south east water

PR19 engagement findings draft v2

28 September 2017

Pure know h_2ow

Contents

1. Introduction

1.1 Setting the scene

Customer engagement has always been an important element of our business – from our daily transactions and conversations with customers, to the future plans that set out the services we will provide and the cost of that service.

For PR19 specifically - the process to set prices for 2020 to 2025 - there is renewed focus within South East Water, the industry and regulators on how customer engagement should be achieved to deliver our next business plan.

1.1.1 What this document does and doesn't do

This document captures:

- our engagement approaches, methods and rationale
- the summary findings of the engagement we are undertaking to specifically help us prepare our 2020-2025 business plan. Full details of the research findings are available in the individual Powerpoint slide decks for each engagement element.

This document does not:

- attempt to draw out assumptions and conclusions from research – individually or cumulatively - on which decisions/justifications/interventions for the business plan decisions are made
- cross-reference research findings to business as usual data and other evidence - on which decisions/justifications/interventions for the business plan decisions are made.

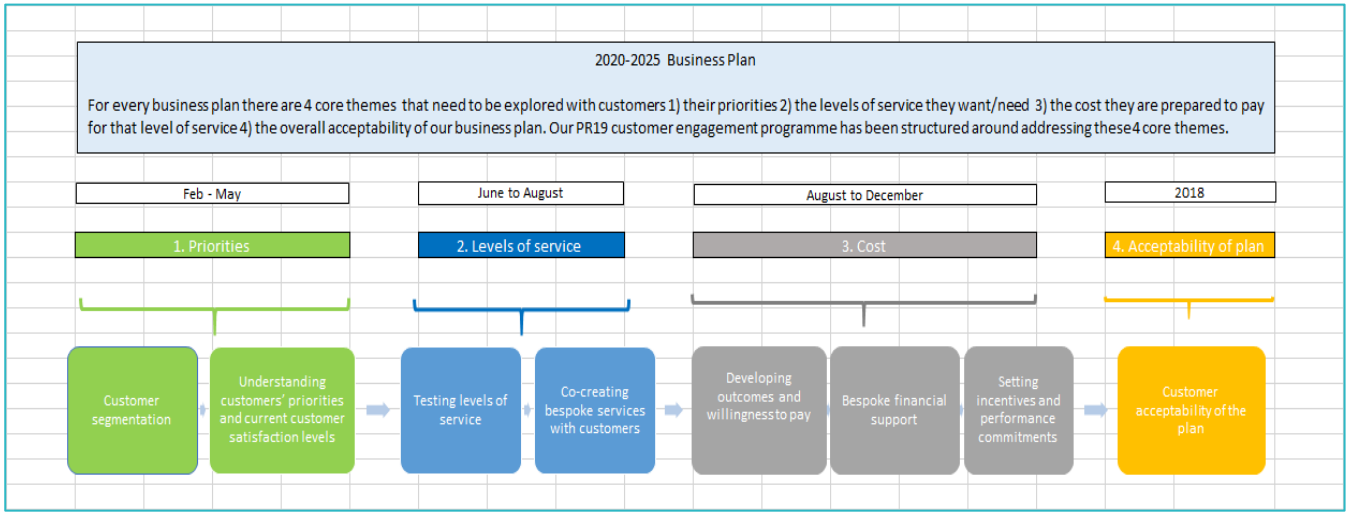
This exercise will occur as the research is completed and will be included in a more expansive engagement appendix to the business plan document.

1.2 2020-2025 business plan engagement

For every business plan there are core themes that need to be explored with customers:

1. their wants/needs and relative priorities
2. the levels of service they want/need in relation to the above
3. how they would like the service delivered
4. the cost they are prepared to pay for that level of service - which includes ensuring we meet our wider obligations around water quality, asset health/resilience and the environment
5. the overall acceptability of our business plan.

Our PR19 customer engagement programme has been structured around addressing these themes in the following way:



1.3 Water Resources Management Plan and Drought Plan engagement

The Water Resources Management Plan (WRMP) and Drought Plan (DP) are also produced every five years, and are statutory plans on which we consult with customers and stakeholders.

The WRMP is a long-term plan - looking ahead 25 years or more - and outlines what the company will do, when and where to maintain customers' water supplies while also protecting the environment; while the DP focusses on the short term, tactical and operational actions the company will take to conserve supplies during a drought.

Both plans however share some important issues; that is, what is the level of service that customers expect, and are happy to pay for, around the frequency every year of:

- temporary use bans
- non-essential water use restrictions orders
- the need for drought permits to take more water from the environment; and
- standpipes in the street.

It is this common level of service around the frequency of water-use restrictions etc that is tested, among other areas, during WRMP-specific research (and which is then reflected in the Drought Plan).

2. Priorities research

2.1 Introduction

There are two aspects to this phase of research – defining the customer segments that exist among our customer base; and understanding the baseline position of customers' priorities and current levels of satisfaction.

2.2 Customer segmentation research

2.2.1 When did we do it?

April 2017.

2.2.2 Who did we ask?

Household customers.

2.2.3 How did we do it?

We adopted a qualitative and quantitative approach as follows:

- Qualitative 2 x focus groups to determine what customer segments exist and to explore/understand any differing views
- Quantitative 1,000 interviews to quantify the percentage make-up of segments across our wider customer base
- Qualitative 8 pre-tasked focus groups and 6 in-home depth interviews to add more detail to the segments and begin to name them

2.2.4 Why did we choose this method of research?

Qualitative research is about having a conversation – one that explores based on opinions, attitudes, beliefs and intentions. This kind of research allows you to deals with questions such as "why?" "would?" or "how?" so that it becomes an in-depth exploration of what people think, feel or do and, crucially, why. If you want to know why your customers behave as they do and what barriers there may be to their changing that behaviour, you would use qualitative research to explore those issues in a conversation-type setting.

Given that these opinions are often obtained from small numbers of people, the findings are not necessarily statistically valid – which is where quantitative research is used. Quantitative research is undertaken with a larger sample of participants and the findings, therefore, are more statistically valid and on which decisions can be made.

For the segmentation exercise we determined a qualitative-quantitative-qualitative approach would use the `best of both' research techniques in that we could:

- allow customers to explore in detail their different attitudes and behaviour. The discursive, social aspect of a focus group discussion allows customers to 'spark off' each other and facilitated a broad ranging exploration (and co-creation) of customer motivations, perceptions and attitudes

- then test the ideas and concepts i.e. attitudinal segments that emerged in focus groups quantitatively, to verify the segments and representation across the company's supply area to provide more robust data
- add detail and refine the customer segments in the final phase of qualitative research.

2.2.5 Why did we need/want to do this?

The experience we have gained from running satisfaction surveys has shown there are some differences between satisfaction when analysed by more traditional demographics – such as age, gender, socio-economic groups.

This type of `social segmentation' is the approach that has historically occurred at successive price reviews. However, it can be a blunt tool when it comes to understanding our customers better - age, where you live and your `social standing' are society's way of defining peoples' views.

We believe customers' views about their water service are more influenced by their attitudes and values/beliefs. For example our satisfaction surveys shows there are higher satisfaction rates for interruptions among customers without a disability, as opposed to those with a disability – despite experiencing the same level of service. Why is that?

Before we can test whether customers' views on their priorities, service and satisfaction levels are different for water - based on what attitudinal segment they identify with - we first need to define what those segments are.

This `attitudinal segmentation' testing specifically for water will reveal if our instincts are right - that there is no such thing as an 'average' customer when it comes to the water service they receive.

2.2.6 How is this informing our plan?

Our daily conversations and transactions with customers, combined with the data gathered from successive customer satisfaction surveys over the last two years, has given us valuable insight about the core services customers expect from us. Like many water companies, this has been translated into an `average level of service' for the `average customer' paying an `average bill'.

However, the daily conversations and transactions we have with customers reveal there are times when they have different needs and expectations. What drives this? We don't fully understand that – and in fact our customer satisfaction surveys show it's not always obvious what effect our `input' ie our activity, service, product has made on the `output' ie the customers' satisfaction score.

We think there is value in moving away from the notion of an average level of service/bill/customer towards attitudinal segmentation. This is a key distinction of our PR19 engagement and the potential progression of the services that we could reflect in our business plan.

2.2.7 Findings

The research revealed seven customer segments:

Segment	% of customer base	Favoured brands	Potential for engagement	Potential initiatives
Global thinkers - Mature, affluent, financially secure and engaged in big picture	16%	Their favoured brands are perceived to have a conscience but do not compromise 	• Partnership approach to water and resilience planning • Prepared to engage on a more intellectual level with South East Water and think collectively about ways to conserve water/energy • Push me further	• Intellectual, involving messaging • Recycling grey water • Environmental tariffs • Social responsibility
Me, Myself & I - Male, mature, comfortable and focus on number 1	13%	Brands reflect more down to earth, everyday focus – functional performance and self-centred emotional reward 	• Current life demands mean unlikely to engage in water saving unless there is something in it for themselves • Hence, incentive based approach most likely to impact – “make it worth my while”	• Disruptive tone of voice and content • Free devices • Smart meters
In The Dark - Tech immersed, busy jugglers who would be more outward focused if they had time	15%	Brand engaged and prepared to pay a bit more for quality, service and emotional reward 	• Busy lives means they don’t want to engage – resulting in big knowledge and context gap	• Online/short Did you Know…. • Smart Meters • Apps • Smart tariffs/technological solutions

Segment	% of customer base	Favoured brands	Potential for engagement	Initiatives
Mindful Optimists - Middle aged, lower SEG customers, community vs. corporate focus	23%	Less persuaded by 'brands' and marketing; functionality, value, quality focus and prepared to shop around 	• Solutions based approach to engagement • Community focus means there is some scope for greater involvement through ongoing engagement eg forums	• Practical/rational messages Water reminders/How to • New solutions to keep them up to date • Education of next generation
Not on my radar - Young, female, mid SEG, living for today with low social conscience	22%	Brand choices reflect pretty "safe" drivers of choice and engagement 	• Difficult group to engage – low interest, low social conscience and low water bill	• Compulsory metering programme with supporting information could change behaviour
Keeping It Simple - Kind and thoughtful about the community around them; financially careful and waste conscious	12%	Brand choices reflect traditional values and the importance of affordability and trust 	• Potential to build a relationship with this group – they have time and energy to consume warm, friendly communications that will help build satisfaction with services and potentially higher WTP propensity in the future	• Simple messages in traditional formats • Promotion of supportive tariffs • Positively surprise thought devices, home visits

2.3 Customer priorities and satisfaction research

2.3.1 When did we do it?

July 2017.

2.3.2 Who did we ask?

Household customers – testing across the customer segments.

2.3.3 How did we do it?

Qualitative research for **customer priorities and satisfaction** using:

- app based pre-tasks and paper-based pre-tasks
- 6 x extended deliberative workshops to understand customers' immediate priorities (2019-2024)
- 6 x extended deliberative workshops with a `future focus' to understand customers' long-term priorities (to 2050)

Qualitative research for `service recovery' research using:

- 7 x focus groups to discuss customers' expectations when things go wrong with their water supply service. NB: this included a group of customers from Hailsham and Barcombe who have experienced large water main bursts/service failure during the past two years.

2.3.4 Why did we choose this method of research?

Pre-tasking is a useful technique to use before participants come to a deliberative workshop. It:

- enables the discussion to be based on real, recent experiences with participants able to contribute from their own knowledge
- ensures the time in the groups/interview is maximised – permitting greater familiarity with the topic areas
- offers a richer insight
- allows individual views to be expressed - without the influence of peers or the 'group-think' that can sometimes occur.

We followed up the pre-task activities with deliberative workshops. The discursive, social aspect of these workshops allowed customers to 'spark off' each other and facilitated a broad ranging exploration of customers' priorities for their water supply service (now and in the future) and current levels of satisfaction during normal service and when things go wrong.

2.3.5 Why did we need/want to do this?

While we have clearly learnt what our customers' priorities are from PR14, our daily conversations and transactions and other external data/research, we need to re-test rather than assume. We need to have a `baseline understanding' of customers' current and future priorities, and their levels of satisfaction with the service they receive.

Also, the experience and learnings we have gained from issues such as drought and large-scale interruptions to supplies, have shown us customers have very different expectations during normal service to when things go wrong - but what are those expectations? The post-incident feedback we've had to date leads us to believe there are instances where they may want more bespoke, tailored and targeted services. We'd like to know what those expectations are before `something goes wrong' - which is why think there is merit in testing this.

This stage of research is essential as it will provide further insight into:

- customers' priorities now, and if these have changed since PR14
- what customers think could/should be their/future customers' priorities for water in 2050
- how satisfied are customers now and how satisfied do they want to be in the future?
- how do customers' priorities change from `normal service' to `when things go wrong?'

2.3.6 How is this informing our plan?

Delivering a water supply service that meets our customers' core needs, expectations and priorities is fundamental to how we develop our business plan.

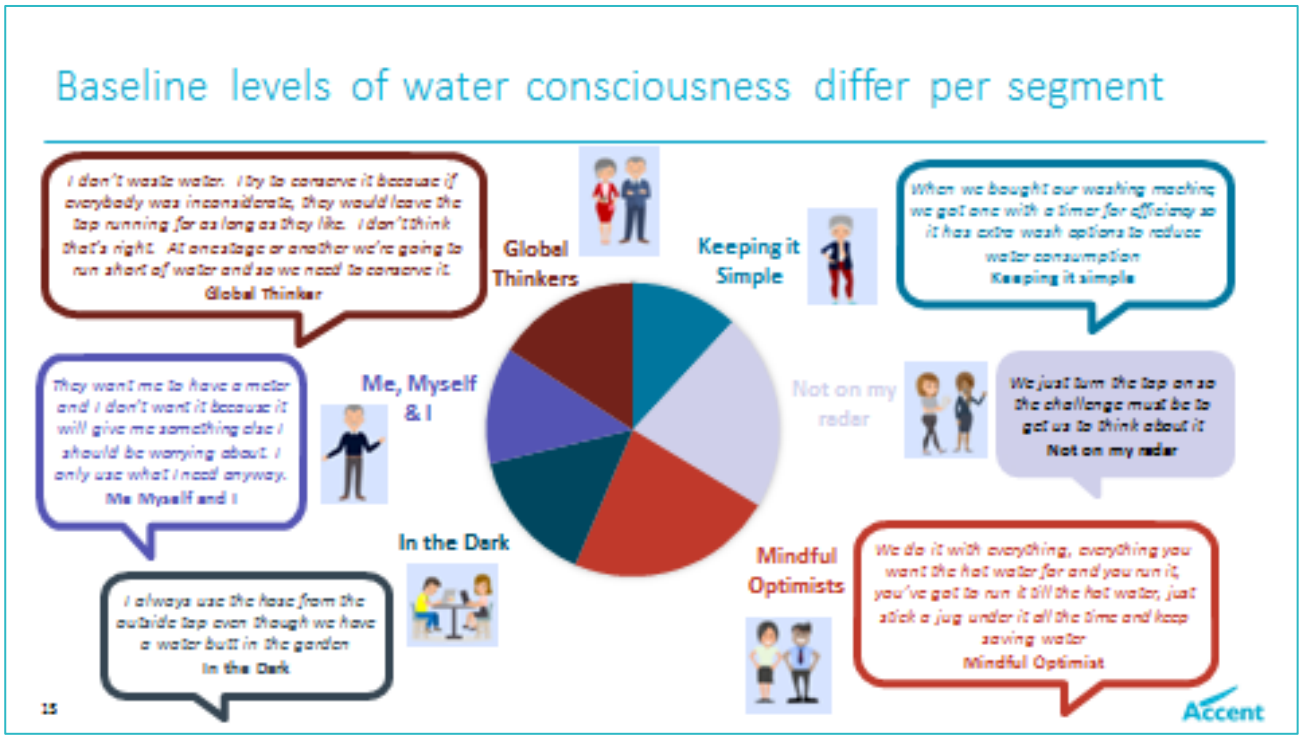
In addition, our experience of managing customers' water supplies - during normal service and when things go wrong - reveals customers have very different expectations of what we will do, when we will do it, and how we will do it. Their post-incident feedback in particular has given us valuable insight as to the service and communications they expect from us and so it is important this is reflected in our business plan.

2.3.7 Priorities research findings

Pre-task activity

The pre-task activity was designed to elevate water consciousness among customers and revealed the highly emotional associations with water that customers have, but which they do not always consider on a daily basis:

Also, baseline levels of `water consciousness' differed among the customer segments:



Customers' current priorities

When it came to their **current priorities**, there were common themes among the customer attitudinal segments across the focus groups – customers expect us to deliver these `hygiene factors' ie basic activities as part of the service i.e. "this is what I pay my bills for":

- tackling leakage
- satisfying customers
- keeping bills affordable
- security of supply (meeting increased demand)
- clean water/good taste
- investing in network/treatment works.

The research also revealed customers believed/hoped/expected us to be focussing on delivering certain `enhancing factors' i.e. additional activities:

- investing in new water sources
- tackling implications of climate change
- educating customers to reduce water usage
- protecting the natural environment
- water softening
- water neutral schemes
- investing in new technology
- smart meters.

Customers' future priorities

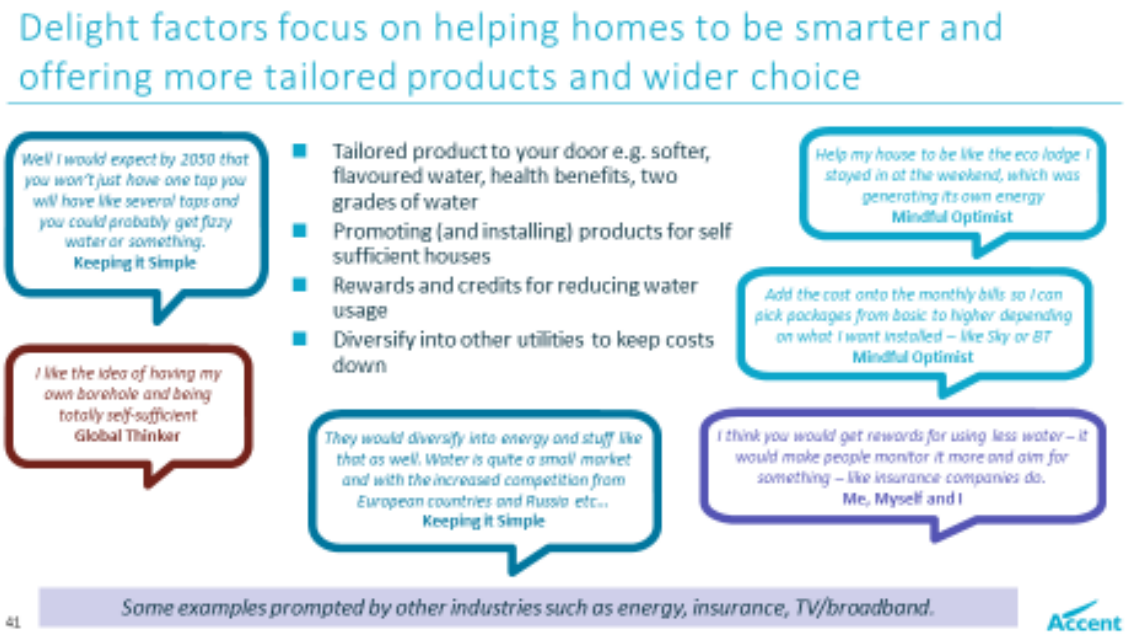
When it came to their **future priorities**, customers were clear that they expected South East Water to deliver **all the current hygiene (ie basic) and enhancing (ie additional) factors listed above.**

In **addition** they expect us to meet new emerging expectations such as:

- artificially-intelligent customer service
- water/waste recycling
- smarter pipework (self-fixing infrastructure, no leaks)
- water efficiency measures
- environmentally friendly/reducing carbon footprint/reduce wastage
- smart meters
- protection against terrorism
- modern, honest company image
- enough supply to meet demand (new water sources eg desalination vs. population demand)
- clean water/good taste
- using science to progress treatment/maintenance (eg desalination)
- solar powered purification
- community projects – conservation/recycling centres
- a pollutant free service – dedicated to the environment

The future-focussed research discussions also revealed the opportunity to delight customers **even further** by:

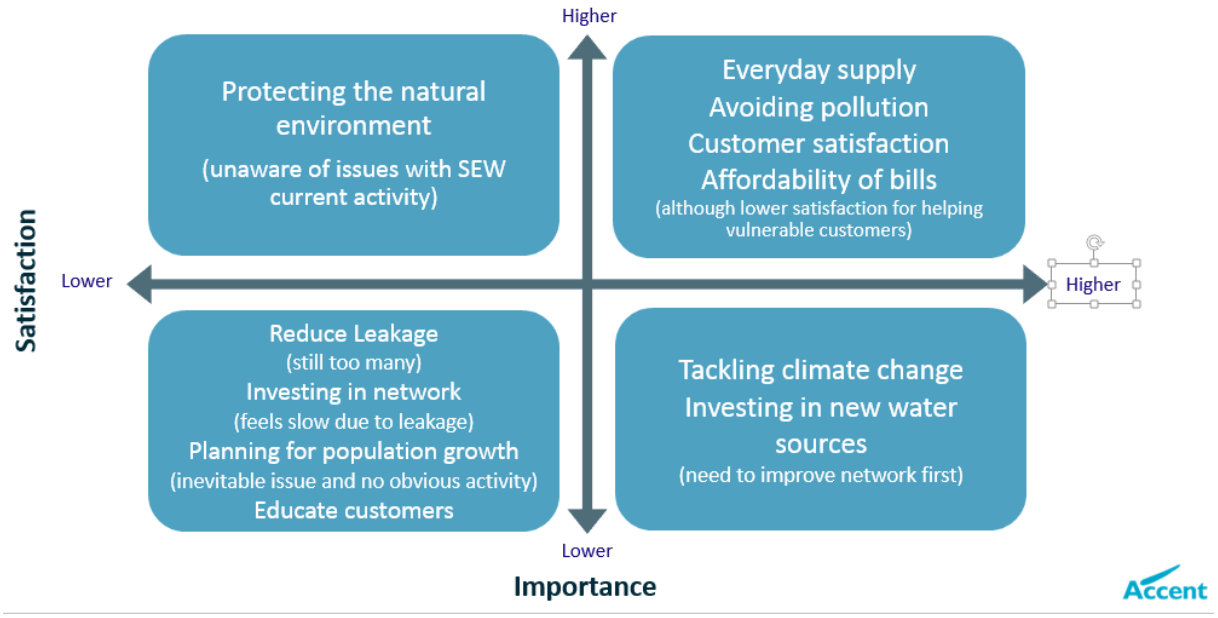
- offering a tailored product to their door e.g. softer, flavoured water, health benefits, two grades of water
- promoting (and installing) products for self-sufficient houses
- rewards and credits for efficient water usage
- diversify into other utilities to keep costs down



Customers' satisfaction

This research showed that across the focus groups customers are generally satisfied with our current performance – certainly around the `hygiene factors' ie the basics/this is what I pay my bill for.

However, it also revealed lower levels of satisfaction - and counter-intuitively lower importance - around reducing leakage; while there was lower satisfaction but higher importance attributed to protecting the natural environment as the following graph reveals:



2.3.8 Service recovery research findings

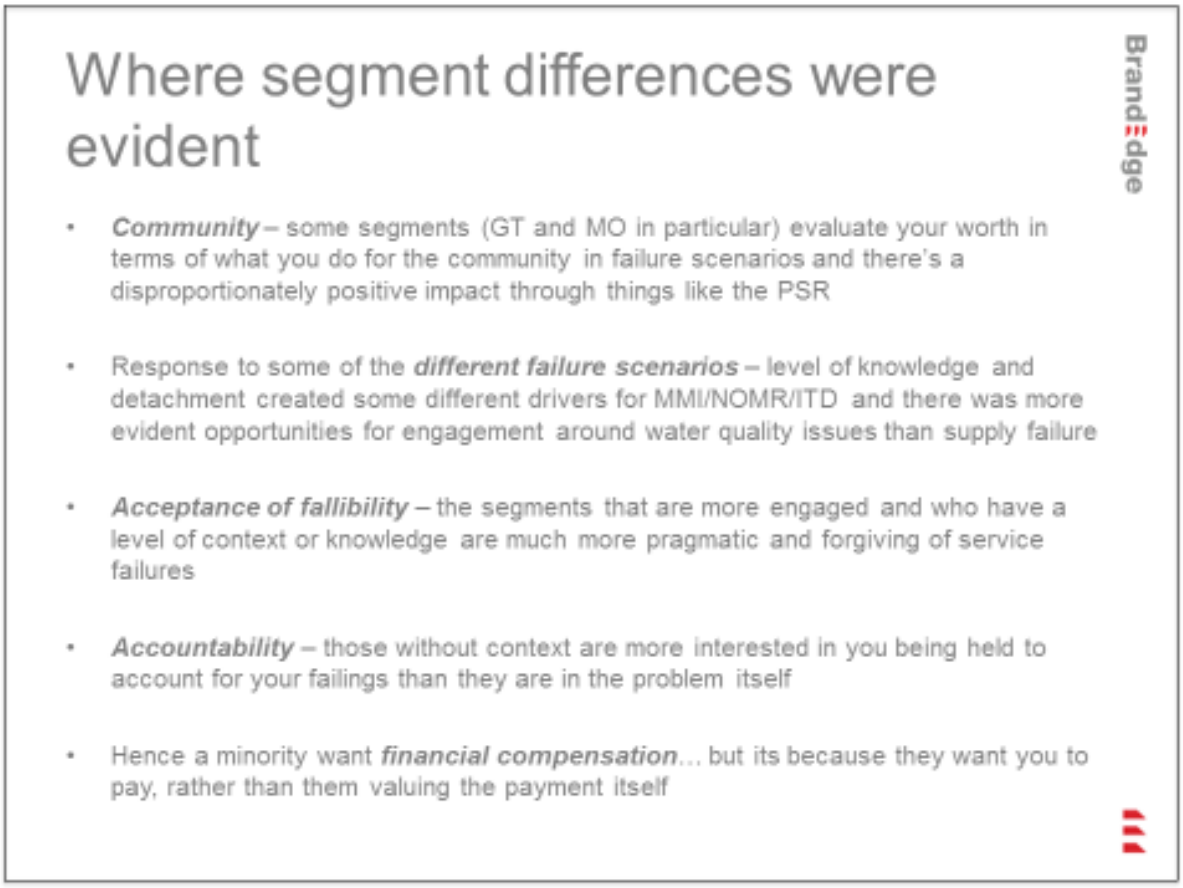
In terms of `service recovery', the expectations and needs of customers are more common and consistent across the attitudinal segments than they are different.

Common themes were:

- customers are confident that we will fix the issue, but….
- …they do want to understand what has happened want to see/know that we have a plan in place
- regular updates are appreciated - not necessarily about fixing things quicker, just about keeping everyone informed, and using communication methods of *their* choosing
- empathy in our `service recovery' response is important as it would show we understand the human consequences of a failure
- the priority services register was very popular – customers' wanted to know that we were helping those in need; but they expressed some concern that it felt like the burden of responsibility lies at householders door to find out about this

- during this specific research, customers were open to the idea of a `we're sorry' gesture as opposed to traditional compensation - the ambiguity around how much was paid to seemed to make them more detached from the act itself, while they also recognised they could be footing the bill for any monetary payments.

However, there are some instances where the segments become evident and their needs differed; this seemed to be largely driven by life stage, lifestyle and circumstance rather than linking back to the distinct attitudinal segments:



3. Water Resources Management Plan research (including levels of service)

3.1.1 When did we do it?

July to October 2017

3.1.2 Who did we ask?

Household customers – testing across the customer segments.

3.1.3 How did we do it?

We adopted a qualitative and quantitative approach as follows:

- Qualitative 2 x comprehension sessions regions using mix of customer segments
- Qualitative 6 x community groups with pre-task activity using mix of customer segments
- Quantitative Willingness to Pay survey with 600 customers, using mix of customer segments (500 online, 100 in-home with hard to reach/seldom heard customers).

3.1.4 Why did we choose this method of research?

Testing the current and future resilience of water supplies, and levels of service around restrictions, are complex topics to explore with customers – and so the comprehension sessions were vital to first test customers' understanding of the term resilience, and how best to define it; and how best to interpret the risk of something happening. That would allow our later stages of qualitative and quantitative research to use language and visually engaging materials that maximised customers' comprehension of the issues we wanted to explore with them.

The qualitative research - undertaken via six community groups with a pre-task activity - was again about having a conversation with customers to explore their views, attitudes and beliefs around the resilience of their water supplies and some of the restriction risks that could occur. Similarly pre-tasking is a useful technique to use before participants come to a community session workshop to enables the discussion to be based on real, recent experiences; maximise the discussion time in the groups; offers a richer insight; and allows individual views to be expressed - without the influence of peers or the 'group-think' that can sometimes occur.

Given that these opinions are often obtained from small numbers of people, the findings are not necessarily statistically valid – which is why we then adopted a final quantitative research phase with a larger sample of participants.

This tested customers' willingness to pay/accept a deterioration in levels of service as a result of them wanting to change the frequency (ie the risk) of something happening. The quantitative phase would make any findings more statistically valid on which decisions can then be made.

3.1.5 Why did we need/want to do this?

A WRMP focuses on the range of options that can both manage demand for water (metering, leakage, water efficiency) as well as ways of generating new sources of water (water re-use, reservoirs, desalination).

Within the context of changing climate and rainfall patterns, growing population and pressure to reduce abstraction over the 25-year WRMP, we needed to:

- Gain insight into what language/material is best to use when it comes to engaging with customers about resilience, levels of service and risk to future water supplies
- Explore different types of resilience and associations/expectations customers have of SEW (infrastructure, ecosystems, community, corporate, financial)
- Explore what type of scenarios they expect SEW should plan for to become resilient, both now and in the future (eg flood, drought, cybercrime)
- Prioritise the activities associated with these scenarios, taking account of the relative costs for these activities
- Ascertain customers' willingness to pay more/willingness to accept a deterioration in the frequency (ie the risk) of something happening
- Ascertain how much current customers feel it is their responsibility to contribute to the resilience of future generations.

3.1.6 How is this informing our plan?

The WRMP is a statutory plan that sets out how we will maintain water supplies to current and future customers over a 25-year period, by managing demand for water and delivering schemes that generate additional water.

The WRMP also determines the level of service around maintain water supplies that customers can expect during a drought ie the frequency of restrictions. Any improvement (or deterioration) in these levels of service need to be informed by customers as to improve levels of service would require additional investment to improve resilience and flexibility.

The research findings will be used to determine customers' views on how we can make current and future water supplies more resilient; and the level of service customers expect and are willing to pay for. This is then translated into investment priorities for both the WRMP and the 2020 to 2025 business plan.

3.1.7 WRMP research findings **(part – qualitative results only to date)**

Comprehension sessions

The comprehension pack we developed for participants attending these initial sessions explored different ways of expressing risk/probability, resilience language and different type of risks. Stimulus material included references from Water UK, Discover Water and from South East Water's own WRMP materials.

This initial stage of research revealed mixed levels of comprehension:

- Participants understood the concept of planning for the future
- Everyone understood that a drought is caused by insufficient rainfall
- People understood hosepipe bans and standpipes….

….but issues of comprehension arose when discussing the probability of something happening:

- Some technically-minded participants found it easy to understand risk plans and interpret risk graphs and data
- Less technically-minded participants needed more explanation to help them interpret the graphs and risk data.

The comprehension sessions highlighted that the materials we intended to use in later research stages needed simplification to ensure they were understandable for all participants; and could work within a standalone interview without the need for disproportionate supporting discussion to also occur.

That resulted in a reduced and simplified stimulus pack for the next stage of research – the Community Sessions - as proposed below:

Issue	Original Material	Resolution	Revised Material
Helping people understand why companies need to plan for low risk situations	Showcard Droughts General	Outside industry context is a very useful aid for customers to understand risk management in a relatable way	Showcard A
People dismiss risk as too far in future or not my problem	Showcard C1 and C2	Provide facts and figures AND asking them to view future risks for their grandchildren's generation Visualising future is too hard in short quantitative interview	General topic guide reference No showcards needed
Customers need to understand potential risks that South East Water face	Showcard A	Avoid using Resilience language Initial showcard is too wordy Simple vocal – plans, making sure, continue providing water, now and future	Merge this with Showcard B below

Issue	Original Material	Resolution	Revised Material
Provide some of the water industry pressures that South East Water need to plan (be resilient) for but amalgamate into 4 key threats	Showcard B	a. Growing population which might increase demand on South East water b. Climate change can cause unpredictable rainfall patterns and cause flooding which can impact on South East Water supply c. Shortage of rainfall which might reduce supply of South East water d. Need to reduce the amount of water South East water take from the rivers to protect the environment which might reduce supply	Showcard B
Need to demonstrate the impact of shortage of rainfall and how this is monitored	Drought definition and historical data	Principle of these works well Helpful in making the risks meaningful with a recent temporary restriction Changes needed to ensure the graph is self explanatory	Showcard C and D
Need to provide the customer impact of droughts e.g. description and types of restrictions	Showcard Drought restrictions	This works well but more clarification over non-essential water use restrictions and differentiation of this and temporary usage bans	Showcard E

Issue	Original Material	Resolution	Revised Material
Need some context around current levels of drought planning	Planning for droughts	People don't understand the language historic -more severe and what it means People do understand that this is a risk scale and it would be better expressed in this way	Showcard F but do we need this?
Understanding levels of service	Current levels of service	Confusing to have risk expressed in two ways Annual probability (%) of occurrence understood more Do we need to be testing levels of service for abstraction?	Showcard G, H, I1 and I2
Customers need to understand what South East Water can do about these risks but need to make informed judgements based on approx costs/benefit	Showcard D	South East Water to provide new material on resilience solutions	Showcard Option J1 – J11

Community Sessions

The final structure of the Community Sessions simplified the journey we took participants on, as follows:

1. Introductions
2. Looking at planning for risk in the future outside of water - context setting
3. Looking at the potential risks South East Water faces - understanding them
4. The impact of those risks eg droughts/water restrictions - exploring current experience
5. The likelihood of risks and acceptable levels of service – customers' valuation of these
6. South East Water resilience solutions – exploring possible options.

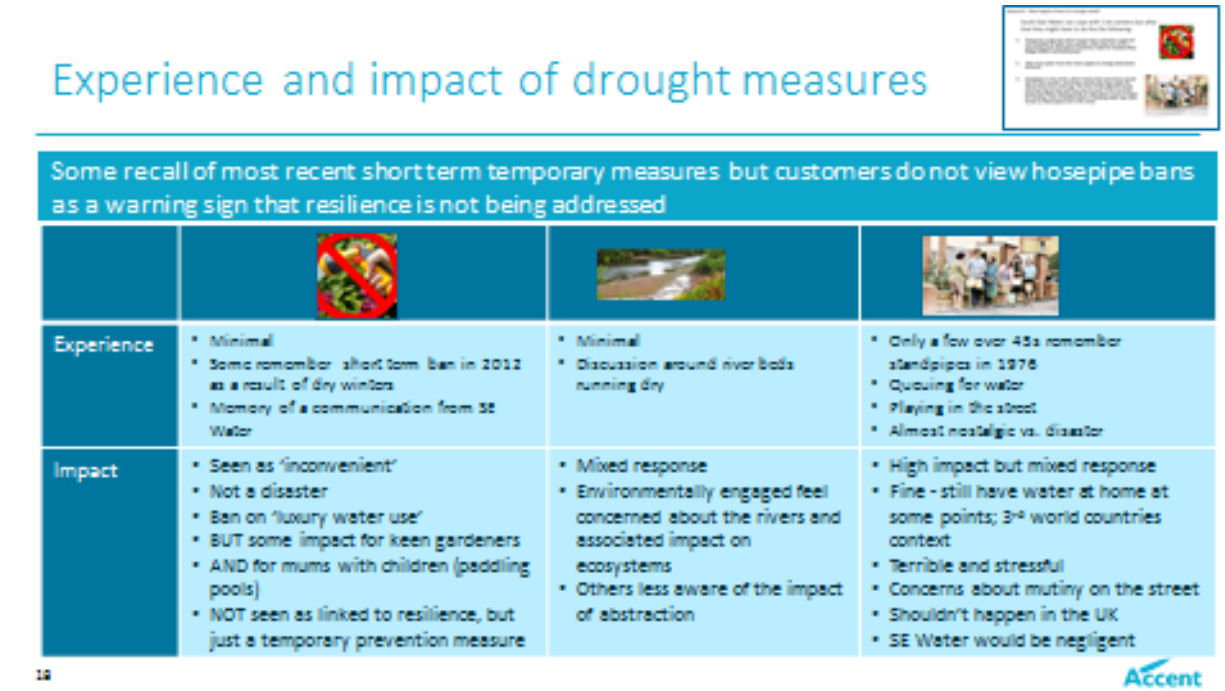
The community sessions took place across six locations (Petersfield, East Grinstead, Heathfield, Tenterden, Wokingham and Whitstable).

Regardless of the customer segment represented, responses in each group were filtered by local experience and observations:

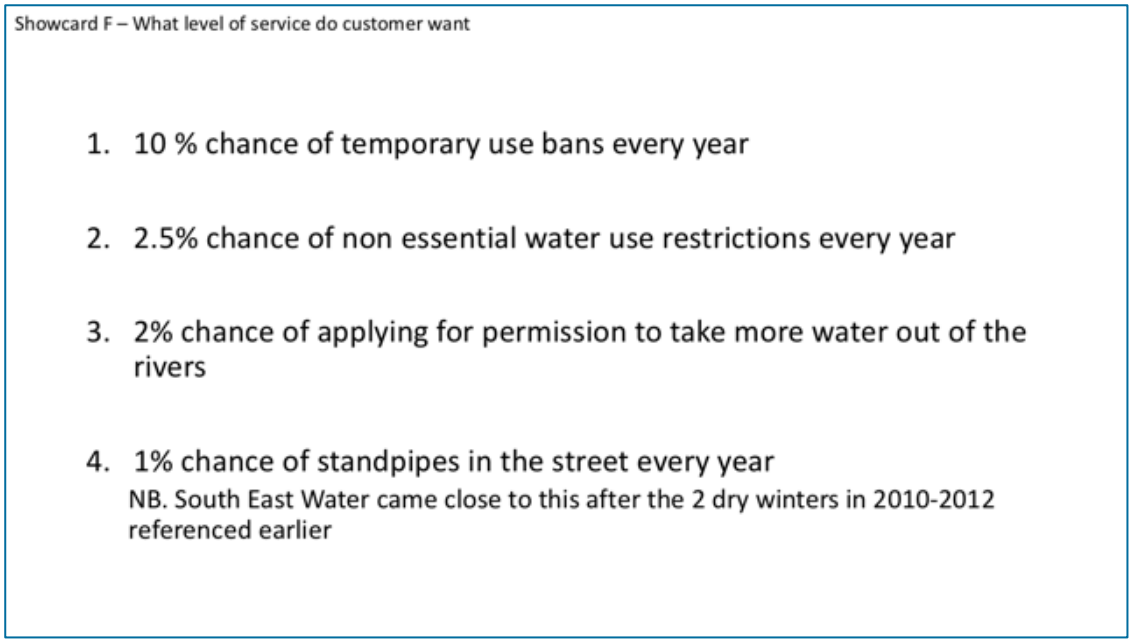
- Participants in more urban areas (eg Wokingham) and those being developed (Heathfield) were more aware of the challenge of population growth
- Participants in semi-rural areas (eg Petersfield) are fairly environmentally engaged but less concerned about the development issue (though still on their wider radar)
- Drought issues are more `top of mind' where local reservoirs or rivers have been observed as being at low levels (eg Heathfield session)
- Concerns about leakage were higher where recently experienced locally (Whitstable session).

In terms of looking at the potential risks South East Water faces, customers understood the importance of South East Water planning for future events, and are reassured that South East Water is doing so - but they would expect any business to manage operational risks:

When it came to discussing the impacts of those risks ie drought and water use restrictions, some participants' recalled the most recent experience and the impact of hosepipe bans. However, generally customers do not view hosepipe bans as a warning sign that the wider issue of resilience is not somehow being addressed:



When it came to testing levels of service, we used the following showcard to prompt discussions:



Participants' responses to these levels of service were:

- All were seen to be low and unlikely to happen
- Temporary bans - inconvenience factor versus a major problem, and so a 10% chance felt acceptable
- River abstraction – concerned the environmentally engaged but even these participants felt that a 2% chance of this happening is low
- Standpipes - prompted the greatest concern but a 1% chance felt extremely low. The context of the recent two dry winters was recognised but the fact that South East Water managed it (and it rained) means participants felt the company is planning appropriately.

When testing participants' willingness to pay more to reduce the changes of temporary use bans happening, there was no real appetite to pay more to decrease the risk - but some willingness to pay for broader future investment:

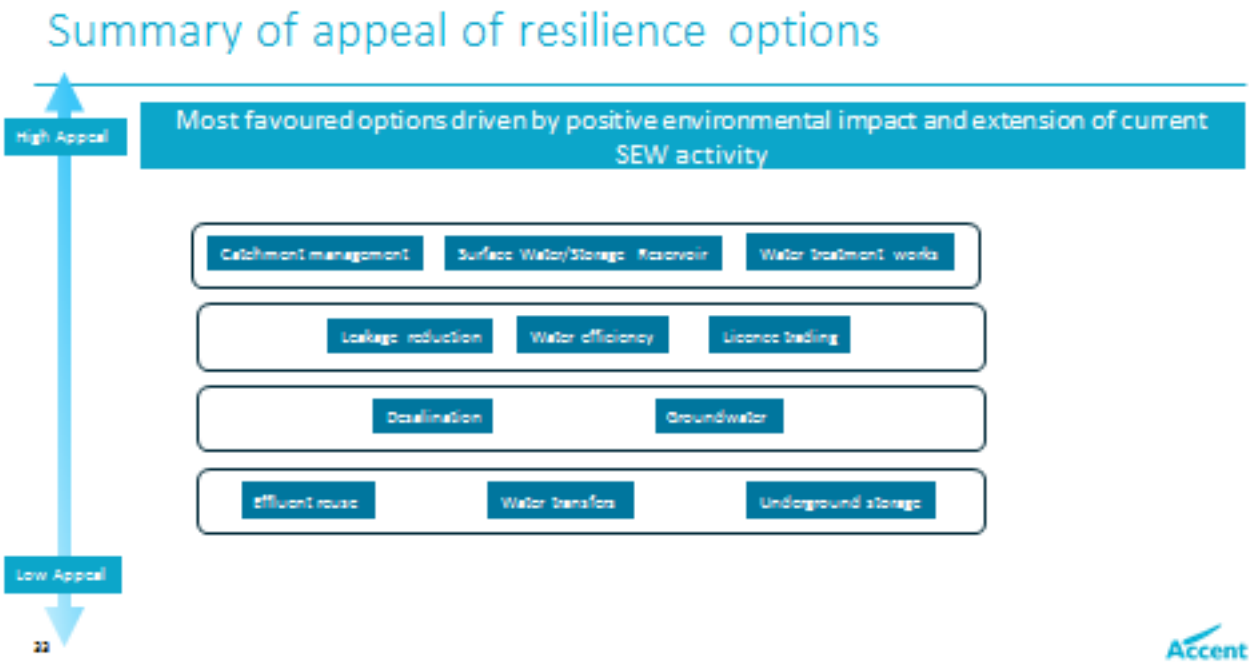
In relation to standpipes in the street, despite some fears around the idea that this could occur, participants concluded that planning for a 1% risk of it happening is acceptable – on the basis that there is a low probability of this happening.

The final element of the community sessions was to test participants' responses to the range of resilience options that South East Water could invest in to maintain customers' water supplies and meet their expectations on levels of service.

Each resilience option was presented with their potential financial, environmental and resilience impact in visually-engaging graphic form so the participants could discuss and weigh up the pros and cons of each option. As a result of those discussions the sessions revealed:

- There is no 'silver bullet' resilience option that is low cost, low environmental impact and high resilience impact when it comes to managing and/or preventing droughts
- The most appealing solutions selected by participants were mainly due to their lower environmental impact
- Participants were least accepting of those options that resulted in higher spend with possible environmental harm **and** an uncertain resilience impact.

This following slide summarises how participants rated the range of resilience options available to South East Water:



4. Bespoke services research

5. Willingness to Pay research

6. Bespoke financial support research

7. Outcome delivery incentives research

8. Acceptability of our plan research

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