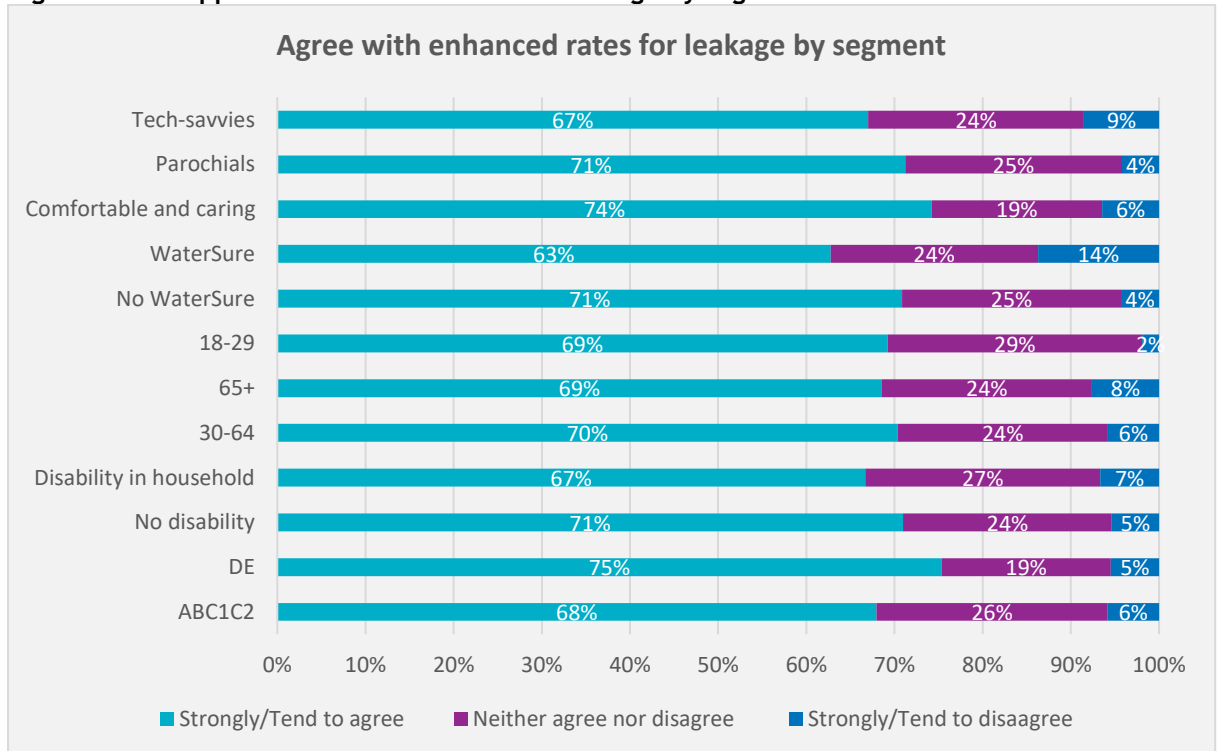
Figure 3.33: Support for enhanced rates by segment



Respondents = 602

From those who supported enhanced rates all groups were happy with them being applied to leakage performance. WaterSure customers were more likely to object to enhanced rates (14%) compared to those on other tariffs (4%).

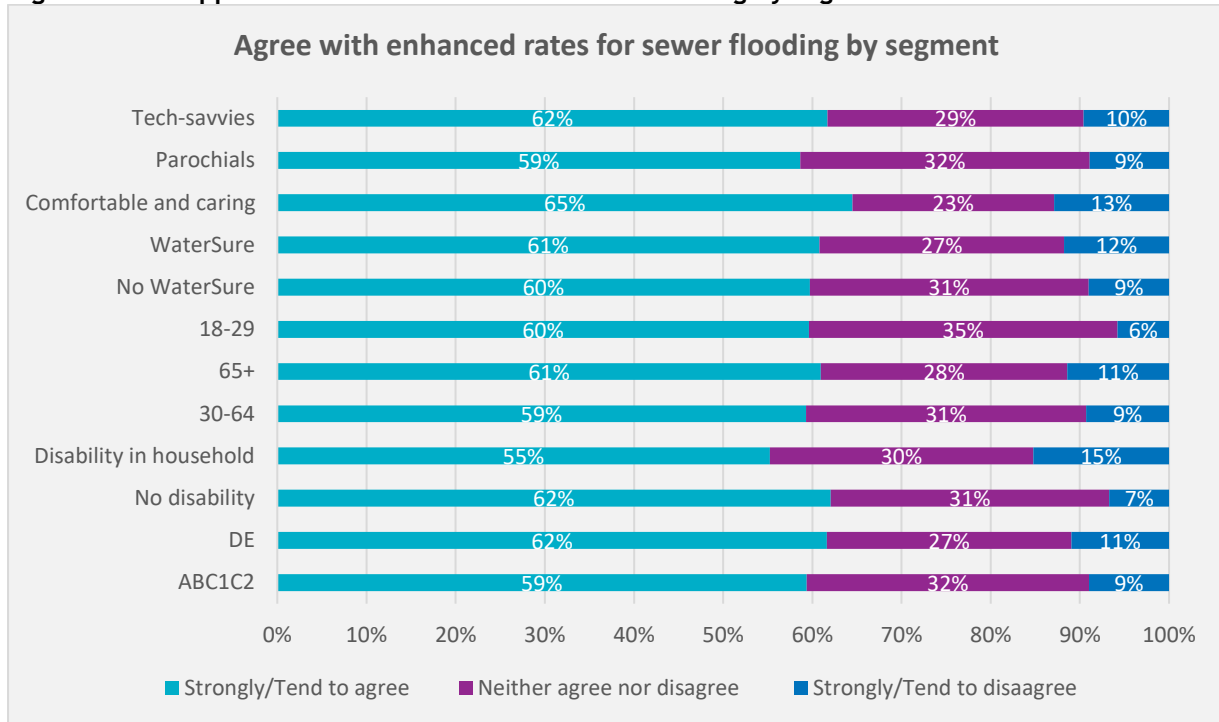
Figure 3.34: Support for enhanced rates for leakage by segment



Respondents = 329

From those who supported enhanced rates Figure 3.35 shows all groups were happy with them being applied to flooding performance. There were no statistically significant differences in support found showing consensus.

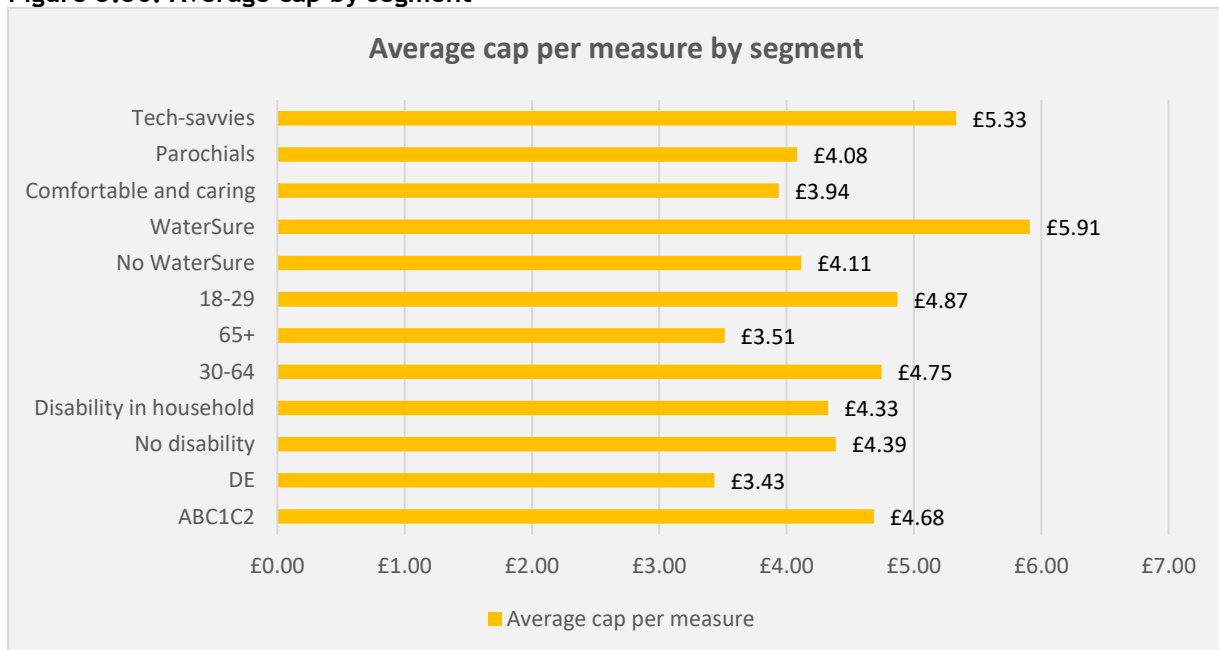
Figure 3.35: Support for enhanced rates for sewer flooding by segment



Respondents = 329

Figure 3.36 shows customers support a cap on individual measures on average of £4.40 but this does vary by segment. SEG DE is the lowest average cap per measure at £3.43 and more conservative than all other customers.

Figure 3.36: Average cap by segment



Respondents = 602

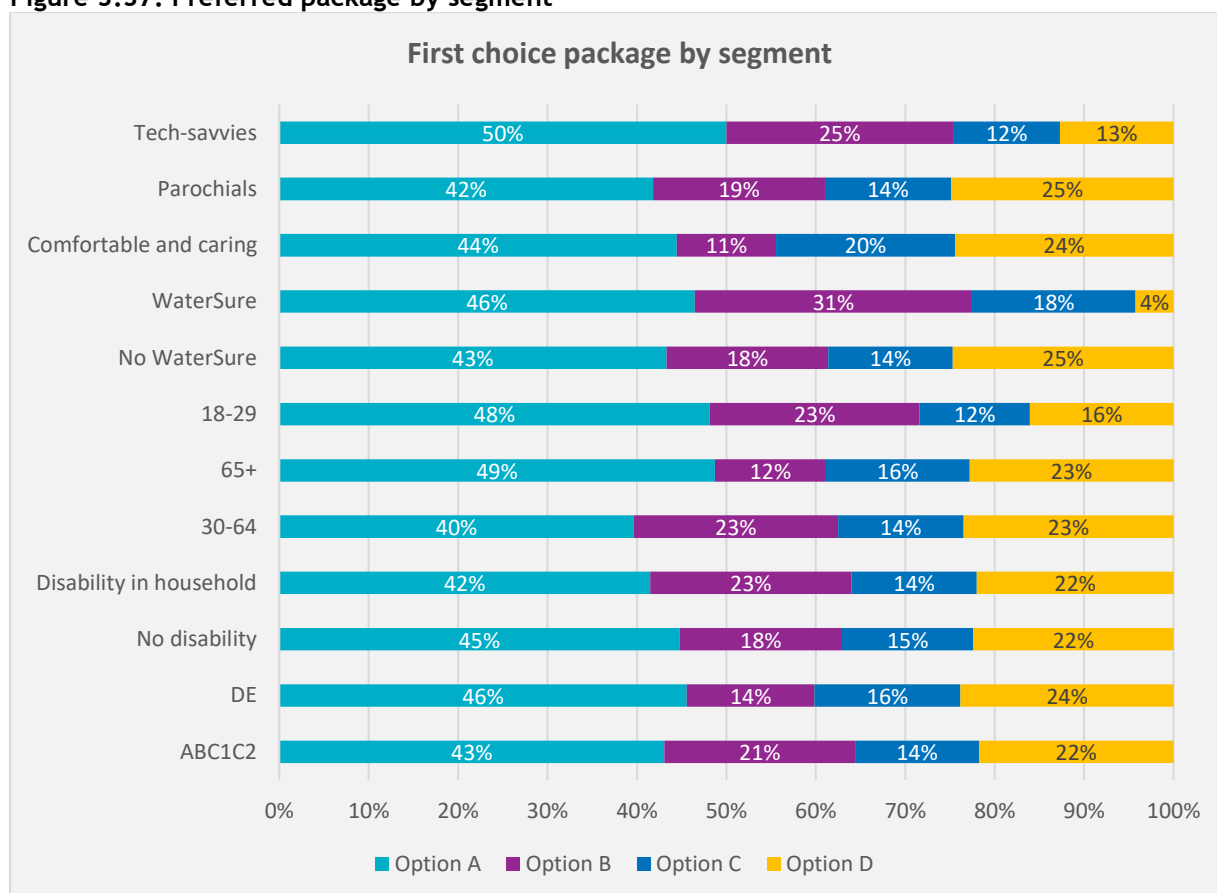
As we see below Option A is chosen as first choice most often by all segments (A=1%, B=2%, C=3% and D=4% RORE) in the ranking exercise.

There were still some differences in the patterns of options chosen as first choice. Option B was less likely to be chosen by those aged 65+ (12%) than those aged 18-29 (23%) or 30-64 (23% again).

WaterSure were more likely to choose Option B and less likely to choose Option D than customers on other tariffs.

Tech-savvies were less likely to choose Package D (15%) than Parochials (25%).

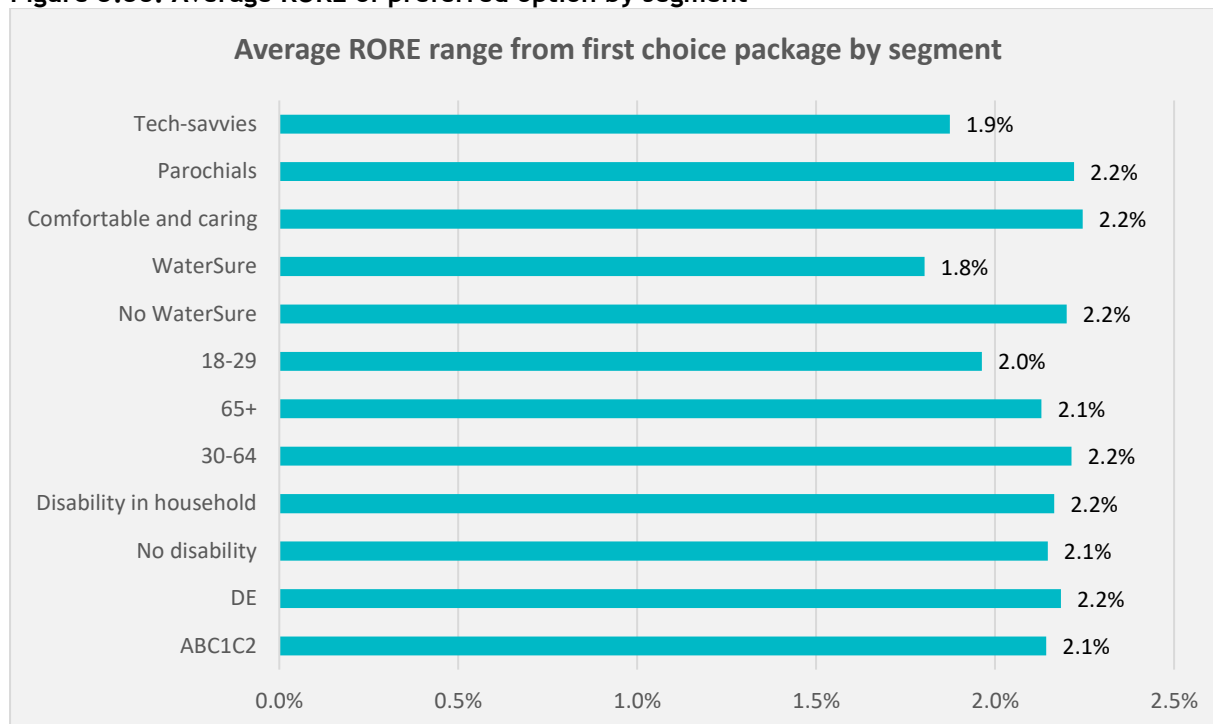
Figure 3.37: Preferred package by segment



Respondents = 602

Figure 3.38 shows the average RORE range of the first-choice package for each segment with the full sample average being 2.2%.

The range is 1.8% to 2.3% omitting starred segments with samples too small to consider. This appears to be narrow suggesting the scale of differences is limited.

Figure 3.38: Average RORE of preferred option by segment

Respondents = 602

Segmentation summary

This section brings together the findings for each customer segment.

While a number of differences have been highlighted the broad attitudes between groups were similar i.e. the majority of customers from all groups support financial incentives.

Typically, however, customers aged 65+ desired financial incentives more than those aged 18-29.

The average RORE range for customers' first choice went from 1.8% to 2.3% This suggested most customers had similar views on the scale of incentives

There was more variation in the amount of incentive individual measures should carry, with SEG DE preferring a lower cap of £3.43 and some groups content with levels as high as £5.33 (Tech-savvies).

Except for the RORE range WaterSure customers were more supportive of incentives - which may be down to feeling protected by their tariff.

4 Conclusions

The research has considered the views of a diverse and representative range of customers through a mix of a quantitative survey and qualitative focus groups.

The survey has shown there is considerable support for financial incentives. But these to be reasonable and affordable for customers. The proposed range around 2% of the RORE range in any one year. Customers have mixed views about what should happen when the RORE range is reached - but on balance more consider it to be appropriate to ignore any payments in excess of the RORE range, rather than carry them over to the next year.

Caps at the PC level are supported as customers do not want any one PC to max out the payments due. However the level indicated in the quantitative survey is far higher than should be applied to all measures.

The survey shows the importance of asset health. The asset health measures are on a par with the service measures in general. On balance an asset health incentive should broadly carry a financial risk not dissimilar to that of service measures

These views are consistent across customer segments examined.

Document Control

Version History

Version	Date	Comments
1.0	22 June	Issued at end of project
1.1	9 July	Updated based on feedback

Distribution

Version	Owner	Proof read by	Issued to
1.0	Martin Baker	Lisa Gahan	Arun Pontin Darren Rice
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