



Affinity Water

Acceptability and affordability testing

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11 April 2022



Acceptability and affordability testing

What were the major challenges at PR19 and how could these be overcome or the research evolve?

Purpose	Method and sample	Questions and information
<ul style="list-style-type: none">• Why do we do it?• How the findings are used• Relationship with other PR19 research – and with CCW testing	<ul style="list-style-type: none">• Timing effects• Quant vs. qual• The right target population (household-only, bill payers)• A representative sample (quotas, online & face-to-face top-up)• Sub-group analysis (e.g. financially vulnerable/difficulty paying)	<ul style="list-style-type: none">• The right question and the right ‘pass’ mark (asking customers)• Informed vs. uninformed• Informing but not overloading• How to tackle inflation: today’s or inflated prices• Average or tailored bill amounts• Explaining the impact of ODIs• Multiple service providers• Multi-AMP profiles• Understanding what good looks like: comparative information• Transparency on the social tariff

Purpose

What is the purpose of affordability and acceptability testing?

Possible lack of clarity at PR19. Our suggested definitions below

Acceptability

- Acceptability - As an industry we want customers to find our plans acceptable, this helps to improve perceptions of fairness and value for money, and to help improve the legitimacy of the industry in customers' eyes.
- Acceptability testing is about the whole package – it looks at the bill and the services provided, and may include other areas such as ODIs and long-term outcomes.

Is this a sensible question
for customers?

Affordability

- Affordability is the ability of that customer to pay their water bill. Customers must feel confident the service they receive is affordable, both now and in the long term.
- Affordability is much more specific to the individual customer – is this proposed bill affordable to you?

Are these the right
definitions?

What would be best
practice? What do
other sectors do?

PR19 guidance on assessing affordability

Ofwat set out five key areas that would be assessed – it's much more than a single survey!

Customer engagement How well the company is engaging with its customers and third party organisations on addressing affordability	Company evidence, the independent CCG report and information from other organisations on the company's customer engagement on affordability, long-term affordability and affordability for those struggling or at risk of struggling to pay. How well companies are engaging with their customers to understand the drivers of affordability issues; the extent of these issues among their customer base; how well they are engaging to understand customer support for assistance for those who struggle or who are at risk of struggling to pay, and in designing the most effective range of assistance measures.
Customer support What are customers' views on the company's proposals for addressing affordability?	Qualitative: Company evidence, including: research, the independent CCG report and information from other organisations on customer support for the company's approach to the three areas of affordability - on the level of bills and the assistance for those who struggle or are at risk of struggling to pay. Quantitative: Percentage of customers finding the level of their bills affordable. Percentage of customers finding their bills acceptable.
Effectiveness How well the company's proposed approach will improve affordability.	Qualitative: Company evidence, the independent CCG report and information from other organisations, including how well the company understands the needs in its area for affordable bills, and how its proposals address these needs. Quantitative: Percentage of customers who are in debt and who have a repayment plan. Percentage of customers who have a repayment plan and who are continuing to pay.
Efficiency The difference the company's proposed approach will make, compared with the costs of interventions.	Qualitative: Company evidence and the independent CCG report on the efficiency of the company's approach to addressing the three areas of affordability for PR19. Quantitative: Benefits (in £m) of applying affordability assistance measures. Costs (in £m) of applying affordability assistance measures.
Accessibility What the company will do to improve accessibility and how effective it will be. (Applies only to the third area of affordability: those struggling or at risk of struggling to pay their bills).	Qualitative: Company evidence, the independent CCG report and CCWater research, and information from other sources, such as those organisations specialising in debt management. Evidence on the support available for those at risk of struggling to pay their bills and how proactively companies deploy support in advance of problems arising. Quantitative: Percentage of customers aware of affordability assistance measures.

PR19 guidance on assessing acceptability

There was little guidance on approach or methodology for acceptability testing in PR19 - each company used their own approach to surveys, limiting the amount of comparability between each company's results. Companies handled the impact of inflation on bills, the potential impact of ODIs and the presentation of information about service changes in different ways. CCW conducted research across the companies using a standard approach on the Draft Determinations looking at uninformed and informed acceptability.

Coded reasons for acceptability (acceptable)	Proportion (of all customers) who find the water service proposals acceptable N=9,471	Coded reasons for acceptability (unacceptable)	Proportion (of all customers) who find the water service proposals unacceptable N=924
Because of the price decreases	34%	Already too expensive/it will still be too expensive	32%
I support what they are trying to do in the long term	29%	Company profits too high	27%
The company provides a good service now and it looks as if it will continue	24%	Companies should pay for service improvements out of their profits	25%
The plan is good value for money	23%	Because of the price increases*	19%
There is little or no change to my bill	22%	I won't be able to afford this	13%
Their plans seem to focus on the right services	20%	I don't trust them to make these service improvements	13%
Compared to energy prices it's cheaper	13%	I expect better improvements for these prices	13%
I don't really understand it but I trust them to do what's best for customers	8%	The plan is poor value for money	11%
I have been dissatisfied with the service recently but am pleased that they are making improvements	3%	Generally, expect bigger service improvements	6%
		I am dissatisfied with current services & expected greater improvements	6%
		Compared to energy prices it is more expensive	5%
		Their plans don't focus on the right services	2%

Method and sample

Target population

Household bill-payers

Current adult household bill-paying customers

Important segments excluded:

- Adult non bill paying consumers
- Business customers
- Future customers

Who should be in scope?

DEMOGRAPHIC QUESTIONS

Thank you for agreeing to take part in this survey. First we have just a few questions about you.

1. Are you...?
 - a. Male
 - b. Female
 - c. Other
 - d. Prefer not to say
2. How old are you?
 - a. Under 16 **[Close for all]**
 - b. 16 – 18 **[Close for all]**
 - c. 19 – 24
 - d. 25 – 34
 - e. 35 – 44
 - f. 45 – 54
 - g. 55 – 64
 - h. 65 – 74
 - i. 75 – 79
 - j. 80+
3. Please enter your full postcode in the text box below.
This will be used for research purposes only.

[Close if not Thames Water postcode]
4. Are you the person responsible for paying your water and wastewater bill?
 - a. Yes, I am solely responsible
 - b. Yes, I am jointly responsible
 - c. No, I am not responsible **[Close for all]**
 - d. Don't know **[Close for all]**
5. Which of the following companies do you consider to be the main water provider for your household?
 - a. Thames Water
 - b. Essex and Suffolk
 - c. Sutton and East Surrey Water (SES Water)
 - d. Affinity Water (formerly Veolia / Three Valleys Water)
 - e. South East Water
 - f. Other **[Close for all]**
 - g. None of these **[Close for all]**
 - h. Don't know **[Close for all]**

HIDDEN QUESTION – Capture whether:

- Combined service (supply and waste)
- Wastewater only

Timing

- Conducted multiple times during plan development and finalisation/scrutiny
- At different times for different companies (including CCW testing)
- Events might affect results (weather, annual billing, cost of living issues, etc.)

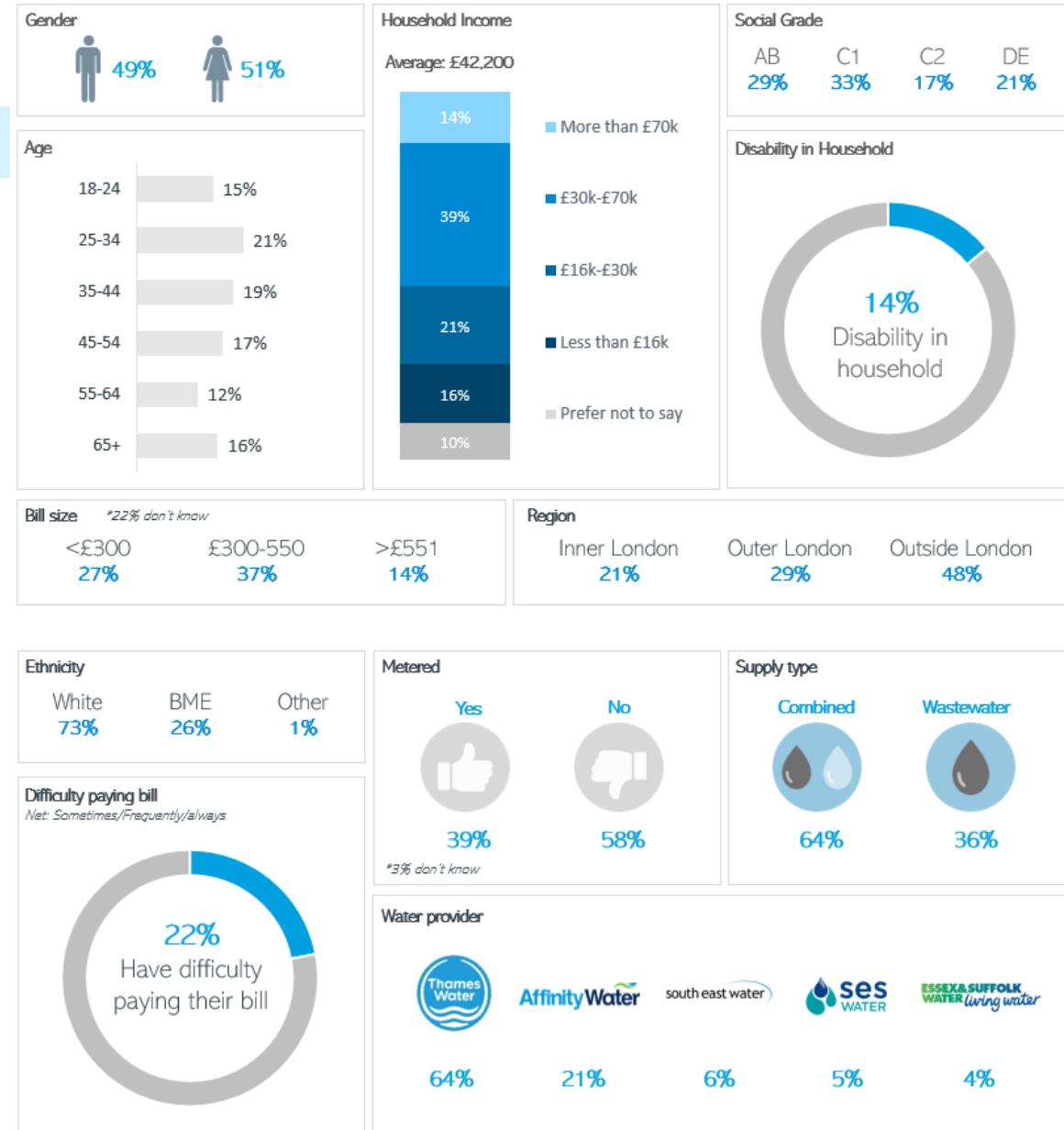
When and how often should testing happen?

Representative sample

Online & face-to-face, quotas & weights

- An online survey with current Thames Water household customers. The same survey was also conducted face to face among household customers with no or low internet access
- 2,012 current household bill payers with internet access; 76 without
- Data weighted to be representative of the Thames Water customer profile (age/gender/SEG/ethnicity/disability/service provider/metered/internet access)

What's robust
and
proportionate?



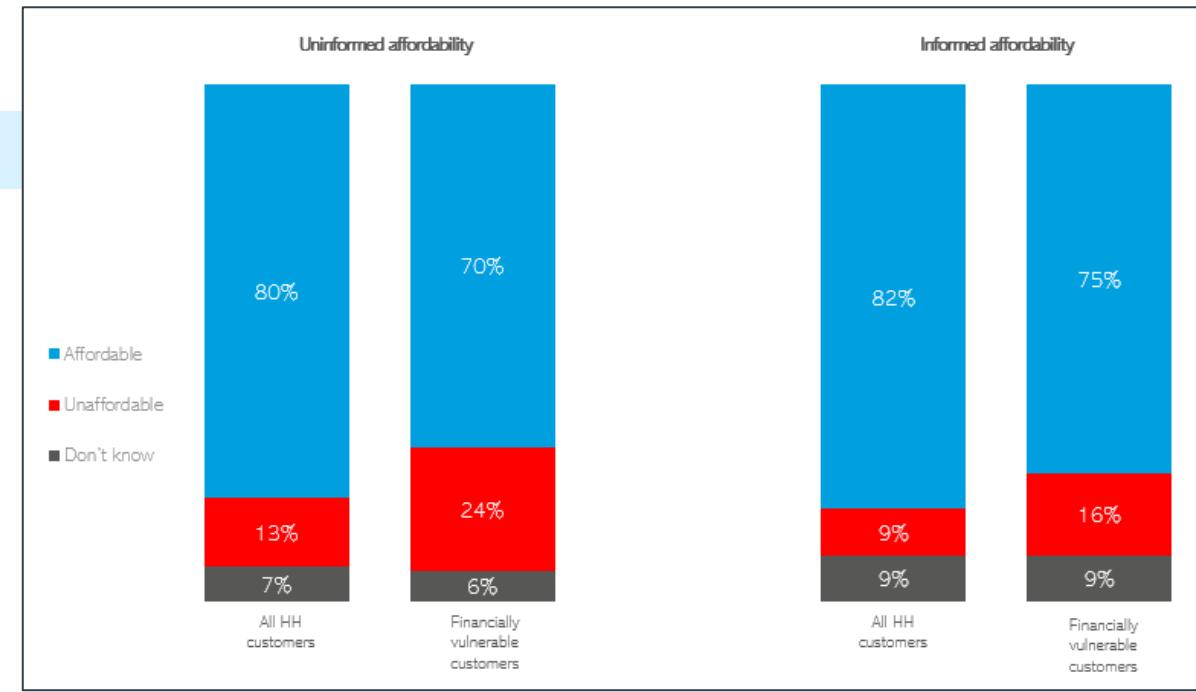
Sub-group analysis

Financially vulnerable customers

- Financially vulnerable customers are those with a household income of £16,105 or less
- Their response to the plan was examined in detail
- Acceptability levels similar to wider household customer base but affordability lower
- Key datapoint remained the overall acceptability and affordability figures

Do some sub-groups matter more in acceptability & affordability testing?

How do we assure the process?



Independence and quality

Conducted by Populus (now Yonder), expert research consultants with industry accreditations

Questions and information

The key questions

Two key questions asked at multiple points in the survey

A four-point scale with the option of 'don't know' was used to test acceptability and affordability

How **acceptable** or **unacceptable** do you consider Thames Water's proposed plan to be for you?

<i>Very acceptable</i>	→	Acceptable
<i>Acceptable</i>		
<i>Unacceptable</i>	→	Unacceptable
<i>Very unacceptable</i>		
<i>Don't know</i>		

To identify the proportion of customers who find the plan **acceptable** we combined 'very acceptable' and 'acceptable'

Are these the right questions?

Should we ask customers what the right 'pass' mark is?

How **affordable** or **unaffordable** do you consider Thames Water's proposed charges to be for you?

<i>Very affordable</i>	→	Affordable
<i>Affordable</i>		
<i>Unaffordable</i>	→	Unaffordable
<i>Very unaffordable</i>		
<i>Don't know</i>		

To identify the proportion of customers who find the plan **affordable** we combined 'very affordable' and 'affordable'

To identify the proportion of customers who find the plan **unaffordable** we combined 'very unaffordable' and 'unaffordable'

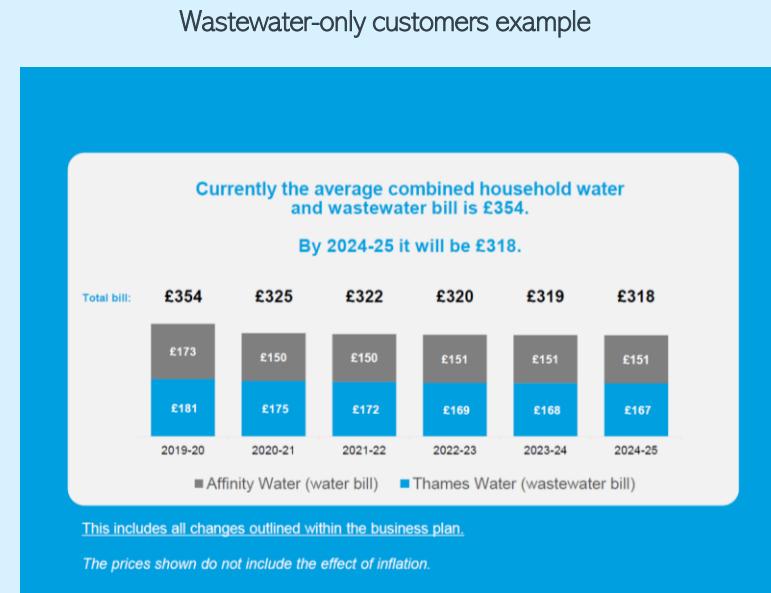
Inflation: today's or inflated prices

Customers were shown how the 2020-2025 plan would impact their water bill in today's prices

We attempted to keep things simple and as real as possible and showed bill impacts without inflation.

We can only estimate how much inflation will be. Prices and income are likely to change over the same time period – and customers may disregard one but not the other.

Customers were shown the impact of the plan on the average 2019 household bill at various points through the survey (£378 for combined customers, £167 for wastewater customers). We showed the impact without inflation, but included a link to explain what inflation is and how it may affect the final bill.



Wastewater customers were also shown how their water provider may change their water bill by 2025. This was based on 2020-2025 bill impact figures submitted by Affinity Water, SES, South East Water, and Essex & Suffolk Water in their respective 2019 Business Plans.

How should we treat inflation?

What is inflation?

- Inflation is the general rise in prices for all goods and services over time.
- Inflation will affect your household income (e.g. wages, benefits, state pensions).
- It will also affect all other items of household expenditure (e.g. shopping bills, other utility bills, fuel and travel costs, etc.).
- Like any other bill, your water and wastewater bills will rise each year in line with inflation.
- The future bill amounts in this survey do not include the effect of inflation.

WHAT IMPACT WILL INFLATION HAVE?
The Bank of England's Consumer Price Index target predicts inflation will be around 2%.

EXAMPLE
If a bill costs £10 today, by 2025 it will cost £11.50 in 'today's prices' due to yearly inflation at 2%'



Average bills

In some of our surveys we tailored the questions and materials based on the bill the individual customer paid. In others we quoted average bills.

How should we treat these other factors?

Water-only bill portion

Acceptability/affordability levels among our wastewater-only customers may have been influenced by their water company's plans

Informed vs. uninformed

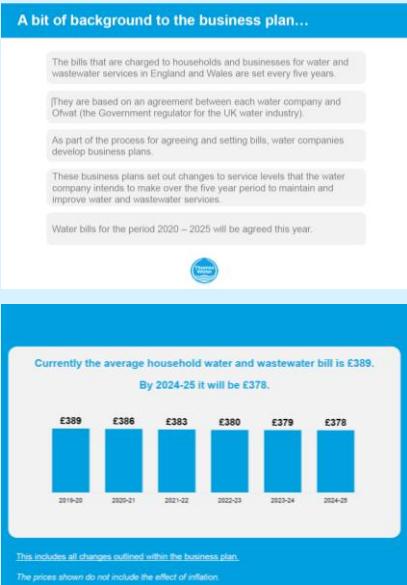
Two key sections: acceptability and affordability of proposed business plan asked at end of each section

It can be argued that as water is a low engagement service, most customers lack the knowledge they need to judge whether a business plan is acceptable, and so need to be shown objective and impartial information.

What level of information do we provide?

After brief introductory text...

Respondents were first shown the impact Thames Water's proposed 2020-2025 business plan will have on their bill



Acceptability and affordability questions asked to gain the customer's **uninformed views of proposed business plan**

How much weight do we place on informed vs. uninformed results?

Respondents were then shown the proposed 2020-2025 plan in detail, including comparative information and explaining Thames Water's proposed commitments for each area. They were then shown the impact the plan will have on their bill once again

Acceptability and affordability questions asked to gain the customer's **informed views of proposed business plan**



Comparative information

What level of information do we provide?

Helping customers understand what good looks like

The plan was presented in an objective and impartial manner. Comparative information helped contextualise our proposed changes.

Is this the right way to present this kind of information?

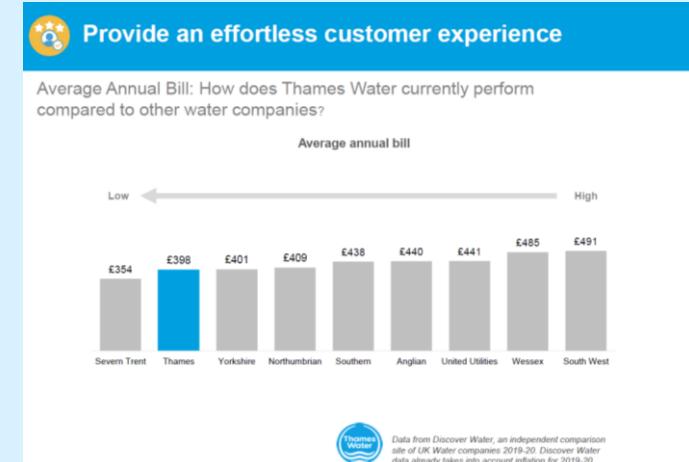
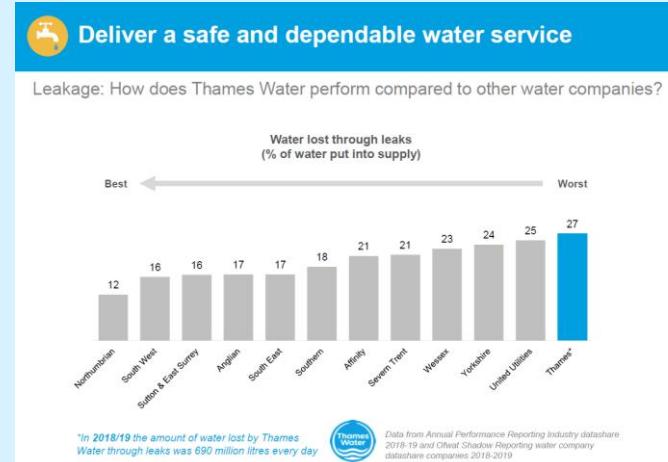
To avoid overloading respondents, we showed a maximum of three comparative information charts per area of the plan (customer experience, water and wastewater)

We kept all comparisons and explanations simple, avoiding technical language or jargon.

While we included the unit of measurement, we wanted respondents to focus primarily on the relative rank position of Thames Water as this is easier to comprehend so we shaded Thames Water blue and other providers grey.

All comparative information either came from Discover Water or Ofwat data. Both sources were clearly referenced within the stimulus to ensure respondents knew the data shown was from an objective and impartial source.

Examples of how we presented comparative information



Transparency on the social tariff

Affordability support but at a cost to most

What else should we share with customers?

We explained the benefits and costs of the social tariff to help reassure that those who might struggle to pay would be supported and explain an additional cost would be added to the bills of all other customers.



What is a social tariff?

Thames Water currently offers a discounted rate to help its most disadvantaged households by reducing their water bills. This is called a social tariff.

From 2020, the discounts available for customers will be either a 25%, 50% or 75% discount depending on their income.

The discounted rate will be available to all customers who have a total household income of £16,105 or less (£19,201 for customers that live in London boroughs) excluding certain benefits, such as disability living allowance.

The discounted rate is funded by adding a small amount to the annual bills of customers who are not eligible for the discount. Between 2020 and 2025 this will be £5 for customers who receive water and wastewater services (£5.70 including inflation). It will be £2.50 for customers who receive wastewater services only (£2.85 including inflation).

Thames Water does not financially profit from this and 100% of the contributions are passed directly on to help customers in financial difficulty.

Most water companies have schemes of this type which are funded by customers and some have schemes that are part-funded by the water company

ODIs

In some of our surveys we attempted to demonstrate the potential impacts of penalty and reward payments. In others we didn't, as we reasoned the net effects of incentives would likely be neutral.

Multi-AMP bill profiles

In some of our surveys we assessed acceptability and affordability of AMP8 as well as AMP7 plans.

Summing up

Key questions

Issues we need to address in the design

- We need a clear definition regarding what Acceptability and Affordability testing is. Is one more important than the other?
- Will the results be triangulated against other sources? How else should we assess affordability?
- Who do we include? What is a robust and proportionate sample?
- When should it happen? Multiple times?
- What are the right questions? What's an appropriate 'pass' mark?
- What information should we provide and how should we present it? E.g. inflation, proposals, comparative, ODIs, multi-AMP, WoC bill impacts, average bills
- How much weight do we place on informed vs. uninformed results?
- Are certain segments more important? E.g. difficulty paying
- How do we assure the process?

