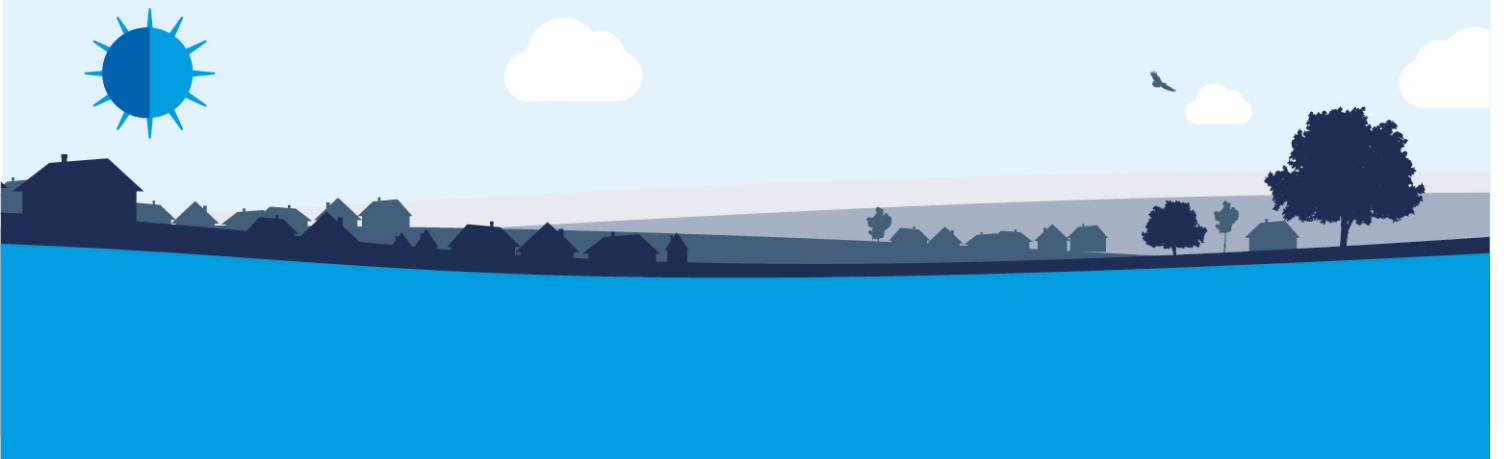


# Appendix A5

## Defining the customer promise



## Contents

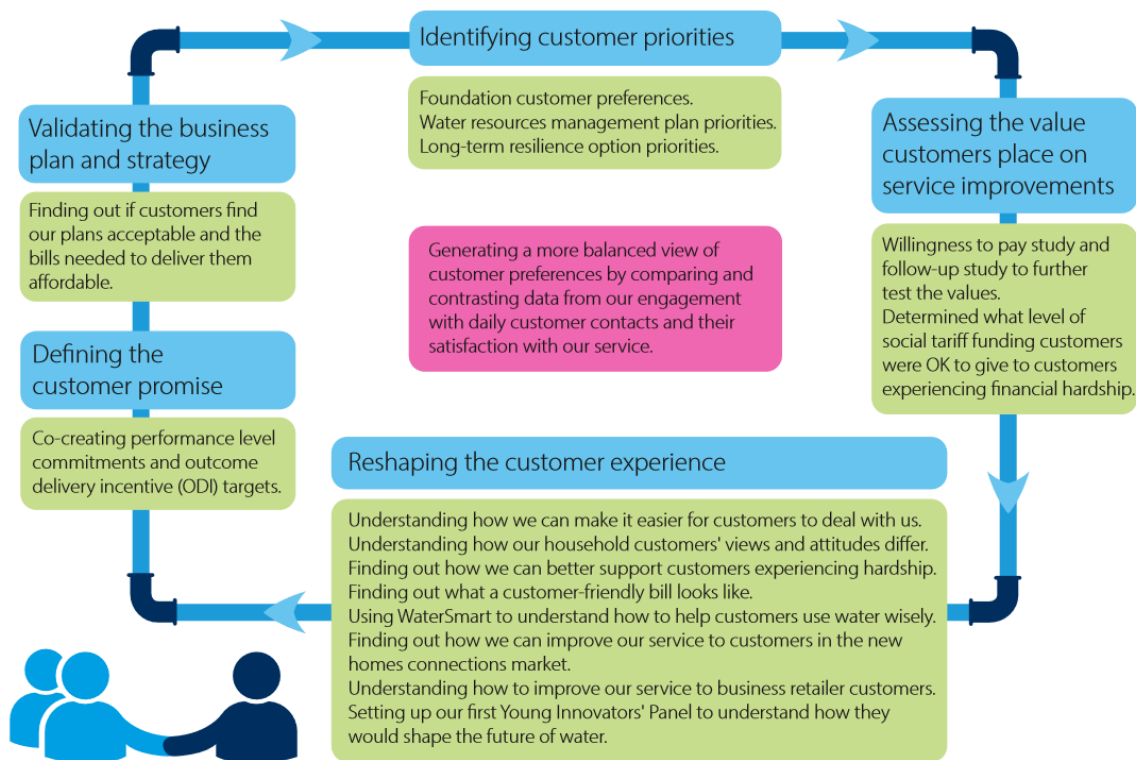
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# 1. A new approach to customer engagement

Over the last two years we have fully reviewed how we approach customer engagement to ensure that our customers’ priorities are placed at the heart of our business plans. This cultural shift comes from our executive team’s view that the customer voice should drive all the key decisions we make, now and in the future.

Our comprehensive customer engagement journey which supports our price review (PR19) business plan has five key elements, which are set out in our graphic below. We are also committed to continuing with this approach through 2020 to 2025 and beyond so that we can ensure our customers’ views are continually at the heart of our plans.

This report sets out the key customer insights from the fourth step of our journey, “defining the customer promise”.



Our approach to customer engagement

An important part of our PR19 customer engagement programme focuses on reviewing, comparing and contrasting (or ‘triangulating’) customer evidence from a wide range of sources. This is central to our journey and ties it all together.

Our customer promises for 2020 - 2025 are the end result of an extensive process of reviewing all the customer insight data relevant to our plans, to develop a set of promises that reflect their priorities and those of other stakeholders such as Ofwat, the Environment Agency and CCWater. Details of our earlier engagement can be found in the appendices A1 to A4.

Our engagement approach developed for PR19 and beyond, has made sure that we really understand who our customers are and what they want us to deliver. In particular it has also helped us to develop five outcomes, each of which contain a number of promises. They flow directly from

our initial Foundation priorities research undertaken in May 2017, through to customers actively helping us to co-create our final set of promises in 2018.

This report demonstrates how our customers helped to shape these outcomes and the 28 'Performance Commitments' (PCs). These are the areas our customers have said they want to hold us to account for the period 2020 to 2025. The high level promises are summarised below.



How we are making water count – our promises to our customers.

## 2. Customer engagement insights supporting our plans

All our customer engagement activities have proved vital in helping to define our customer promises. However, we have detailed in Table 1 the specific engagement where we have asked customers to ‘co-create’ a series of promises and PCs. And, we have tested whether the targets we were proposing to set were acceptable to them.

It is important to note the following:

- unless otherwise stated, all our customer engagement covers both our supply regions (South Staffs and Cambridge) to allow a robust analysis of the insights;
- the vast majority of our engagement activity was independently carried out by our preferred agency partners and robustly challenged by our independent customer panel (CCG); and
- studies marked with an asterisk (\*) in the first column contain robust samples of hard to reach customers. This covers both customers who are experiencing financial and/or other hardships (i.e. vulnerable customers) and future customers who are not bill payers (the majority of these are aged between 18 and 25).

Please refer to the customer engagement journey appendices and the detailed reports provided by our preferred suppliers for full findings and details of the methodologies used.

Table 1: overview of customer engagement work streams

Engagement work stream	Headline methodology used to engage with customers	Insights collected	Supporting appendix reference
Non-household retailer engagement to improve service delivery and define performance commitment	<p>Stage 1: Qualitative study involving 12 in-depth telephone interviews with operational and senior contacts (covering current customers and one non-customer).</p> <p>Stage 2: Follow up consultation direct with customers on a performance commitment (RMEX) based on the feedback from the in-depth interviews.</p>	<p>Feb – Apr 2018</p> <p>Jun – Aug 2018</p>	A19
Engagement to understand if customers support our proposed customer promises and outcome delivery incentives plans for 2020-2025* - including our cost adjustment claim for our Water Treatment works in the South Staffs region	<p>Stage 1: Qualitative study with two facilitated all-day workshop events with 54 customers (covering household and non-household by key demographic splits.)</p> <p>Stage 2: Quantitative survey with 783 household customers and 36 business customers (covering all key demographic splits and weighted to regional demographics.)</p> <p>The quantitative study included customers being exposed to an in the moment bill impact when improving or decreasing level of service for 11 of our performance commitments.</p> <p>On-line sliders activity sensitivity tested with 44 household customers (random, non-weighted</p>	<p>Feb – Apr 2018</p> <p>June 2018</p>	A22 (and supporting documents)

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	<p>sample.)</p> <p>Attended South Staffs County Show (May 2018) and Cambridge Live (July 2018) events so Executive team members and PR19 team could talk to customers (293 in total) about our 5 proposed outcome measures. Tokens used so customers could vote on their preferences (random, non-weighted sample.)</p>		
<p>Testing customer acceptability of our business plan and affordability of associated bills for 2020-2025 and AMP8*</p>	<p>Stage 1: Qualitative study of ten facilitated focus groups with 78 customers (covering household and non-household by key demographic split.)</p> <p>Stage 2: Quantitative survey with 1,000 household customers and 200 business customers (covering all key demographic splits and weighted to regional demographics.)</p>	<p>May – Aug 2018</p>	<p>A23 (and supporting documents)</p>

### 3. An improved approach to developing our customer promises

Our customer promises are developed directly from listening to what our customers had said is most important to them during the first three stages of our customer journey, as shown in Figure 1.

#### 3.1 Developing our draft performance commitments

A summary from our engagement of the areas customers want us to focus on are detailed below. The engagement we undertook to uncover these areas is found in appendix A2, with a summary below:

- the most important areas (the “hygiene factors”) are:
  - having a clean, high-quality and reliable water supply;
  - having bills that are fair, accurate and affordable with no unexpected changes;
  - receiving great customer service whenever we interact with them;
  - reducing leakage on our network of pipes;
  - protecting the natural environment – habitats and water sources; and
  - helping those customers who may need extra support – both through financial support and other support when needed (e.g. bottled water in the event of a supply interruption).
- these “hygiene factors” were then followed by a number of other important areas:
  - giving customers more control of their water usage (for example through smart metering) and providing education on how to use water responsibly, particularly for the younger generation (16-25);
  - planning for population growth and managing the impact of climate change to ensure resilience of supplies, now and in the future;
  - ensuring affordability of bills vs. ensuring long-term resilience of assets to meet future demand;
  - meeting the challenge of rising energy costs by lowering our carbon footprint; and
  - investing in innovation to drive improvements, both operationally and the service experience.

We also drew extensively on the findings from our first wave of Willingness to Pay research (appendix A3) and our early formal engagement with household customers about their service expectations and what we were learning through our day-to-day customer contacts and satisfaction surveys (appendix A4).

This comprehensive, customer led review was then set against the context that Ofwat had set nine performance commitments that are common to all water only companies in England and Wales and the guidance that we are to develop a number of specific performance commitments on set themes such as vulnerability, gaps and voids.

In their final methodology<sup>1</sup> for the 2019 price review Ofwat also set out their expectation for water companies to provide assurance and a broad evidence base within business plans that any proposed Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) are stretching and reflect

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<sup>1</sup> ‘Delivering Water 2020: Our final methodology for the 2019 price review’, December 2017

customer preferences. They were also looking for how well-evidenced they are, and that customers have actively participated in shaping and influencing their development.

The end result of our extensive review was the development of an initial set of 30 draft Performance Commitments (PCs). We then wanted to engage with customers to help to ‘co-create’ the final set, with input from our independent customer panel. The 30 draft PCs are detailed in table 2.

Table 2: our draft Performance Commitments, January 2018

Proposed outcome area	Proposed performance commitment	Customer and regulatory evidence	Appendix reference
Core promises	Delivering services that are value for money	Throughout our engagement we found that customers have said that it is important that their water service offers them value for money. Maintaining our current PC.	A2, A4, A6
	Making sure customers have a high level of trust in us	Throughout our engagement we found that customers have said that it is important that they can trust us to deliver a public service that is ‘vital for life’.	A2, A4, A6
Our customers	Great customer service to our household customers	Delivers on priority hygiene factor among our customers. Ofwat common PC (C-MeX)	A2, A4
	Great customer service to our business market suppliers (retailers)	Co-created with customers based on engagement direct with retailers	Section 4
	Great customer service to developers	Delivers on priority hygiene factor among our customers. Ofwat common PC (D-MeX).	A4
Our community	Financial support for household customers struggling to pay their bills	Delivers on priority hygiene factor among our customers. Ofwat specific PC. Maintaining our current PC.	A2, A4
	Extra care support for customers who need assistance	Delivers on priority hygiene factor among our customers and co-created with customers based on engagement with hard-to-reach customers. Ofwat specific PC.	A2, A4
	Working with schools about the need to use water wisely	Delivers on priority expressed by our customers.	A2, A4
	The number of days spent by our staff supporting community projects	Delivers on priority expressed by our customers – linked to supporting hard-to-reach customers. Maintaining our current PC.	A2



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Proposed outcome area	Proposed performance commitment	Customer and regulatory evidence	Appendix reference
	Making sure our property records are up to date – reducing the number of unoccupied properties (voids)	Delivers on priority factor among our customers for fair and affordable bills. Ofwat specific PC.	A2
	Making sure our property records are up to date – delivery of an annual gap site identification programme	Delivers on priority factor among our customers for fair and affordable bills. Ofwat specific PC.	A2
	Reducing our bad debt so customers don't pay more than they need to	Delivers on priority hygiene factor among our customers for fair and affordable bills. Ofwat specific PC.	A2
Our service	Delivering upgraded water treatment works*	Delivers on core hygiene priorities (e.g. water quality, reliability of supply) among our customers and co-created with customers based on engagement. Ofwat specific PC.	A2, Section 3.4
	Always meeting water quality standards	Delivers on core hygiene priorities among our customers. Ofwat common PC.	A2, A3
	Reducing the number of contacts about the taste, smell and appearance of the tap water	Delivers on core hygiene priorities among our customers. Maintaining our current PC.	A2, A3
	Making sure water always comes through customers' taps	Delivers on core hygiene priorities among our customers. Ofwat common PC. Maintaining our current PC.	A2, A3
	Reducing the number of water production failures	Delivers on core hygiene priorities among our customers. Ofwat common PC.	A2
	Finding and fixing visible leaks more quickly	Delivers on core hygiene priorities among our customers.	A2, A4
	Reducing the number of burst mains	Delivers on core hygiene priorities among our customers. Ofwat common PC. Maintaining our current PC.	A2
Our	Reducing leakage levels	Delivers on core hygiene priorities among	A2, A3

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Proposed outcome area	Proposed performance commitment	Customer and regulatory evidence	Appendix reference
environment		our customers. Ofwat common PC. Maintaining our current PC.	
	Reducing how much water each person uses	Delivers on core hygiene priorities among our customers. Ofwat common PC. Maintaining our current PC.	A2, A3
	Not taking too much water from environmentally sensitive sites	Delivers on core hygiene priorities among our customers. Ofwat specific PC.	A2, A3
	Protecting wildlife, trees, plants and water sources	Delivers on core hygiene priorities among our customers. Maintaining our current PC	A2, A3
	Protecting water sources & catchments	Delivers on core hygiene priorities among our customers.	A2
	Supporting water-efficient house building	Delivers on core hygiene priorities among our customers.	A2, A3, A4
Our business	Making sure all our staff love their jobs	Key priority expressed by our customers – linked to offering great customer service	A2, A4
	Treating our suppliers fairly and paying small businesses quickly	Commitment to be transparent with customers and stakeholders.	NA
	Maintaining financial health – credit rating	Commitment to be transparent with customers and stakeholders.	NA
	Health and safety performance – number of reportable incidents	Commitment to be transparent with customers and stakeholders.	NA
	Avoiding severe water supply restrictions	Delivers on core hygiene priorities among our customers. Ofwat common PC.	A2, A3, A7/A8

\* an important element of the our engagement involved consulting customers on the level of support they had for our investment plans at our two Water Treatment Works in our South Staffs region. This also involved consulting with them to develop a Performance Commitment for the works programme that would protect them in the unlikely event of the plan not being delivered as promised.

## 3.2 Engaging with customers to shape our promises

### 3.2.1 Overview of the approach

In February 2018, our PR19 team and our Executive board then scoped the specific objectives we wanted to cover in a workshop meeting. We agreed that the main scope of the engagement was to involve customers in shaping our proposed Performance Commitments and Outcome Delivery Incentives, whilst understanding and gaining a robust picture for preferences of managing bill volatility in the context of this package.

However, as significant investment is needed for asset renewal and updates at our two Water Treatment Works (WTWs) in our South Staffs region, it was important to gain customer support and acceptance for these plans also. This would provide important evidence for our Cost Adjustment Claim – see appendix A33. We needed an understanding of customer acceptance of this significant investment in the context of bill levels and volatility, along with considering an associated PC/ODI to protect customers in the unlikely event that the works were not delivered to plan.

After holding discussions with our preferred supplier Explain Research, we decided to conduct both elements to run as one engagement project, mainly because they are closely interlinked. The key objectives of this study would cover a number of areas.

- Performance Commitments (PCs):
  - understand if the PCs we had developed were supported by customers;
  - understand if customers feel there are any PCs missing from the list proposed;
  - explore if the PCs are clear and easy to understand;
  - understand customer views on the balance between financial and reputational PCs, and if the way we were proposing to classify them was supported;
  - to gauge support for removing (e.g. Carbon emissions) or altering (e.g. biodiversity) our existing PCs; and
  - understand how far customers want us to go to deliver service ‘stretch’ across the various PCs.
- Outcome Delivery Incentives (ODIs):
  - understand customer views and level of support for our proposed RORE range - i.e. the level of under/over performance payments;
  - explore customer preference around when under/over performance payments should be made. In particular, if reward payments should be made during, or at the end of an AMP period; and
  - understand if customers want us to report our performance against our PC targets at a regional or one company level.
- Water Treatment Works (WTW) investment plans:
  - understand if customers support the need and concept of the investment plans in delivering service improvements, and explore alternatives if support is not evident;
  - test the level of acceptability that the investment option planned is the best value for customers;
  - explore supply area differences (South Staffs and Cambridge) around the ‘two regions, one company’ investment approach; and
  - explore customer preferences for a specific performance commitment to protect them if the works are not completed as planned.

In addition, we wanted to be able to understand the responses across our five customer segments uncovered in our recent engagement – see appendix A4, section 4.1.

### 3.2.2 Methodology

As with many of our engagement projects, we adopted a multi-stage project approach to allow us to learn and adapt our engagement in light of any customer feedback as we progressed.

- **Stage 1:** deliberative workshop events to explore customer views and expectations.
- **Stage 2:** quantitative, interactive on-line survey tool to validate the key findings and determine the level of service stretch customers wanted for a number of our PCs.

The initial stage of fieldwork involved running two six hour workshop events - one per supply region. Participants were recruited via specialist fieldwork teams using screening questionnaires to ensure we had a representative sample of our customer base in both supply regions. At each workshop we targeted recruitment of four tables of eight, made up of:

- two tables of household customers (currently bill payers). Given that the content of the discussions involved bills, we split the two tables to group customers to ensure they felt comfortable expressing their true views, one made up of customers from higher socio-economic groups and one from lower. We ensured that there was a representative mix by:
  - age and life stage (pre-family/family/empty nester/retired);
  - employment status;
  - ethnicity;
  - gender;
  - location – rural vs. urban;
  - metered/unmetered; and
  - that we recruited at least one customer per table who was vulnerable and at least two who had recently experienced a service failure.
- one table of future customers (18-25s) who were not yet bill payers. They were recruited to fit the same profile as bill payers, but with the focus on ensuring a balance between those in work and education; and
- one table of small and medium sizes business owners recruited to cover a range of sectors. A mix of water reliant business included to assess differences in their responses.

The South Staffs workshop took place in March 2018, with 28 participants attending. The Cambridge workshop was held in April 2018 with 26 participants attending. We achieved a close map to our targets for the majority of our quotas, which resulted in a representative sample of customers attending each workshop. Details of the breakdown of the participants who attended the workshops are shown in appendix A22.

### 3.2.3 Workshop structure

The workshop approach, which was commented on by our independent customer panel to ensure clear and plain English was used throughout.

A pre-task exercise was given to customers to complete before the groups, but taking care not to over inform them. This focused on asking them to think about how they thought a water company's performance should be measured and which areas it should be measured in.

Given the length of the workshops we took great care to design a format that was engaging and would not overwhelm customers with too much information. To help ensure that customers understood the material we were presenting to them we also had 'jargon busting bells' on each table which customers could ring if they did not understand a more technical point or word.

Table 3 shows the breakdown of the format of the day and the key activities customers took part in. Each table was led by a moderator from Explain who used a discussion guide to gain feedback and ensure all participants had a chance to share their views. The discussion guide for the workshops can be found in appendix A22.1.

As we wanted to shape our PCs and ODIs with our customers it was important that we had members of our Executive Board and our PR19 project team at the workshops to present slides to inform customers about our plans, to be on-hand to answer any technical questions and discuss their thoughts and ideas in more detail.

**Table 3: our draft Performance Commitments, January 2018**

Workshop topics covered	Approach
Event opens – overview for day and Market Research Society (MRS) code of conduct.	Explain lead moderator
Ice breaker session – discussing of pre-task exercise completed by participants	Table discussions with flipcharts
Introduction to our business – covering our remit, key challenges, current performance against targets and bill levels to set context.	Presentation by Managing Director (MD)
Exploring customers’ views of having two supply regions vs. being one company.	Table discussions
Overview of the regulator’s role and what PR19 offers for customers.	Presentation by MD Ofwat video on PR19
Exploring customers’ views and knowledge of Ofwat’s remit as a regulator.	Table discussions
Introduction of the details of our five outcome themes and our current and Ofwat specific PCs.	Presentation by PR19 lead
Views on our specific and revised PCs discussed – each customer was given a workbook with details of the definitions, target and comparative industry data to allowed informed comment. A specific discussion was held on transforming our existing ‘Biodiversity’ PC to a wider to one called ‘Protecting wildlife and habitats’ – with a specific focus on protecting endangered species. Given the mixed views on dropping our carbon PC in the initial discussions at the South Staffs workshop, an in the room vote was then held (with a no preference option) with customers using voting cards. This was also done at the Cambridge workshop.	Table discussions – moderator used PC stimulus board to guide discussions
Customers were asked to put on the wall how they were feeling about what they had just discussed – using emoji and note stickers.	Energiser and break
Introduction of the details of our new PCs – each customer was given a workbook with details of the definitions, target and comparative industry data. A specific discussion was held on splitting our existing ‘Community	Presentation by PR19 lead

Projects' PC into two – retaining the measure and splitting out a new 'Education' PC for schools engagement focused on encouraging water efficiency.	
Views on our new PCs discussed – each customer was given a workbook with details of the definitions, target and comparative industry data to allowed informed comment.	Table discussions
Introduction of the details of our common PCs.	Presentation by PR19 lead
Views on the common PCs discussed – each customer was given a workbook with details of the definitions, target and comparative industry data to allow informed comment.	Table discussions
Customers were asked to put on the wall how they were feeling about the earlier sessions – using emoji and note stickers.	Energiser and break
Recap of all PCs to demonstrate the full package to customers.	Presentation by PR19 lead
<p>Customers were given sheets and three sets of stickers with an image of the full package of PCs and asked to place up to five votes, for each of the areas below, where they:</p> <ul style="list-style-type: none"> <li>• wanted us to be a “top five” water company in terms of service performance;</li> <li>• would like us to offer “best in the industry” performance; and</li> <li>• thought a PC should be dropped.</li> </ul> <p>Asked them to highlight where they would like to see additional PCs. Asked for their uninformed views on what should happen to their bills if a water company should over/under perform against their targets.</p>	Table discussions
<p>Balanced overview given of how outperformance and underperformance (ODI) mechanism works and the benefits and impacts it has on customers. Introduction to the differences between financial and reputational incentives. Current ODI performance and bill impact shown to set context. Introduction of proposed bill impact range (+/-3%) for 2020-2025.</p>	Presentation by PR19 lead
Views discussed on the impact of the ODI range shown on customers' bills.	Table discussions
<p>Customers taken through two options of how the impact of ODI under/over performance payments could be made, using visuals to explain how the approach would work:</p> <ul style="list-style-type: none"> <li>• <b>OPTION A</b>, we refund customers if we fail to hit performance targets, by lowering the bill by up to 3%. But if we outperform, we save the bill increase payment until 2025.</li> <li>• <b>OPTION B</b>, we refund customers if we fail to hit performance targets, but if we outperform we increase the bill by up to 3% in year 3 rather than saving it until 2025.</li> </ul>	Presentation by PR19 lead

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Customers voted on their preferred option (including a no preference option) and then discussed the reasons for their votes.	Voting and table discussions
Recap on reputational ODIs and introduction to the ten PCs we were proposing to be reputational measures.	Presentation by PR19 lead
Customers given sheets and asked to place sticker vote on whether each of the PCs should be reputational or financial. Discussions followed to understand reasons for their votes.	Table discussions
Customers were asked to put on the wall how they were feeling about what they had just discussed – using emoji and note stickers.	Energiser and break
Introduction given to the background and the need for the upgrading of our two Water Treatment Works in our South Staffs region.	Presentation by our Operations Director (OD)
Customers voted on whether they supported the need for the investment (including a no preference vote option) and then discussed the reasons for their votes.	Voting and table discussions
<p>Further details provided on the work around all the options we considered to arrive at our preferred investment plan.</p> <ul style="list-style-type: none"> <li>• We could just continue with the current level of maintenance for the two treatment works, which would have no impact on their bills over the next 10 years; or</li> <li>• We could proceed with the investment, but clearly explaining that this would add £3 each year to their bill during the AMP7 period and then £5 each year during the AMP8 period</li> </ul> <p>Our customer Panel had challenged us to include the ‘continue with current approach’ option to fully explore customers’ preferences.</p>	Presentation by OD
Customers voted on the option they preferred (including a no preference option) and then discussed the reasons for their votes. If they voted against our proposed plan, follow up questions were asked to see if their vote would change if they knew their bills would be lower in 2020. In Cambridge, we also asked if their responses would change if they knew that South Staffs customers would pay for any major investments needed in their region in the future.	Voting and table discussions
Details provided for our proposed PC for the WTW investment works – i.e. that we will give a proportion of the project cost back to customers if it is not delivered on time and when this underperformance penalty should kick in.	Presentation by OD
Customers voted on at what point customers should be compensated if the project overran (vote options ranged from 3 months to 1 year, including a no penalty option) and then discussed the reasons for their votes.	Voting and table discussions
Event close – event feedback forms	Explain lead moderator

One of the most important parts of the workshop sessions involved discussing the specific details of each of our proposed PCs with customers. To do this we asked them a series of specific questions:

- do you understand what this performance commitment means?;
- is this performance commitment clear and why do you think this?;
- has this performance commitment been placed under the right outcome theme and why?;
- how does this performance commitment fit with your previous expectations of how you expect your water company to be measured?;
- do you understand the way this PC is measured? If not, what could make this clearer?;
- does it surprise you to learn that this is a measure, why/why not?;
- thinking about the services you receive from your water company, is this measure important to you as a customer? Why is this important/not important?; and
- Do you feel it is right that your water company should report their performance against these measures by each region (where this is possible) and not as one company? Why is this?



Future customers in our South Staffs workshop discussing their votes for which PCs they most wanted us to stretch our service performance.

With a gap between the two workshops, it gave us time to reflect on the learnings from the first event and to take forward improvements to the next. A member of our independent customer Panel who attended the first workshop also provided feedback on their thoughts on how we could improve the workshop format and content. Examples of the changes we made included:

- including more details of our current performance in the up-front section to help with context setting;
- altering the running order of the discussion sections to make these more customer friendly, such as showing our existing PCs, which are more straightforward for customers to grasp first rather than starting with the more technical common PCs (like Abstraction Incentive Mechanism (AIM));
- simplifying terminology around technical topics where customers had rung the jargon bells or found it difficult to understand them during the discussions; and
- breaking up the sessions into smaller chunks to avoid covering too much detail in one go.

“There were buzzers on the table if you didn't understand, which was very good.” – Future customer

To assess the quality of the engagement we asked every participant to complete an evaluation form at the close of the event. This also helps us understand how we can further improve our workshops for the future.

Table 4 highlights the overall positive feedback from the participants who attended the workshops. Given the complexity of the topics discussed with customers this gave us confidence in the responses.



Table 4: Customer feedback from our PC engagement activities.

Area of satisfaction	% agreement South Staffs (28)	% agreement Cambridge (24)
I understood all the materials presented and the activities asked of me	96%	88%
The event was well organised and structured	96%	100%
I enjoyed taking part in the event	100%	100%

### 3.2.4 Key findings from the workshops

A summary of the key findings from the workshop can be found below including how they helped to shape the following quantitative stage of the engagement. Further details of the findings from the two workshops can be found in appendix A22. A summary of the findings included:

- uninformed expectations from the pre-task exercise on the areas that a water company should measure itself on broadly matched our proposed PCs, except the ones relating to our business outcome – e.g. employee engagement, supply chain, bad debt, gaps/voids;
- there was limited awareness from customers that we operated in two regions and a sense of indifference to this at first, as this was viewed as normal practice in other industries. When explored in more detail, customers highlighted positives (e.g. resource and knowledge sharing and offsetting investment costs) and negatives (e.g. overlooking one region or loss of a local feel) Overall there was no noticeable negative reaction to our company structure;
- there was a mixed level of awareness of the role Ofwat played in regulating the market and none of the 14 future customers who attended were aware that they existed;
- overall, customers strongly supported our proposed PC package with no noticeable calls for any of the PCs to be dropped in the table exercises. There were a small number of votes for dropping gaps/voids and also water consumption (PCC) among customers from lower socio-economic groups in South Staffs. We had also observed in our workshops held for our Water Resources Management Plan (WRMP) that this group also reacted negatively towards initiatives trying to ask them to use less water. Often these are compounded when they find out how much water is lost to leakage. The only area that a noticeable number of customers raised as a gap in our PC package was around carbon reduction;
- the actual vote on dropping our existing carbon commitment was very mixed, with no majority support in either region. In fact, 58% of Cambridge customers voted for us to retain the measure continuing the overall theme throughout our engagement of the stronger emphasis towards environmental concerns in this region. Given this feedback, we decided that we needed to test this further in the quantitative stage;
- the PCs that attracted the highest number of votes for customers wanting us to be industry leading in terms of performance were:
  - South Staffs: offering great customer service, water quality, offering value for money and schools education (water efficiency); and
  - Cambridge: water quality, offering great customer service, and avoiding severe drought restrictions.
- when getting into the definitions and measures of the PCs a few key themes emerged. We drew on these insights to help shape our final PC package for 2020-2025:
  - customers struggled to understand the reasons for gaps/voids occurring, until we spent time with them to talk through the reasons in detail;

- customers wanted more detail around how our PC performance targets for leakage, Per Capita Consumption (PCC), avoiding severe drought, AIM, trust and value for money were worked out;
  - whilst they supported the hard targets for our PCs around supporting vulnerable customers and protecting the environment, there were calls for us to also track the softer measures to show the wider impact the activities were having on people’s lives;
  - many customers thought that we should move the gaps/voids and bad debt PCs from the ‘Our Community’ outcome to the ‘Our Business’ outcome as there were more about business efficiency;
  - that our catchment management and protecting habitats PCs were very similar in terms of measurement and scope and that they could be merged;
  - some customers thought that the common PC for supply restrictions would be better placed in the ‘Our Service’ outcome, rather than the ‘Our Business’
  - some customers said whilst it was good that we were being transparent by having targets for health and safety and financial performance that these might be best off as internal targets that are just reported in other documents. They were important to ensure strong performance but not as a PC;
  - that the use of customer friendly measurement terms (e.g. half a bath) were important to provide some form of context;
  - for us to make clear the differences between mains bursts and leakage and PCC and leakage in terms of what they are measuring from a customer viewpoint; and
  - future customers, particularly in Cambridge, tended to put a stronger emphasis on our proposed environmental PCs. From their comments, this was driven mainly by their life attitudes and concerns about protecting the environment, although given their life experience and not being bill payers, they were dis-connected from a number of the PCs.
- we received overall support from customers in the voting for the eight PCs we were proposing to be reputational, except for the following where customers voted more towards these being financial:
    - South Staffs Water: ‘business market suppliers (R-Mex)’. However, we know from our retailer engagement (section 4) that they want the measure to be reputational;
    - Cambridge Water: water recycling, protecting rivers and avoiding severe supply restrictions. This was mainly from customers in higher socio-economic groups and they are all related to environmental protection. This again evidences the high priority customers in these segments that are placing on our environmental performance;
  - when voting on their preferred way for us to manage in-period ODI payments there was majority support (70%) for the following option – “we refund customers if they fail to hit



Stimulus board activity showing where a table of household customers at our South Staffs workshop thought our PCs should be placed under the five outcome themes. Gaps, voids and bad debt should be moved to ‘Our Business’ outcome and a carbon PC needed in the ‘Our Environment’ outcome.

performance targets, but, if they outperform, increase the bill by up to 3% in year 3 rather than saving it until 2025.” The response was relatively consistent across both regions. A small number of customers felt this option would allow for re-investment sooner. There was also a dislike among some customers of the potential in the other option of having a more noticeable bill increase in 2026, when the rewards would be applied in one go. This led us to test customers’ reaction in the quantitative survey as to whether they wanted us to apply in one chunk in 2026 or spread the impact evenly across 2026-2030. There was an overall view by customers that, at the end of the day, the level of the bill impact was almost an irrelevance for many who were not financially struggling;

- the above points, however, need to be considered in the context that we received very mixed views from customers about the impact of ODI incentive payments on their bills. For example:
  - Cambridge household customers from the higher socio-economic table were not in favour of the approach. In particular, some discussed not wanting to have what they would perceive to be a fluctuating bill;
  - South Staffs household customers from the higher socio-economic table views were closely linked to them having a choice. They would support paying more if a company offered ‘best-in-class service’, but that the market should enable them to choose a supplier who would offer this as some may not want to pay more for a better service (note that customers had been informed that the market was a monopoly);
  - South Staffs future customers agreed they would support companies being paid on performance if the reason for the increase in their bill was justifiable and clearly evidenced and if they were given the option to opt into accepting the change or not;
  - South Staffs business customers suggested that this is a standard way of working in the world and saw it as a positive way of incentivising a company to improve;
  - South Staffs household customers from the lower socio-economic table felt ODIs would encourage companies not to become complacent and improve.
- the key point that emerged from the table discussions around ODIs was that customers would rather have a stable bill that did not change very year. The reasons given for preferring one option over the other came down to this same point, showing the mixed views customers have about what would be the best option for them;
- in terms of customers voting preferences for our proposed plans to upgrade our two WTW’s in our South Staffs region:
  - an overall majority (93%) voted ‘Yes’ that the Seedy Mill and Hampton Loade treatment works need investment. There was strong agreement with this linked to a view that maintaining and improving water quality is essential and that advancements in technology since the time of their building meant improvements could now be made. There were no significant difference by supply region, although there was a strong feeling among the vast majority of Cambridge customers voting ‘Yes’ that they would expect the same approach in the future should their region require significant investment; and

*“If bills are staying the same it means people know where they stand’*  
” – South Staffs customer

- when shown the two options proposed (continue the current approach or make the investment) and the associated bill impacts for 2020-2030, 83% voted ‘Yes’ to the plans. The 10% drop in the number of customers who now supported the plans once the bill impact was shown were all in the Cambridge region. Support in this region was 65% with it being 100% in South Staffs. Cambridge customers who voted unsure, or disagreed with our plans cited the following reasons:
  - difference in size and scale of regions e.g. South Staffordshire has a larger population and therefore investments will be greater and more expensive;
  - costs of living in Cambridge are higher than South Staffordshire; and
  - that these types of investment should be approached at a local level.

“These two investments are not for us” – Cambridge customer

Even with the positive response at the workshops, there was still a need to validate support for our plans in both regions. We used the feedback on the materials shown to customers at the workshops to help shape the wording of the on-line survey we were developing for the second stage of the project. For example, it allowed us to remove any jargon (like the word assets) and highlighted that we needed to use comparison data (like x litres equates to one bath) to better articulate our PC measurements.

Our customer Panel also provided a number of challenges on the approach we used and the learnings from the workshops, which we subsequently built in to the next stage and also our wider PC development work. For example, for the need to further clarify the explanation as to why we were proposing to drop our current carbon emissions PC.

### 3.3 Quantifying customer feedback on our business plan

It was important to ensure that our engagement allowed for customers to influence our PC and ODI proposals. To achieve this we worked closely with Explain to scope the design of an engaging 25 minute on-line survey with a number of activities. The on-line tool took over six weeks to build and user test. It also represented one of the biggest step-changes in terms of the way we engage with our customers through on-line surveys.

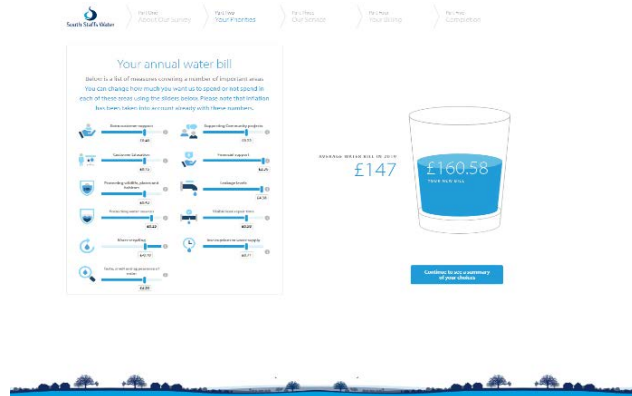
#### 3.3.1 Survey approach

As we have one business plan, this was the point that customers in both our South Staffs and Cambridge regions were shown exactly the same survey wording, except for when we showed the regional leakage performance figures. There was a separate routing for household and business customer to cover off differences in profiling questions and how the bill profiling questions were presented (e.g. household see £ and business see % change bill figures). The survey structure was as follows:

- screening questions to:
  - confirm respondents’ eligibility to complete the survey. Those who are not South Staffs Water or Cambridge Water customers were excluded; and
  - determine the representativeness of the sample (such as age, socio-economic group for household and size and water reliance for business customers);
- respondents were then taken through a series of screens to educate them about the reasons why we were asking for their views. We introduced the outline of our Business Plan ‘Making water count’ and the reasons why it was needed as part of the regulatory framework. We

then informed them of how their bills are split between water and sewerage services and the current typical bill level in their region;

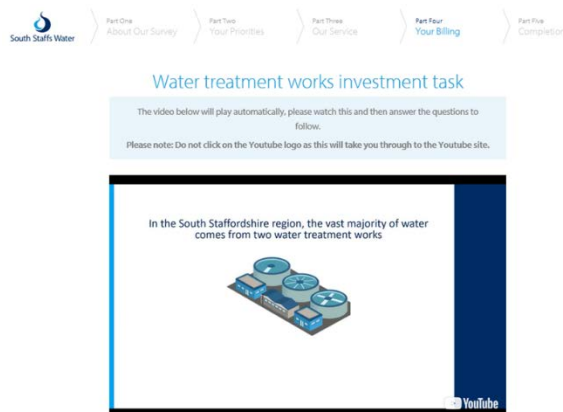
- the first interactive activity was to give respondents the opportunity to tell us the extent of the improvements they wanted us to achieve. This was done by giving them 11 sliders to move up and down in order to see the dynamic impact on a typical bill from a change in service. The respondents could see the levels for each PC which drove the sliders, for example, they could see the bill impact if they wanted, say, an additional 50 hectares of land to be managed by us in order to protect and improve areas for wildlife and plants in the places where we operate. As they dragged the sliders they could see the typical bill change in real time. Respondents in both regions were shown the same information and bill impact on the sliders - except for leakage where the bill impact and service levels were regionalised to reflect the costs. This activity also helped us understand how much respondents would like us to spend for each of these PCs to deliver the service level that they wanted;



Example of our sliders tool showing customers service levels and the dynamic bill impact of altering service levels up and down.

- all the sliders worked in the same way with the bill increasing as service was improved and visa versa, except for Water recycling where the bill drops as the service levels improve – due to the fact you are treating and pumping less water through the network;
- since it would be impractical from a survey length and experience perspective, the 11 PCs used in the sliders activity were selected as:
  - they offered a good representation across our five outcome areas:
  - they were measurable using a slider approach. For some PCs we are unable to measure service change improvements directly against a bill impact – e.g. C-MeX, D-MeX, employee engagement, trust and value for money. Fail or pass PCs (e.g. 1 in 200 year drought or water production failure) are also not suited to a slider approach; and
  - the feedback from the qualitative workshops suggested that the main focus should be on those PCs which received a more mixed reaction, to allow us to fully understand the level of stretch customers demand; and
- before starting the slider activity, respondents were taken through an extensive on-boarding activity to ensure they understood the PCs and how the activity worked:
  - they were introduced to each measure and asked to read an overview. They could read this again if needed during the task itself using the pop-up help icons - see appendix A22.2 for the PC wordings shown to customers;
  - they were informed that inflation had been taken into account;
  - all respondents were told they were starting from an improved service level and bill position. There were five slider levels set for each PC ranging from a decline in service to our best estimates of frontier performance. This gave customers the opportunity to express their preferences anywhere along a wide performance scale for each slider. The approach of starting from a stretched service is also in-line with Ofwat’s PR19 methodology expectations; and
  - we also built in the ability for respondents to review the choices they made on the next screen and then return to make changes if they felt their choices weren't right.

- the next activity involved informing respondents about the reason for dropping our existing carbon PC, before asking them to vote on whether they supported this;
- respondents were then given details of how financial and reputational PCs worked and how financial ones could influence their bills each year. They were then shown the detail one-by-one of 10 PCs where we wanted to understand if they respondents thought they should be reputational or financial. They did they by dragging each into one of two cups to indicate their preference;
- we then showed a short video, with a voiceover, which took customers through the two options of how we could manage the impact of ODIs and asked them to vote on their preference (see below). For all those who answered option A we asked a follow up question to assess if they would want any over performance payment to be made in one go in 2026, or to be spread evenly from 2026 to 2030:
  - **OPTION A:** we refund customers if we fail to hit performance targets, by lowering the bill by up to 3% each year. But if we outperform, we save the bill increase payment until 2025; and
  - **OPTION B:** we refund customers if we fail to hit performance targets, but if we outperform we increase the bill by up to 3% in year 3 rather than saving it until 2025.
- we then followed this activity with two more videos with voice over commentary about our proposed WTW investment plans. We followed the same approach as the workshop presentations to inform customers:
  - an initial video outlining the background to the two WTWs and the reasons and evidence why the investment was needed. Followed by a vote to ask if respondents supported the need or not; and
  - then we showed a video giving more details about all the work we have done to arrive at our preferred solution and the details of the two options with their associated bill impacts. Respondents were then asked to vote. All those who voted 'No':
    - where then asked a follow up question to assess if their responses would change if they knew their bills would drop by £8 in 2020; and
    - if a Cambridge customer, we also asked them that if they knew that hundreds of thousands of customers in the South Staffs region would contribute to the cost of paying for any large investments in the Cambridge region in the future and that this would spread the cost and mean that all customers will pay less through their bills, if this would this change their mind.
  - we then asked respondents for their preference for the proposed PC for our WTW covering a combination of the two options below, which we had been challenged on by our customer Panel to include after the workshop stage:
    - if the agreed works are not delivered on time;



Example of a screen shot of one of our interactive videos to inform customers about our investment plans at our two WTWs in the South Staffs region.

- if the agreed works are not delivered in full - e.g. we only deliver the planned works at one of the Water Treatment Works; and
  - if the respondents' selected a response that contained the 'on-time' component then they were asked at what point they thought the underperformance payment should be given to customers if the project were to overrun.
- customer segmentation allocation and survey satisfaction questions.

Throughout all the voting questions we took care to include a 'no strong opinion' response so that we could better understand customers' views towards our plans and test acceptability.

Once a first build of the survey had been developed, Explain undertook detailed user testing and it was then circulated to members of our customer panel, company colleagues and a handful of customers. This resulted in over 80 minor improvements being made to the design, questions and the stimulus material used in the tool. The functionality of the tool was also extensively tested after certain activities were found not to work on some older browsers, which was subsequently resolved before full launch.

### 3.3.2 Survey methodology and sample approach

Following the testing and pilot phases the survey was fully launched in April 2018 and reached:

- 36 business customers. The survey was administered through on-line panel providers and with telephone recruitment to on-line (with respondents then sent a link by e-mail to complete the survey); and
- 783 household customers – 559 in South Staffs and 224 in Cambridge. A broadly representative sample of customers was achieved by age, gender, socio-economic group with the data then weighted to reflect regional demographics. Within the household sample we achieved 80 interviews face-to-face with customers experiencing a range of difficult circumstances and a further 14% in the on-line survey said that they were on our Priority Services Register (PSR). This gave us confidence that we had captured the views of hard-to-reach customers. The fieldwork was completed through:
  - Computer Assisted Personal Interviewing (CAPI), using a questionnaire programmed for tablets in a person's home. Respondents were offered a £5 voucher for taking part; and
  - on-line surveys, using a questionnaire that was identical to the CAPI version. The sample was selected from a series of on-line panel providers. Although participants did not receive a direct incentive payment the provider used a credit based system that can be converted to rewards once enough points are accumulated.

On undertaking the analysis we found that 328 responses needed to be removed from sliders analysis on the basis that customers have not engaged with the activity, such as moving only 1 or 2 sliders. We felt these responses were not reliable for this activity. This left us with a weighted sample base of 455, which was sufficient to have confidence in the results at a regional level. However, the results of the 328 respondents were kept in for all the other questions as a detailed review showed that their literal responses demonstrated relevance and understanding of the question and they had progressed through the questions too quickly, this provided confidence that their responses were reliable. Explain had already removed any responses which did not meet the strict criteria in the quality control checks, such as obvious speeders.

### 3.4 Key findings and conclusions

Our results show a very positive response to our proposed PC and ODI RoRE package. The full findings from the study are detailed in Appendix A22, with the results to the on-line survey summarised below.

#### Performance Commitment stretch:

- table 5 shows that when started from a position of stretched service and higher bill the vast majority of customers felt this was acceptable. Between 30% – 55% stayed at the start level;
- we can see that customers are expressing that they want the highest levels of stretched performance for the environmental PCs from the 11 included, with leakage top in both regions and visible leaks also higher up the list. This has been a consistent theme throughout our engagement with customers wanting us to prioritise this area, particularly in the Cambridge region given the challenges we face;
- PCs relating to community, such as extra care support has a higher number of customers decreasing the service levels. Again we have found that throughout our engagement, some customers feel that this is not a priority for a water company as other organisations should be providing this support;
- the higher number of customers reducing service level for supply interruptions in our South Staffs region is likely due to the larger bill reduction achieved through the slider activity. It was noticeable that respondents from lower socio-economic groups were more likely to do this, which may reflect that they are happy with the current level of service so would rather not pay more to stretch our service levels. This also applies to the higher number of Cambridge customers reducing their slider for taste, odour and appearance. Again this has a higher bill impact attached to it and our water quality is better in our Cambridge region; and
- the average allocation in both regions is circa £9 to deliver the service improvements requested by customers in the sliders activity.

Table 5: Customer response from our on-slider activity.

Area of satisfaction	% reducing service levels from stretched start point		% increasing service levels from stretched start point	
	South staff	Cambridge	South staff	Cambridge
Leakage	20%	23%	41%	54%
Water recycling	18%	25%	38%	48%
Visible leak repair time	17%	23%	34%	37%
Protecting rivers	17%	25%	32%	37%
Protecting wildlife, plants and habitats	31%	24%	32%	45%
Taste, odour and appearance	27%	41%	24%	22%
Financial support	52%	53%	18%	15%
Customer education	51%	37%	15%	34%



Making water count – business plan 2020/25  
South Staffs Water (incorporating Cambridge Water)

Extra customer support	50%	64%	15%	12%
Interruptions to supply	33%	3%	13%	14%
Supporting community projects	59%	44%	10%	15%

On seeing the report, our customer Panel challenged us to sensitivity test the results by setting the sliders at a different start position. We reviewed the options and for some of our new PCs (like customer education) our current service position is currently low. Given this, we decided to start at the current service/bill position to allow customer to express a range of views along the scale. In June 2018 we re-tested the sliders activity using exactly the same approach to ensure consistency.

44 customers took part, so the results must be treated with caution. However, the findings revealed that the start point of the sliders does have a noticeable impact on customers' responses:

- when starting from current levels, there is less appetite to stretch service up to a higher level with the average package investment across the PCs being less than £2, compared to £9 from the original survey when started from a stretch service/bill position;
- however, the vast majority of customers are not willing to accept any deterioration in current service levels except for financial support and supply interruptions, where 23% of customers wanted a service level reduction. The analysis showed that most of these were customers who were struggling financially, so were opting to save money on their bills in areas where they thought the current service to be already very good;
- in Cambridge we again see that for leakage, protecting rivers and extra care support a higher number of customers stretching the service up. This highlights that many customers have more of an appetite for the company to go further in these areas in this region; and
- overall, we saw a higher proportion of customers improving the service when started from current service levels, compared to a stretch position.

The two surveys have clearly highlighted that, overall, customers want improved service. When looking at the individual PCs, we have found that customers:

- want the highest level of stretch for: reducing leakage, reducing visible leaks and protecting habitats and rivers;
- have more mixed views about levels of stretch for: extra care, education, water recycling, water quality and supply interruptions; and
- want less stretch for community projects and financial support.

When we tested the level of acceptability of our PC targets with customers in our business plan acceptability engagement, nearly two thirds of all participants found all of the proposed targets sufficiently stretching. Evidence of this can be found in appendix A6, table 4.

#### Outcome Delivery Incentives:

- when quantified, household customers were most likely to categorise maintaining financial health, water recycling and value for money as being a financial ODI, but none attracted a clear majority. There was strongest support for employee satisfaction (68%) and trust (73%) to be reputational ODIs. Overall, there was a very even split between customers;
- business customers also showed a similar response with the votes for each PC being fairly even. The R-MeX PC attracting over 70% of the responses. However, we know "business retailers" want the PC to be reputational at this time based on our engagement with them – see Section 4;

- when asked, 55% of customers said they would prefer any over performance payments to be applied in 2026, with only 27% preferring in-period ODI bill impacts. When those who wanted an end of period adjustment were asked how they would like these to be applied, the majority (67%) said they would prefer these increases to be in smaller chunks spread consistently over the next AMP. Whichever option customers selected we saw the same feedback as the workshops, it was down to the fact that they thought it would give them more certainty of their water bill. 17% of customers wanted neither option, with the majority of these against the whole mechanism;
- there was a higher level of preference among household customers in lower socio-economic groups and those under 35 for an end of period ODI adjustment. These groups are more likely to be struggling financially and so were looking to reduce the impact of their bill changing regularly;
- when asked: “Do you support the principle put forward by the regulator Ofwat that all water companies are paid for hitting their performance targets through increases in customer bills, and penalised through lower customer bills when they miss their targets”, overall, 32% of customers had no strong opinion, whilst 27% supported the principle of both rewards and penalties. 17% said they were against the whole principle. This shows that the majority of customers are not fully supportive of the ODI mechanism and reflects the mixed views in the workshops, as detailed in section 3.2.4;
- when respondents were asked if they support the proposed maximum amounts of money of £4 that SSW/CAM will increase or reduce bills by each year between 2020-2025, depending on performance, just over half (51%) were in support of the proposed performance payment. Just under a quarter (24%) stated they had no strong opinion. Of those who voted against the level, 75% said the level should be £0 when asked; and
- these insights are all consistent findings which further demonstrates customers’ preferences for a stable bill.

*“It would be less of a jump in payment” – Cambridge household customer voting for in-period ODI adjustment*

*“It makes it easier to plan – there is greater consistency in my expenditure” – Cambridge household customer voting for end of period ODI adjustment*

#### Water treatment works:

- an overall majority, 76%, supported that our Seedy Mill and Hampton Loade treatment works need investment. A further 9% had no strong view. Only 5% said no outright. This gave an informed acceptability score of 85%, showing a high level of support;
- when showed more detail and the associated bill impact, 83% supported our plans. An overall majority (77%) agreement with a further 6% having no strong view. Only 8% said no outright, with the figure lowest in our Cambridge region among household customers (14%);
- when customers who had not supported the plan and bill impact were then asked the same question, but in the context of a £8 bill reduction in 2020, the level of acceptance in our online survey increased to 86%. We found that 29% of the 74 customers now voted ‘Yes’ with a further 13% still undecided about whether our plan was acceptable;
  - of the 35 customers in our Cambridge region who voted against the investment, 20% changed their response to fully support it when they were informed about the likely benefit from significant future investment in their region that would be part-funded

by South Staffs customers. A further 55% (of the 20%) continued to not support our plans, while the rest were undecided;

- 56% of customers voted that we should have an ‘On-time, In-full’ PC for our WTW investment plan delivery. For those customers selecting one of the voting options that contained an ‘On-time’ PC, they were then asked a follow up question on when an ‘underperformance payment’ should kick-in. The highest vote was for up to a three month delay (29%) with 26% saying six months. Customers in our Cambridge region were slightly more demanding as to when the penalty should kick in, driven by the fact that they are not benefiting from the investment and so would like more certainty of a rebate if anything goes wrong. Customers in the workshops were more informed and had the opportunity to ask questions. As a result, less than 50% thought the penalty kick-in period should be less than six months, with many accepting that a shorter period for a works programme of this scale would not be realistic.

### 3.5 Follow up engagement

Following our engagement with customers we took two further opportunities to engage with our customers about our outcome themes. These were at two well attended community events where we had a stand to talk to customers about water efficiency, our catchment management plans and our PR19 plans. We attended the:

- South Staffs County Show event in May 2018 where we spoke with 194 customers; and
- Cambridge Live event in July 2018, speaking to 99 customers.

We gave customers 10 voting tokens each and asked them to allocate these how they wanted across our five outcomes based on the areas that were most important to them. This approach worked well at the events with customers and allowed our PR19 and Executive teams another chance to talk to customers about our plans for 2020-2025 and listen to their feedback.

We found that our environmental outcome and promises attracted the most votes, circa a third at both events, often because of the spontaneous call to reduce leakage.

However, customer education, water recycling and efficiency also received a lot of mentions, but this was partly driven by the unusual dry, hot weather period raising the need to save water to the top of customers’ minds. We noted this potential bias that the weather conditions were having on customers’ responses and that the South Staffs County show does attract an audience that we know to be concerned about environmental issues.

Our promises for ‘Our Service, ‘Our Community and ‘Our customers’ all received around 20-25% of the votes with ‘Our Business’ receiving about 10%. Customers could not spot any missing promises they thought would be important to include. The findings mirror those from our workshops, giving us even more

“This token voting approach is great way to engage with families. Getting on top of leakage is the big one for me” – South Staffs Water customer

confidence that our customer promises are ‘fit for the future’.



Our Finance Director Tim Orange discussing our customer promises with a customer at Cambridge Live



Our MD, Phil Newland, and Wholesale Director, Pete Aspley, with the final voting outcome at the end of day 2 of the South Staffs show

## 3.6 How customer engagement has helped shape our Performance Commitments

Examples of how our extensive engagement with our customers and our customer Panel has shaped our PCs for 2020 – 2025 are detailed below – see appendix A26 for details:

- Performance Commitments:
  - at the workshops our customers told us that we should merge our proposed protecting the environment and catchment management PCs into one, **so we assessed the options and did**. They also liked the two performance commitments we have proposed for supporting vulnerable customers and our schools engagement outreach and felt that another PC for support community projects was not necessary, **so we removed this PC**. They also felt that health and safety and financial performance would be best covered internally and did not require their own PCs, **so we dropped these**. Our customer panel also challenged that we potentially had too many PCs and this might distract management attention from the most important areas. **We have reflected on these challenges and have refined our package down to the 28 PCs that are presented in our plan. Our engagement has shown this final package to be the best reflection of our customers' priorities.**
  - our customers told us that our PCs for gaps and voids and bad debt are more about business efficiency should be moved to the 'Our Business' outcome and that 'avoiding severe supply interruptions' would be best placed under the 'Our Service outcome theme. **We have reflected and then actioned these preferences in our final package.**
  - there was a very mixed level of support to dropping our current carbon PC, which was then further challenged by our customer Panel. Given the mixed feedback from customers and the fact that our engagement in 2018 has picked up that protecting the environment is being more important, **we have made the decision to include a carbon PC in our final package.**
  - our customers have expressed that they want a high level of stretch for our PC for leakage and visible leaks. **We have responded to this by setting ambitious targets for these areas.**
  - our customers have shown a mixed level of appetite for reporting our performance on a regional basis. Whilst only our PCs for leakage and PCC will have official regional targets we will be held to account for, **we are committed to reporting our performance in all areas at a regional level through our interactive dashboard on our website.**
  - we have used the results of PC on-line sliders activity in two ways:
    - we used the results for three of the PCS (protecting wildlife habitats, leakage, and unexpected temporary loss of water supply) as a data source in our Willingness to Pay (WTP) triangulation approach to help develop a more

a robust and proportionate evidence base on customers' WTP for service improvements in these areas – see appendix A25, section 4.2; and

- we have used them as a sense check to shape our PC targets to ensure we are stretching ourselves more in the areas where we have customers support. For example, we have improved our leakage target from 17% to 25% in the South Staffs region as a result of all our customer engagement feedback.
- Outcome Delivery Incentives:
  - customers, above all, have clearly told us that they want certainty that their water bill will not fluctuate during the period 2020-2025 and beyond. There was also strong support in the quantitative survey that they would prefer to have any over performance payments we earn to be saved up and spread evenly over the period 2026-2030. This theme was also reflected in the feedback over our proposed bill profile in our business plan acceptability testing showing consistency in customers' responses - see appendix A6, sections 3.4.7 and 3.4.8;
  - the majority of our customers supported our proposed ODI under/over performance bill impact (RoRE) of +/- 3% tested in this study and the level of support for +/- 4% in our PR19 business plan acceptability testing. Given that customers expressed a preference to have stable bills, this points to a lower RoRE impact being preferred; so
  - **we have responded to this consistent preference shown by customers and are proposing to offer them a flat nominal bill for 2020 – 2025.**
- Water Treatment Works:
  - the vast majority of our customers were supportive of our plans to upgrade our two WTWs and the associated bill impact. They also told us that they wanted us to adopt an 'In-full', 'On-time' for our WTW works PCs. **We have responded to this by developing a bespoke measure designed specifically to protect customers in the event of non-delivery or late delivery.**

In addition to these areas our customer Panel has raised a number of challenges to us about our PCs, including the targets and level of ambition. Details of these and our responses are found in the appendices of their independent report submitted to Ofwat.

## 4. Developing our R-MeX commitment with retailers

Given that Ofwat are introducing common PCs for household customers (C-MeX) and developer customers (D-MeX) in 2020, we had a strong view that we should also develop a PC for our business market suppliers (or “retailers”) which we have named R-MeX.

During 2018, we spoke in-depth with 12 of our retailers to ensure we understood their needs. An important part of this study involved us testing their preferences for a Performance Commitment (PC) and associated Outcome Delivery Incentive (ODI) for the period 2020 - 2025. We wanted the engagement to give the opportunity for retailers to co-create this proposed PC with us.

The engagement tested a number of different R-MeX options with retailers. Their feedback was that the preferred approach to a PC would be a blend of the current market and operating performance standards and customers satisfaction surveys. All the retailers we spoke with were firmly against making the associated ODI financial, preferring it to be reputational at this relatively early stage in the market.

Following the formal engagement we used the feedback to develop a draft ‘R-MeX’ PC and sent all of our retailers a draft consultation paper to explain our plans and how it would work in practice and asked for their feedback. A summary of the feedback from three customers we have had responses from to date is below:

- that the customer satisfaction surveys carry a greater weight than the market and operating performance standards;
- agreement that the satisfaction surveys need to be short and simple to complete and that a set of core questions should be used, with a few tailored to the needs and size of the individual retailer;
- a quarterly survey frequency was preferred;
- there should be a constant review and performance of the measure;
- retailers would prefer an industry standardised measure; and
- there is continued support for the measure to be reputational only in nature.

We are now a member of a Retail Wholesale Group (RWG) sub-group, which is looking at a measure for benchmarking the industry’s service performance. We have shared our plans and feedback from customers with this group. We intend to pilot our R-MeX measure in the lead up to 2020. This will involve continuing to engage with our retailers to develop an approach to the satisfaction survey element of the measure that meets their needs.