



Floating the idea: Household customer views on water market reform in England



SYSTRA

Evelyn Robertson and Paul Le Masurier

On behalf of CCWater

Published 20th May 2016

TABLE OF CONTENTS

FOREWORD	6
EXECUTIVE SUMMARY	7
1. INTRODUCTION	14
1.1 STUDY CONTEXT	14
1.2 STUDY OBJECTIVES	14
1.3 STUDY OVERVIEW	14
1.4 REPORT STRUCTURE	15
2. METHODOLOGY	16
2.1 QUALITATIVE RESEARCH METHODOLOGY	16
2.2 QUANTITATIVE RESEARCH METHODOLOGY	18
2.3 INTERPRETATION OF DATA	22
3. CUSTOMER ATTITUDES TO THE PRINCIPLE OF COMPETITION	23
3.1 INTRODUCTION	23
3.2 ATTITUDES TO COMPETITIVE MARKETS IN PRINCIPLE	24
3.3 VIEWS ON COMPETITION IN THE WATER INDUSTRY	25
3.4 VIEWS ON THE STATUS QUO	29
3.5 EXPERIENCE OF COMPETITION IN OTHER MARKETS	30
4. INFORMED CUSTOMER ATTITUDES TO COMPETITION	35
4.1 INTRODUCTION	35
4.2 MORE INFORMED ATTITUDES TO RETAIL COMPETITION IN THE WATER INDUSTRY	35
4.3 ATTITUDES FOLLOWING CONSIDERATION OF DIFFERENTIAL PRICING	37
4.4 FULLY INFORMED ATTITUDES TO RETAIL COMPETITION IN THE WATER INDUSTRY	40
4.5 CHANGING ATTITUDES WITH INFORMATION AND PROSPECTS OF SAVINGS	42
5. LIKELIHOOD OF SWITCHING IN A COMPETITIVE WATER MARKET	44
5.1 INTRODUCTION	45
5.2 SPONTANEOUS VIEW OF LIKELIHOOD OF SWITCHING	45
5.3 INFORMED VIEW REGARDING LIKELIHOOD OF SWITCHING	48
5.4 LIKELIHOOD OF SWITCHING TO A SINGLE RETAILER	49
5.5 LIKELIHOOD OF SWITCHING TO SAVE ON THEIR ANNUAL BILL	50
5.6 LIKELIHOOD OF SWITCHING FOR IMPROVED SERVICE QUALITY	58
6. WIDER MARKET CONSIDERATIONS	61
6.1 INTRODUCTION	61
6.2 FURTHER INFLUENCES ON SUPPORT/OPPOSITION OF RETAIL COMPETITION	61

6.3	FURTHER INFLUENCES ON LIKELIHOOD OF SWITCHING	70
7.	VIEWS OF CUSTOMERS ON WATERSURE SOCIAL TARIFF SCHEME	72
7.1	INTRODUCTION	72
7.2	ATTITUDES TO THE WATERSURE SCHEME	73
7.3	THE PRINCIPLE OF COMPETITION	73
7.4	EXPERIENCE OF COMPETITION IN OTHER SECTORS	73
7.5	ATTITUDES TO COMPETITION IN THE WATER INDUSTRY	74
7.6	SWITCHING	76
7.7	WATERSURE IN THE FUTURE	76
7.8	CROSS-SECTOR OFFERING	77
7.9	DISCONNECTIONS	77
7.10	RETAIL EXIT	78
7.11	OVERALL COMPARISON BETWEEN CUSTOMERS IN RECEIPT OF THE WATERSURE SOCIAL TARIFF AND THOSE OF OTHER HOUSEHOLD CUSTOMERS	79
8.	CONCLUSIONS	80
8.1	CURRENT ATTITUDES TO EXISTING RETAIL SERVICE	80
8.2	APPETITE FOR COMPETITION IN THE WATER RETAIL MARKET	80
8.3	WHAT WOULD MAKE PEOPLE SWITCH?	81
8.4	WOULD A 'ONE-STOP SHOP', ON ITS OWN, MOTIVATE PEOPLE TO SWITCH?	81
8.5	VIEWS OF CUSTOMERS ON THE WATERSURE SCHEME	81
8.6	OVERALL POSITION	82

LIST OF FIGURES

Figure 1.	Evolution of customer views	8
Figure 2.	Levels of support for competition and likelihood to consider switching	9
Figure 3.	Map depicting regional divide by WaSC region	16
Figure 4.	Reasons for Agreeing with the Concept of Competition in the Water Industry	27
Figure 5.	Reasons for Disagreeing with the Concept of Competition in the Water Industry	28
Figure 6.	Show Card to Explain the Retail Part of the Water Industry (Focus Groups Only)	40
Figure 7.	Service Improvements to Encourage Switching	59
Figure 8.	Reasons for Not Switching on Quality Grounds	60
Figure 9.	Reasons for Retail Exit making Customers More Supportive	69
Figure 10.	Reasons for Retail Exit making Customers Less Supportive	69

LIST OF TABLES

Table 1.	Sample size by region	19
Table 2.	Sample profile - gender	20
Table 3.	Sample profile - age	20
Table 4.	Sample profile - SEG	20
Table 5.	Weighting factors	21
Table 6.	Confidence intervals according to sample size	22
Table 7.	Do you agree or disagree with the principle of introducing competition in the water and sewerage industry?	26
Table 8.	Do you agree or disagree that the water and sewerage charges that you pay are affordable to you?	30
Table 9.	Now that you know that competition would mean you could choose the company which provides your retail service, do you agree or disagree with the principle of introducing competition in the water and sewerage industry?	36
Table 10.	With competition, whilst some customers would save money, others may end up paying more than before, do you agree or disagree with the principle of introducing competition in the water and sewerage industry?	38
Table 11.	If you had a choice, how likely would you be to consider changing the company that charges you for your water and sewerage services?	45
Table 12.	If you had a choice, how likely would you be to consider changing the company that charges you for your water and sewerage services?	48
Table 13.	If a company that already bills you for other services such as energy or broadband, offered to be your water retailer as well – how likely would you be to switch from your current water retailer?	49
Table 14.	If a new company offered you a better price, however small the saving was, how likely would you be to switch from your current water retail?	51
Table 15.	How much of this £39 would you expect to save if you decided to switch? by Age	53
Table 16.	How likely would you be to switch if you could save £4-8 a year?	54
Table 17.	And thinking of your own water bill, how much money would you need to save a year to consider switching?	55
Table 18.	How likely would you be to switch supplier if an incentive – such as cashback, loyalty points (e.g. Nectar points) – was offered?	57
Table 19.	In principle, would you consider switching if an alternative water supplier offered better retail services – that is meter readings (if you have one), billing, customer service and payment handling?	58
Table 20.	If the policy on disconnections were reconsidered, would this make you more or less supportive about retail competition?	62
Table 21.	Most customers pay on time but some do not, which means some customers owe their water company money. Should customers who owe money to their water retailer be allowed to switch?	63
Table 22.	How much would someone have to owe to their water company before they are stopped from switching?	64
Table 23.	If competition were to be introduced, should customers in genuine financial hardship still be able to apply for a discounted bill?	65
Table 24.	Should retailers in England all offer the same discounted bill scheme, or should they all offer different ones?	66

Table 25.	Should customers who are on a discounted bill scheme have to reapply if they change supplier, or should they automatically be transferred to the equivalent scheme offered by their new supplier?	67
Table 26.	Does retail exit make you more, the same, or less, supportive of retail competition in the water industry?	68
Table 27.	If your customer account was transferred to a new supplier – would this make you more, the same, or less, likely to consider alternative suppliers and/or change your supplier?	70
Table 28.	If a new supplier offered you a better deal than your current supplier - in terms of price and quality – but as part of this deal you had to go on a water meter, would you be likely, or unlikely to switch supplier?	71

Appendices

Technical Appendix

Appendix A	Focus group topic guide
Appendix B	Focus group show material
Appendix C	In-depth interview guide
Appendix D	Graphical representation of key discussion points
Appendix E	Quantitative Questionnaire
Appendix F	Breakdown of results by region
Appendix G	CHAID Analysis results

FOREWORD from Tony Smith, Chief Executive of CCWater

In 2008, CCWater collaborated with Ofwat to research household customers' views on the principle of competition in the water industry, and issues surrounding motivations and barriers to switching. This research was carried out in the context of Professor Martin Cave's independent review of competition and innovation in the water industry.

On 30 November 2015, the UK Government announced plans to work towards the introduction of competition in retail services for household water and sewerage customers in England by the end of this Parliament, i.e. by April 2020. It has asked Ofwat to carry out a cost/benefit analysis of opening up this market, and to report by the end of Summer 2016.

It is important that customers' views form a key part of the evidence that Ofwat submits to Government. CCWater, therefore, decided the time was right to revisit and update the previous research, and find out what customers now think about household competition.

Our research has shown that the majority of customers are keen on the idea of having a choice but that their likely participation in any market diminishes as they learn about the savings that will probably be on offer.

To be successful, any new household market will need to deliver benefits that are experienced by all customers. Equally, it must not over-promise what can be achieved and risk leaving customers disappointed.

Should Government decide to proceed with household competition in England, CCWater will work with Ofwat and the industry to deliver the best possible outcome for customers.

May 2016

EXECUTIVE SUMMARY

Introduction

The UK Government recently announced its intention to consider the possibility of introducing competition into the household water retail market in England. As the organisation with a statutory duty to protect the interests of consumers of water services, the Consumer Council for Water (CCWater) wished to understand the views and concerns of household customers regarding the potential opening-up of the market, identifying potential motivations, and barriers, to households participating in the market.

CCWater has an opportunity to influence the development of water market reform to maximise the chances of household customers engaging in the new market conditions by switching supplier and/or seeking a better deal with their current supplier. To do so effectively, CCWater needed an up-to-date assessment of householders' views on the subject, and commissioned SYSTRA Ltd (SYSTRA) to undertake tailored qualitative and quantitative research. The research objectives were to:

- identify household customer appetite for water market reform;
- assess motivating factors and barriers to engagement in a reformed water market; and
- gauge views and opinions relating to wider market change considerations.

Methodology

The qualitative research comprised a series of nine focus groups undertaken across England, with participants mixed in terms of gender, age and socio-economic group. The focus groups began with a general discussion on competition and competitive markets and experiences across different sectors. Participants were then given progressively more information on what competition in the water industry would mean, and asked at each stage to consider whether they were in favour, or not, of competition and the likelihood that they would consider switching supplier.

It was also important to capture the views of customers in vulnerable circumstances, in order to understand whether they had different attitudes and concerns to other domestic customers. For this research, being on the WaterSure social tariff scheme was used as an indicator of vulnerable circumstance. SYSTRA undertook in-depth interviews with ten customers on the WaterSure scheme across different regions of the country.

The qualitative research was supported by quantitative research, with the questionnaire broadly following the focus group discussion guide. The survey comprised of a core sample of 1,800 telephone interviews, with sub-samples of approximately 200 taking place in each Water and Sewerage Company (WaSC) region in England. In addition, four water companies¹ funded booster samples in the Eastern, Midlands, Southern and North West regions; these were added to the core sample of 200 in each and included in the overall analysis, bringing the final sample size to 3,595 interviews. The sample for each WaSC region is representative.

¹ Anglian Water, South Staffs Water, Southern Water and United Utilities

The research quantifies support/opposition levels regionally, and nationally, and gives indications of the proportion of customers who may engage with an open retail market under different circumstances and levels of information provision.

Key Findings

Figure 1 and Figure 2 summarise customers' attitudes to competition and expectation of engagement in a competitive water market and how these views change as implications of retail reform are introduced.

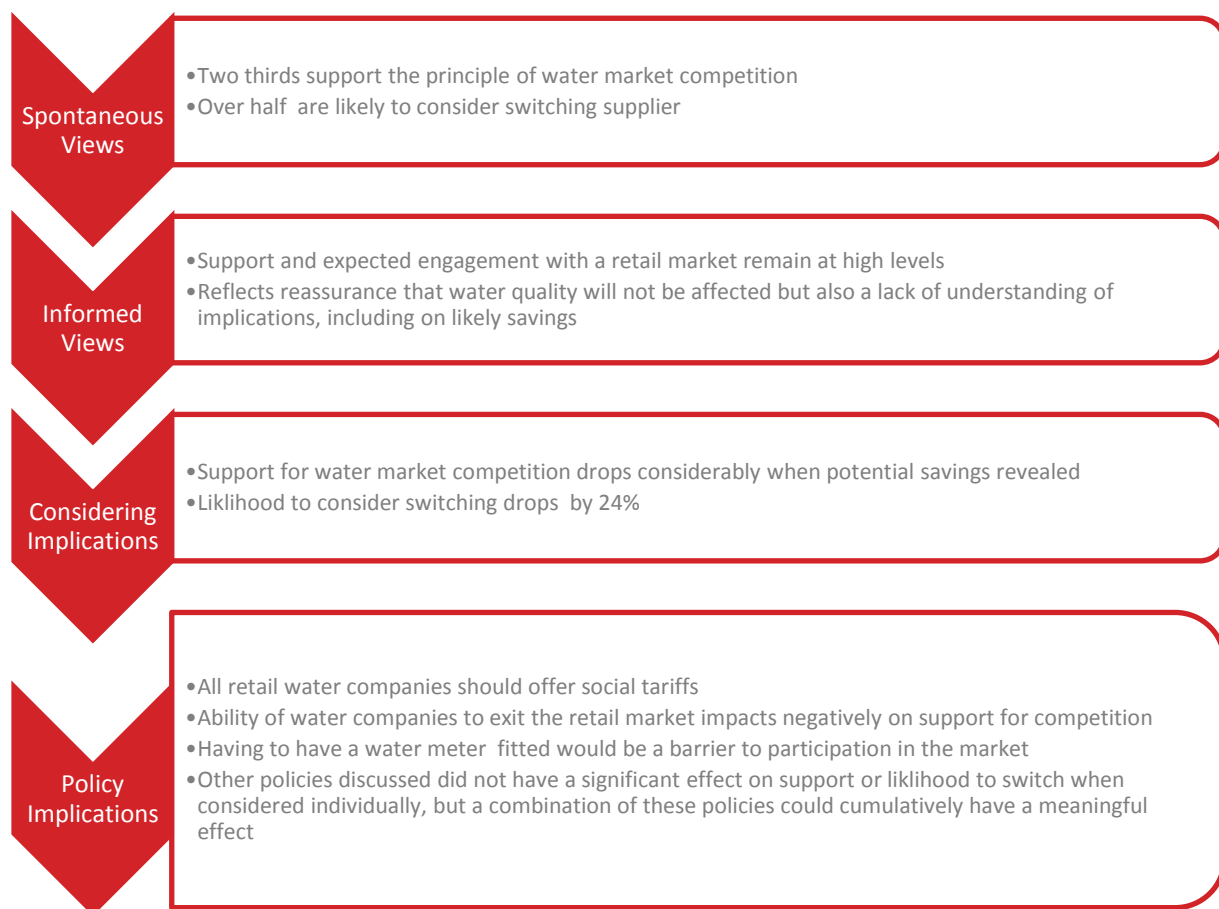


Figure 1. Evolution of customer views

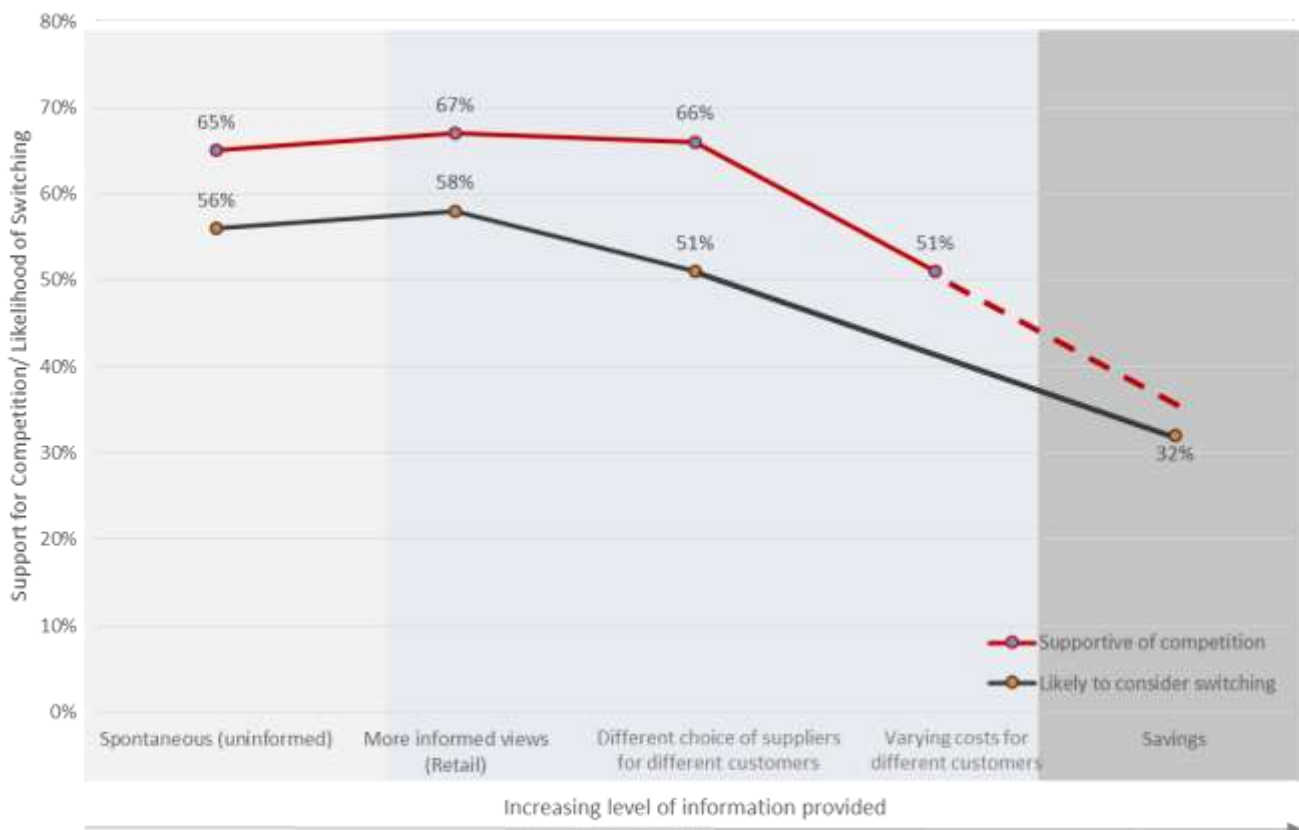


Figure 2. Levels of support for competition and likelihood to consider switching

The red dashed line projects decreasing customer support of water market competition based on the very consistent and considered responses from the qualitative research discussions.

Spontaneous (Uninformed) Views

Participants were given the same level of information as could be expected in a ‘real-world’ scenario, such as a newspaper headline, or word of mouth – i.e. were told that competition in the water market would mean customers could choose their supplier, but the water they receive would not change. There were high levels of support with the principle of introducing competition and high levels of expectation that customers would actively engage in the market by switching supplier:

- Nearly two thirds (65%) of customers agreed with the principle of introducing competition with this limited information; and
- Over half (56%) felt they would be likely to consider switching in this situation.

“I think competition is good as it makes companies work for your business. In the end, competition will drive down prices which ultimately is good for the consumer.” (Female, aged 36-59, Eastern)

“I think it’s good, ‘cos then you can choose who’s got the best deal.” (Female, aged 35-59, Northumbria)

More Informed Views - Retail Explained

Participants were then asked to consider a more detailed explanation of competition in the water industry, emphasising that only the retail service would change i.e. the company that sends the bill and provides customer service, and that the water delivered to the home would not change. Support for the principle of introduction of competition in the water market was little changed and remained high, as did the expected engagement in a competitive market.

- Just over two thirds (67%) of customers agreed with the principle of introducing competition with this further information; and
- Over half (58%) of customers would be likely to consider switching in this situation.

"It's still the same [the water] but someone will say we'll supply your water for ten pence a gallon cheaper, or whatever, and you'll get just the same but you'll get a different bill." (Male, aged 36-59, Eastern)

Some customers found reassurance and confidence in the knowledge that their water supply would not change. However, these figures also reflect that customers had not yet given full consideration to the implications of competition on bill levels. At this juncture, savings on the water bill continued to be the main motivating factor for supporting competition and expecting to switch supplier.

Considering Implications

a) Variation in bills

Participants were asked to consider that in a competitive market some customers may have more choice of suppliers and access to better deals than others, as in other utility markets with retail competition.

- Support for the principle of water market competition was little changed (to 65% from 67%) on the basis of some customers having more choice of suppliers than others; however
- Support *dropped* on the basis that some customers may end up paying more, while others pay less (from 67% to 51%).

"I think it would be better if they kept the bill [unit] levels the same because then [otherwise] you get some people, such as old people who aren't very good at contacting people and negotiating, would get ripped-off, whereas the younger generation are much better at finding the right deals!" (Male, aged 18-34, South West)

"Selfishly I'd say yes, I'd rather pay the cost of servicing me as a customer, rather than a general cost." (Male, aged 60+, Eastern)

Reasons for the reduction in support based on varying prices included customers feeling it penalised those who require a paper bill, such as the elderly. However, some participants

preferred the idea that the price they would pay for water would be more reflective of the costs to the supplier of providing it to them.

b) Levels of savings

Based on current projections, a realistic bill saving in a competitive water market is approximately 1% of the overall annual water bill; for the average bill this means a potential customer saving of between £4-£8. Customers were asked how likely they would be to switch if they could save this amount.

- Customers likely to consider switching drops from over half (58%), to about one in three (32%) customers who would switch for £4-£8; and
- Thinking of their own water bill, only 6% of customers said they would consider switching for a £1-£10 saving when asked to 'name their price'.

In addition, focus group participants' support for the introduction of competition in the water market was only minimal when potential savings were revealed.

"Really, if it's only going to be £5 no one is going to bother, it's not worth it. It's got to be more than that." (Male, aged 36-59, Eastern)

c) Other implications

Customers were also asked to consider their expectation of switching in other scenarios:

- Having the water bill bundled with other bills, such as energy or broadband, made little difference in whether customers would switch suppliers, or not;
- Incentives, such as cashback or loyalty points made little difference to whether customers would switch suppliers or not; and
- Less than half (44%) of customers would consider switching to a supplier that offered them a better retail service but no bill savings.

It should be noted that the questions on incentives and improved retail service followed questions on levels of savings, which left customers disappointed and significantly reduced likelihood to consider switching; this may have influenced customers' responses to subsequent questions.

Policy Implications

a) Metering

Unmetered customers were asked whether they would switch if a new supplier offered them a better deal than their current supplier in terms of price and quality, but they would have to go onto a water meter.

The proportion of unmetered customers likely to consider switching reduced significantly, from 54% to 26%, if they had to have a water meter installed, suggesting this as a barrier to entry to a competitive water market for some customers.

"I like to have the freedom in case I wanted to water the garden, I don't want the feeling of being restricted so I'd rather go without [a meter]." (Female, aged 60+, Thames)

b) Disconnection

Water companies are not allowed to cut off or restrict the water supply to customers' homes, even if they do not pay their water bill. Customers were asked to consider that this policy may be reconsidered in a competitive market. Whilst this did not change levels of support for, or against, water market competition in the survey, focus group participants were strongly against disconnection and felt there were no situations in which someone's water should be cut off. It was felt by some participants that this could lead to wider societal and health impacts.

"It's absolutely vital that everyone has a clean water supply and if you withdrew it, the costs would exceed the savings because of the risk to health." (Male, aged 36-59, Southern)

c) Indebtedness

Customers were asked whether water customers in debt should be allowed to switch supplier; the majority of survey participants believed they should *not* be allowed to switch supplier (68%). Views expressed in the focus groups were less certain, with some participants believing they should be allowed to switch if it helped them get out of debt.

"Yes, if they could make a saving which might help them get out of debt." (Male, aged 36-59, Eastern)

d) Social tariffs

Over half of customers (59%) believed that all water companies should offer social tariffs. This view was consistent with focus group discussion and interviews with customers in vulnerable situations, for whom social tariffs are extremely important.

"I think the social tariff should be protected and should never be taken away because it's not the persons fault if they've got a disability or a genuine need for the water so for me that would be wrong." (Female, aged 36-59, Thames)

Conclusions

When fairly uninformed of what competition in the water industry will involve, the appetite for competition, and the expectation of actively engaging in a competitive water market, is high.

With additional information that sought to explain that only the retail part of the market was to be competitive (and how the supply is split between wholesale and retail elements), customer understanding increased. However, understanding did not increase to the extent that it brought home to customers that the retail element of the water market is small and thus the scope for savings must be modest. When customers were advised of the actual savings that are likely to

result from retail competition in the water industry support significantly waned, as did the expectation of switching.

Customers were disappointed with the proportion of the overall bill that will be open to competition and, hence, with the scope for reduced bills. The majority felt that the range of likely savings – £4-£8 per annum – would be insufficient to make them consider switching. However, a few participants thought that they would switch even for a very small saving – on the basis that the water supply was the same across all ‘suppliers’ so why pay more.

If bill savings, as a consequence of competition, were closer to 10% of the annual bill then many customers may consider that the benefits of switching would outweigh the negatives (44% would need to save £40 or over to consider switching); especially if they were likely to be one of the beneficiaries who have the time, information and opportunity to gain the best deal.

Currently, it is envisaged that the potential savings will be modest. In which case, 32% of customers are likely to consider switching. They will be content to secure a (slightly) better deal and (customers assume) those who decide not to switch will also be content as they can continue with their existing supplier – with whom they have a long-standing customer/company relationship and are satisfied with how they are treated and served – on the existing terms. The potential for retail exit would change this situation; if existing suppliers need to set up different retail elements, giving them new names etc. this could break up the positive relationship feeling that most customers appear to have for their local water company. The evidence here suggests that while retail exit may stimulate levels of switching (36% would be more likely to change supplier), retail exit itself as a policy is not welcomed by customers (31% would be less supportive of competition in this instance) because the choice to carry on with their current supplier is as important to them as the choice to switch.

1. INTRODUCTION

1.1 Study context

1.1.1 In 2015 the UK Government announced its intention to explore the feasibility of introducing competition into the household water retail market in England, with its possible introduction as early as 2020. As the organisation with a statutory duty to protect the interests of consumers of water services, the Consumer Council for Water (CCWater) wished to understand the views and concerns of household customers regarding the potential opening-up of the market, identifying potential drivers of, and obstacles to, households switching their supplier.

1.1.2 CCWater has an opportunity to influence the development of water market reform to maximise the chances of household customers engaging in the new market conditions by switching supplier and/or seeking a better deal with their current supplier. To do so effectively, CCWater needed an up-to-date assessment of householders' views on the subject, and so commissioned SYSTRA Ltd (SYSTRA) to undertake tailored qualitative and quantitative research.

1.2 Study objectives

1.2.1 The main objectives of this study were to:

- identify household customer appetite for water market reform;
- assess motivating factors and barriers to engagement in a reformed water market; and
- gauge views and opinions relating to wider market change considerations.

1.2.2 Fulfilling these objectives means that CCWater will be able to use the findings to inform their policy input into Ofwat's assessment of the costs and benefits of a competitive household water retail market; and ensure that household customer views are taken into consideration in the design of the household competitive market, should it proceed.

1.3 Study overview

Qualitative Overview

1.3.1 A series of nine focus groups were undertaken across England², with participants mixed in terms of gender, age and SEG³.

1.3.2 The focus groups began with a general discussion on competition and competitive markets, and experiences across different markets. Participants were then given progressively more information on what competition in the water industry would mean, and asked at each stage to consider whether they were in favour, or not, of competition and the likelihood that they would consider switching supplier.

² One focus group was also undertaken in Wales; this will be published at a later date.

³ Socio-economic groups (SEG) divide the population into groupings based on the occupation of the head of household. More detail can be found in the Technical Appendix.

- 1.3.3 It was important to capture the views of customers in vulnerable circumstances – such as those on low incomes and living with long term health conditions – in order to understand whether they had different attitudes and concerns to other domestic customers. In this research, being in receipt of the WaterSure social tariff was used as a proxy for vulnerable circumstances⁴. Therefore SYSTRA undertook in-depth interviews with ten customers on the WaterSure⁵ scheme across different regions of the country.

Quantitative Overview

- 1.3.4 The qualitative research was supported by quantitative research, comprising of a core sample of 2,000 interviews, with representative sub-samples of 200 taking place in each water and sewerage region in England and a sub-sample in Wales (Welsh findings reported separately). This report also includes analysis of booster samples in 4 regions: Anglian, Severn Trent, Southern and United Utilities; making a final total of 3,595 interviews.
- 1.3.5 The research quantifies support/opposition levels regionally, and nationally, and gives indications of the number of customers who may engage with an open retail market under different circumstances and levels of information provision.
- 1.3.6 Interviews were undertaken using computer-assisted telephone interviewing (CATI), with participant quotas set on age, gender and SEG, in order to build a nationally representative sample.
- 1.3.7 The quantitative survey echoes the focus group topic guide in many ways, by giving participants progressively more and more information and at each stage asking whether they agreed or disagreed with competition in the water industry and their likelihood of switching in a competitive water market.

1.4 Report structure

- 1.4.1 The full methodology in this study is provided in Chapter 2. The findings from both the qualitative and quantitative research are provided, as follows:
- Chapter 3: Customer Attitudes on the Principle of Competition;
 - Chapter 4: Informed Customer Attitudes to Competition;
 - Chapter 5: Likelihood of Switching in a Competitive Water Market;
 - Chapter 6: Wider Market Considerations; and
 - Chapter 7: Attitudes and Likely Behaviours of Customers in Vulnerable Circumstances (qualitative data only).
- 1.4.2 In the final chapter, we present our conclusions based on both the qualitative and quantitative evidence obtained from this study.

⁴ WaterSure customers could have different perspectives on similar customers not on the WaterSure scheme and therefore conclusions should not be drawn on customers in all vulnerable circumstances.

⁵ WaterSure is a scheme which caps some customers' water bills. To be eligible for the scheme, you must be on income based benefits and need to use a lot of water either for medical reasons or because your household has a certain number of dependent children.

2. METHODOLOGY

2.1 Qualitative research methodology

Recruitment

- 2.1.1 To ensure that SYSTRA captured the views of customers across England, one focus group was conducted in each of the nine water and sewerage company (WaSC) regions, as outlined in the map below.



Figure 3. Map depicting regional divide by WaSC region

- 2.1.2 In order to ensure a wide variety of participants attended, and to assist generating discussion within the groups, minimum quotas were set on gender, age and SEG in each group. Further to this, with variations across regions, quotas were set on:

- Confidence of knowledge of current sewerage supplier;
- Having switched a utility supplier in the last two years, or not; and
- Metered and unmetered customers.

2.1.3 In addition, focus groups were held in a mix of rural and urban locations in order to speak to customers living in different kinds of areas.

2.1.4 In order to capture the views of people who could be considered vulnerable, customers on the WaterSure scheme were spoken to separately via in-depth interviews. Those on the WaterSure scheme are in receipt of income based benefits and either have three or more dependent children living at home, or a medical condition that requires significant additional water usage. SYSTRA consulted with a mix of the different ‘types’ of WaterSure customer.

Focus groups

2.1.5 All nine focus groups in England were undertaken in the period between 18th February and 10th March 2016.

2.1.6 The topic guide was developed iteratively with CCWater, who also received comments from Defra, Ofwat, Water UK and Welsh Government and identified the following areas for discussion:

- **Principles of competition:** views on competitive markets; and experience in other markets;
- **Current water and sewerage services:** awareness of service provider(s); satisfaction with current service; and knowledge of the current UK water market;
- **Attitudes and behaviour to water market reform:** support, or lack of, for water market reform; and what it would mean for customers;
- **Likelihood of switching:** motivating factors and barriers for switching utility suppliers, including service improvements and price savings; and
- **Wider considerations:** perception of customers likely to gain or lose out; and views on other potential policy options, including retail exit.

2.1.7 The topic guide can be found in Appendix A.

2.1.8 Show material was created for participants to use during the focus groups in order to assist understanding; a copy of the show materials used can be found in Appendix B.

2.1.9 The first focus group in Birmingham was treated as a ‘pilot’ group, with observers from CCWater, Ofwat and Severn Trent Water. The purpose of the pilot focus group was to test the initial topic guide and identify revisions that facilitate more effective feedback from domestic customers on the issues of greatest importance. The findings from the pilot focus group fed into the quantitative questionnaire design, and are included in this report.

In-depth interviews

2.1.10 Ten in-depth interviews with customers in vulnerable circumstances who are on the WaterSure scheme were undertaken between 8th March and 8th April 2016.

2.1.11 Based upon the revised topic guide, an in-depth interview guide was developed iteratively with CCWater, who also received comments from Ofwat, Defra and Water UK. The interview guide covered similar topics to the focus group topic guide, however focused on aspects that may have a disproportionate impact on customers in vulnerable

circumstances, including possible concerns about reliability of supply, difficulties in accessing information about alternative offerings and, most importantly, views on the need, or not, of WaterSure or similar schemes being available in a competitive market.

2.1.12 The first interviews were treated as pilots. However, no revisions were made to the interview guide based on these interviews, and the pilot responses are included in this report.

2.1.13 The in-depth interview guide can be found in Appendix C.

Qualitative Analysis

2.1.14 With consent from all participants, each focus group was digitally audio recorded and then written up by a core member of the research team. The data collected was reviewed, summarised into key themes, and used to provide qualitative evidence of domestic customers' attitudes and preferences, as documented in subsequent chapters of this report. This systematic data management process was vital for the qualitative data analysis and ensured the findings presented were accurate and reflected the views of all participants. It is important to note that qualitative data is not statistically representative, rather each 'type' of customer is represented; however, descriptors such as 'few', 'some', 'many' and 'most' have been used to provide an understanding of the prevalence of thought discussed in the groups or across interviews.

2.1.15 Quotes have been reported verbatim, with reference to each participant's gender, age and region. Quotes have been selected for inclusion in the report where they summarise the research finding succinctly.

2.1.16 The views and opinions reported in the following chapters are the views and perceptions of participants and are not necessarily factually correct. In some cases, they reflect misunderstandings that are nevertheless very insightful from a research perspective, as they reveal misunderstandings that exist amongst household customers in England.

2.2 Quantitative research methodology

The questionnaire

2.2.1 The quantitative questionnaire was developed iteratively with CCWater, who also received comments from Defra, Ofwat, Water UK and Welsh Government. In order for comparisons to be made across years, the questionnaire features questions used in research commissioned by CCWater in 2008⁶, in addition to incorporating findings from the pilot focus group. As with the focus group topic guide, the questionnaire gradually introduces more information on water market competition and on the basis of this information asks whether the participant is in favour, or not, of competition and how likely they believe they would be to switch suppliers in a competitive water market.

2.2.2 The questionnaire is structured as follows:

- **Screening criteria:** exemptions and quotas;
- **Current water and sewerage providers:** awareness and perceived affordability;

⁶ Competition in the Water and Sewerage Industry: Switching Water and Sewerage Companies, FDS, 2008.

- **Relatively uninformed view on competition:** levels of support/opposition and likelihood of switching supplier;
- **More informed view on competition:** levels of support/opposition, likelihood of switching supplier and savings/services to encourage switching;
- **Other influencing factors:** metering, retail exit, potential for disconnections as a debt recovery approach, social tariffs⁷, experience in other utilities; and
- **Demographics:** internet use, household composition, accommodation type and working status.

2.2.3 The full questionnaire can be found in Appendix E.

2.2.4 The questionnaire was cognitively tested and piloted in order to refine wording and assess the initial data collected. Following the pilot, questions were introduced on the likelihood of switching if an incentive was offered; and to collect more detailed information of why retail exit may make participants more or less in favour of competition in the water industry.

Fieldwork

2.2.5 Pilot interviews were undertaken over 8th and 9th of March, with the main fieldwork Interviews conducted between 14th March and 12th April. In total, excluding the Welsh sample⁸, 3,595 interviews of an average 15 minute duration were undertaken.

2.2.6 Interviews were conducted using computer-assisted telephone interviewing (CATI), using both landlines and mobile numbers associated with a postcode in the relevant region. Interviews were only conducted with the householder solely or jointly responsible for paying household bills and were undertaken during the day and early evening.

2.2.7 A core 200 interviews were undertaken within each water and sewerage region, with companies offered the opportunity the boost the sample. Interviews were conducted at Water and Sewerage (WaSC) region level; this means some interviewed customers receive their water from a water only company (WoC) and others receive both their water and sewerage services from the WaSC. The regional quotas and samples achieved can be seen in Table 1.

Table 1. Sample size by region

REGION	QUOTA	SAMPLE
Eastern	600	632
Northumbria	200	220
Midlands	700	723
South West	200	227

⁷ Where customers in need of financial assistance have their bill capped.

⁸ Reported separately at a later date.

Southern	400	422
Thames	200	216
North West	700	736
Wessex	200	205
Yorkshire	200	214
Total	3400	3595

Sample Profile

- 2.2.8 Quotas were set on gender, age and SEG in each region in order to ensure a representative sample was achieved for England. These quotas were designed using data from the 2011 census.

Table 2. Sample profile - gender

GENDER	QUOTA	SAMPLE
Male	49%	47%
Female	51%	52%
Total	100%	100%
Base	-	3595

Table 3. Sample profile - age

AGE	QUOTA	SAMPLE
18-35	15%	17%
36-59	49%	48%
60+	36%	34%
Total	100%	100%
Base	-	3595

Table 4. Sample profile - SEG

SOCIO-ECONOMIC GROUP	QUOTA	SAMPLE
AB	31%	32%
C1C2	52%	51%

DE	17%	17%
Total	100%	100%
Base	-	3595

Quantitative Analysis

- 2.2.9 The quantitative data has been cleaned and analysed using SPSS⁹ and Excel. Frequencies, cross tabulations and chi-square tests¹⁰ were run on quantitative data as appropriate. Multivariate analysis¹¹, comprising cluster analysis and CHAID analysis, has also been conducted.
- 2.2.10 Analysis has been conducted by water and sewerage region; water only customers are analysed within the sewerage service region.
- 2.2.11 In some cases percentages do not total 100% due to rounding.

Data Weighting

- 2.2.12 Our sample data has been compared against the population of bill-paying water customers¹² and is representative at a national level, and representative (i.e. within 5% of estimated population figures) for 67 of the 72 individual quotas controlled for (covering gender, age, socio-economic group).
- 2.2.13 Data weighting has thus been applied to ensure representation by gender, age and socio-economic group within each region in the few occurrences where they varied by more than 5%, these can be found in the Technical Appendix; and a further across-region weighting has been applied to give the English national position, using customer bases supplied by CCWater. The regional weights have been applied to ensure that the views of each region's customers is in proportion with the region's customer base. Applying weighting does not affect the reliability of the data.

Table 5. Weighting factors

REGION	WEIGHTING FACTOR	CUSTOMER BASE (HOUSEHOLDS)
Eastern	0.71	2,824,134
Northumbria	0.86	1,198,791
Midlands	0.88	4,027,167
South West	0.51	732,780

⁹ IBM SPSS is a statistical analysis software package allowing for deeper insight into quantitative data

¹⁰ A statistical hypothesis test used in order to identify statistical significance within data

¹¹ Statistical tests using more than one data variable, meaning more than one dimension can be considered

¹² According to Census statistics and other ONS data sources regarding the proportion of home-owners by age

Southern	0.72	1,917,819
Thames	4.00	5,451,322
North West	0.67	3,098,671
Wessex	0.91	1,171,835
Yorkshire	1.66	2,244,119

2.2.14 All tables and charts show the weighted data and unweighted base size.

2.3 Interpretation of data

2.3.1 The qualitative evidence cited in the report is used to add nuanced understanding and in-depth insight into the points being made, however it cannot be extrapolated to the whole population.

2.3.2 Whereas the quantitative data can be extrapolated to the population, subject to levels of precision determined by sample size and percentage of the sample giving a particular view, as outlined in Table 6 below. Noticeable differences are highlighted in the report and regional differences that are statistically significant can be found in Appendix F.

Table 6. Confidence intervals according to sample size

REGION	SAMPLE SIZE	10% OR 90% RESPONSE TO A QUESTION	30% OR 70% RESPONSE TO A QUESTION	50% RESPONSE TO A QUESTION
England	3595	1.0	1.5	1.6
Eastern	632	2.3	3.4	3.9
Northumbria	220	4.0	6.1	6.6
Midlands	723	2.1	3.3	3.6
South West	227	3.9	6.0	6.5
Southern	422	2.9	4.4	4.8
Thames	216	4.0	6.1	6.7
North West	736	2.2	3.3	3.6
Wessex	205	4.1	6.3	6.8
Yorkshire	214	4.0	6.1	6.7

3. CUSTOMER ATTITUDES TO THE PRINCIPLE OF COMPETITION

Key Chapter Findings:

- Competition, in principle, is considered good for customers, as is having a choice over goods and services.
- Customers feel that markets work well when competition drives down prices and improves quality/customer service; and it is simple to identify the best value deal and switch to it.
- Whereas, markets considered not to work well do not reward customer loyalty and are too time-consuming and complicated to search out best offers.
- With limited information, similar to a 'real-world' situation, just fewer than two-thirds of customers (65%) in England, support competition in the water industry.
- Customers who support competition in the water industry do so because they believe:
 - in the principle of competitive markets (43%);
 - it will lower prices (40%); and
 - it will give customers choice (25%).
- Customers not in support of water market competition (18%), cited reasons including:
 - overcomplicating the market (26%);
 - unable to see any advantages (18%); and
 - being happy with their existing supplier (17%).
- Reference to choosing a supplier but providing only limited other information on competition risks misleading some customers into believing their supply of water would change and thus there could be a change in water quality.

3.1 Introduction

- 3.1.1 This chapter outlines participants' views on the principles of competition, based on focus group discussions¹³. We then report on attitudes towards competition in the water industry as evidenced from both our quantitative and qualitative research. The final sections of this chapter provide insights into customers' views of existing service provision in the water industry, and their experiences in other sectors.
- 3.1.2 In some cases, customers' views are based on an incorrect understanding of how competition actually works in some sectors, and that it is only the retail part of the water industry that will be open to competition. These findings are nevertheless

¹³ Views on competition in markets generally was not asked in our quantitative questionnaire

relevant and valuable as they reflect the imperfect context in which competition would be introduced. More informed views are reported in the next chapter.

3.2 Attitudes to competitive markets in principle

3.2.1 The general consensus across all focus groups was that competition, in principle, is good for customers and that having a choice over goods and services is beneficial. Whilst many initial reactions focussed on the beneficial price aspects that competition is perceived to bring, improved customer service and product quality were also positively associated with competition.

3.2.2 The underlying rationale for the positive reactions to competition, in general, were that competition:

- gives customers access to choice;
- enables customers to vote with their feet if unhappy with their existing supplier;
- drives down prices;
- improves quality of products and services; and
- allows customers to get the best value for money.

“I think competition is good as it makes companies work for your business. In the end, competition will drive down prices which ultimately is good for the consumer.” (Female, aged 36-59, Eastern)

“I think it’s good, ‘cos then you can choose who’s got the best deal.” (Female, aged 35-59, Northumbrian)

“I just think it’s good to have choice because, unless you’ve got options, you’ve got nothing to compare it [the current service offering] with.” (Female, aged 35-59, South West)

“Whether it’s food, buying a car or even a house, it’s good to have a range of opportunities and choices.” (Male, aged 60+, Eastern)

3.2.3 However, in many groups, a minority of participants were sceptical that competition successfully achieves the above points - particularly driving down prices; and that attractive offers from suppliers (in a variety of markets) can often be misleading.

“There is too much choice, they’re all trying to offer a cheaper price, but there’s always tie-ins and stuff...The hidden costs are the worst thing... They pretend they’re cheaper just to entice you in.” (Female, aged 18-34, North West)

“Initially they [a new supplier] may compete with prices but eventually they’ll get their prices to a premium... The prices are pushed down initially to gain the contract [customer] and then eventually they’ll creep them back up and then you’re paying the same.” (Male, aged 35-59, Wessex)

- 3.2.4 Some participants across many groups also suggested that competitive markets only work when individuals are pro-active and take the time to search out the best deals, and have the opportunity to do so.

“Sometimes there’s just a bit too much choice for me. I just want the cheapest, I can’t be bothered looking into all the ins and outs - so many different companies.” (Female, aged 35-59, North West)

“If the service isn’t bad, you’re probably not going to be prompted enough to go onto u-switch ... to find out about alternatives.” (Male, aged 60+, Wessex)

- 3.2.5 ‘Good customer service’ meant different things to different people but, most often, it related to the speed and quality of response to a telephone query. Other examples of good customer service raised in multiple groups include:

- regular contact with the provider, including being kept updated, such as with deliveries;
- being able to speak with the relevant individual, not a middle-man, in order to resolve problems – regarding retail and operational (wholesale) issues;
- positive and helpful attitude from the individual dealing with the request; and
- being assigned to a single, named company representative when making an enquiry or raising an issue, rather than dealing with nameless, or multiple, people.

“If something does go wrong, it’s easy to get through on the phone.” (Male, aged 36-59, Eastern)

- 3.2.6 Examples of poor customer service were the opposite of the above qualities, and focused on the delay in being able to get hold of someone who could help resolve the problem or answer a question. Other examples raised include:

- Non-UK based call centres, speaking to individuals who do not seem knowledgeable and/or are difficult to understand;
- Automated key pads or automated answering machines that delay being able to speak to an individual; and
- Not being valued as a loyal/long-standing customer.

“I spent fifteen minutes on the telephone [to my mobile phone provider] waiting for a satisfactory resolution... it wasn’t good stuff it was fifteen minutes of sheer frustration.” (Female, aged 60+, Northumbrian)

3.3 Views on competition in the water industry

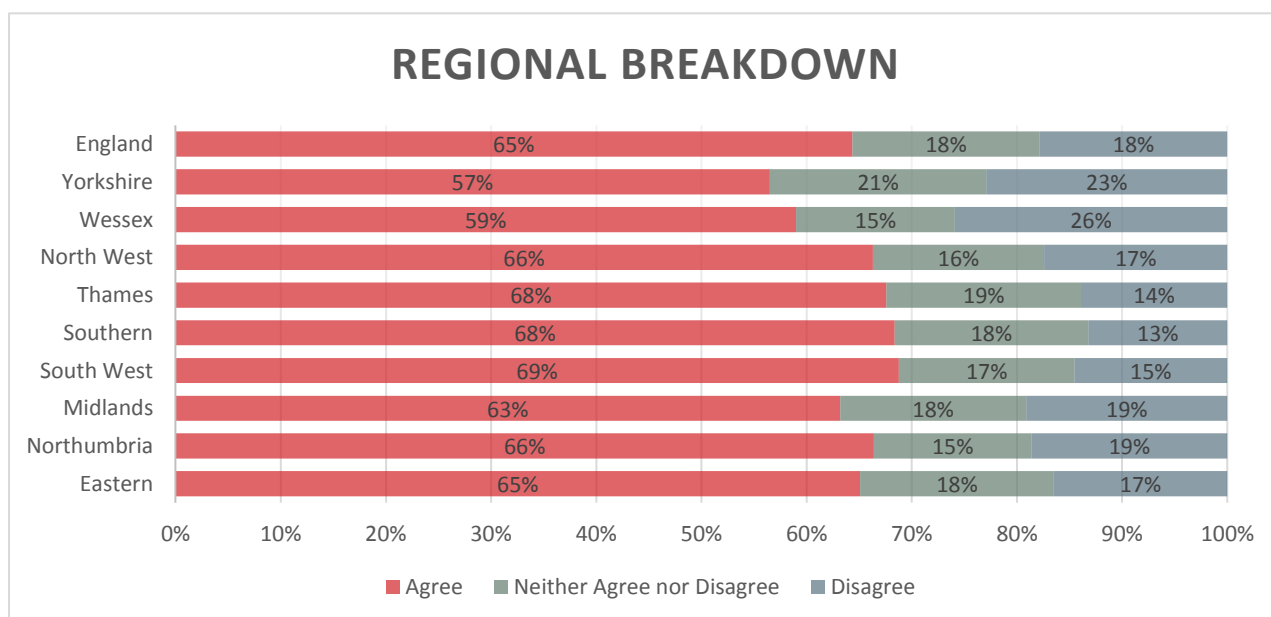
- 3.3.1 Customers responding to our quantitative survey were given the following basic information and asked whether they agreed or disagreed with the concept.

Competition in the water and sewerage industry would mean customers could choose their supplier - i.e. the company that charges them for water and sewerage services, but not change the actual water they receive.

3.3.2 The results, for England overall, are reported in Table 7, along with the minimum and maximum findings, by answer category, across the regions.

Table 7. Do you agree or disagree with the principle of introducing competition in the water and sewerage industry?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Agree	65%	57%	69%
Neither Agree nor Disagree	18%	15%	21%
Disagree	18%	13%	26%
Total	100%	-	-
Base	3595	-	-



3.3.3 The results, for England overall, show that almost two in every three customers (65%) were positive about the idea, either strongly (35%) or tending (30%) to agree with it. Statistically, this level of support for the principle of competition is the same across all regions, except one. Customers in the Yorkshire region were slightly less inclined to support the concept (57%). The results, by region, are reported in Appendix F with statistical differences highlighted for each question, in turn. This is an increase of 8% compared with the same research question being asked of a representative sample of domestic customers in 2008³, suggesting increased acceptance, within society, that competitive markets are efficient and effective for consumers.

3.3.4 Segmenting the results by key demographics, including by gender, age, socio-economic group, whether the household has a meter, etc.; the main differences were:

- If switched supplier in another sector in the past two years they were more supportive (73%) compared with 59% of those who have not switched in the last two years;
- Young people (under 34 years) were more inclined to be supportive (70%) compared with 56% of people aged 60+ years;
- Men were more inclined to be supportive (69%) compared with women (61%);
- Customers with a meter (chosen or not) were slightly more inclined to be supportive (68%) of competition than those without a meter (62%);
- ABs (67%) compared with DEs¹⁴ (59%); and
- Use the internet daily (67%) compared with 55% who have never used the internet¹⁵.

3.3.5 Of those customers who are supportive of competition in principle, many perceive it to *always* be good for the consumer; that it leads to lower prices, and provides customers with choice, as shown in Figure 4¹⁶.

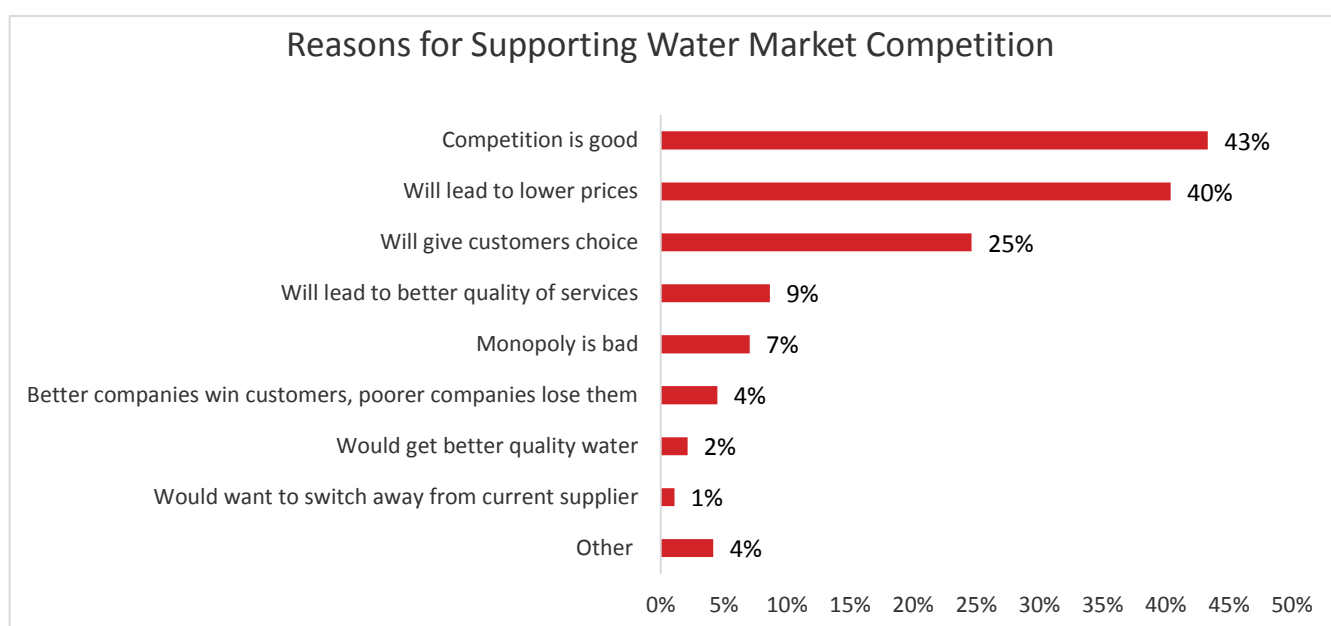


Figure 4. Reasons for Agreeing with the Concept of Competition in the Water Industry (n=2334)

¹⁴ ABs: managerial, administrative, professional roles; DEs: semi-skilled and unskilled labourers, unemployed. more information is available in the Technical Appendix.

¹⁵ Participants aged between 18 and 59 were more likely to use the internet every day (84%) than those aged 60 and over (56%).

¹⁶ Despite the clarification that only the retail part of the water market could open to competition, some participants still indicated that they would expect a change in water quality

3.3.6 In contrast, the main reasons why a minority of customers were unsupportive of the idea were the risk of confusion and the perceived failure of competition in other markets, combined with satisfaction with their existing supplier, as shown in Figure 5.

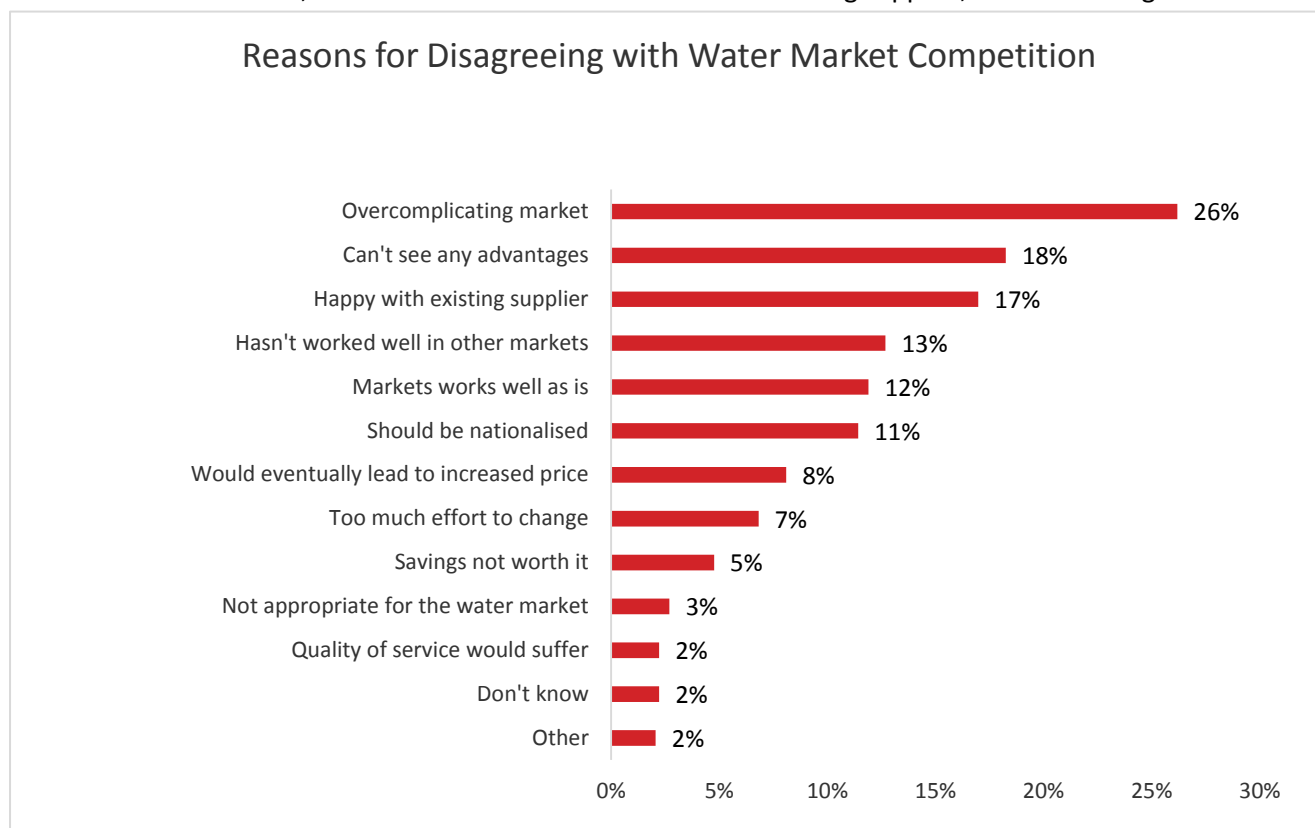


Figure 5. Reasons for Disagreeing with the Concept of Competition in the Water Industry (n=630)

3.3.7 The expectation of saving money off the water bill was found to be the driving factor underpinning support for competition in the water industry in the 2008 research³ too.

3.3.8 The limited description of competition given to participants at this stage states that this would 'not change the actual water' received. Whilst some focus group participants understood that changing supplier didn't mean changing supply, others thought that competition *would* mean a change in water supply which could affect water quality. This could be because the description refers to a change in 'supplier' not 'retailer', as retailer is not a term which customers are likely to be familiar with. Thus, the limited description was insufficient for all customers to understand how the market would work; whether different infrastructure or water sources would apply with different suppliers; and did not always allay fears regarding water quality and who would invest in the infrastructure in the longer term.

"To my mind, Wessex Water must have investment in sewerage treatment works and stuff like that so, if another company came in and they were going to offer the same services as Wessex, then wouldn't they have to build new treatment plants? ... You laugh, does that sound absolutely silly?" (Male, aged 60+, Wessex)

“Are they going to buy [the wholesale water] from whatever suppliers and come back to you [the customers] to sell the water? So, really, they are becoming the middle-man.” (Male, aged 35-59, Midlands)

3.3.9 Much of the confusion is borne out of a failure to understand how the energy or telecommunications markets work; and the use of the term ‘supplier’.

3.3.10 However, in contrast, there were a few participants across most groups that immediately recognised that a change in water supplier and competition in the water market, could only mean a change in the retail aspect of the market, making comparisons with the energy sector. This level of awareness was not present when similar research was undertaken in 2008, suggesting that knowledge of market operations is increasing amongst customers.

3.4 Views on the status quo

3.4.1 Customer awareness of their water and sewerage service provider(s) was high, particularly in areas where one company provided both the water and sewerage services. In areas where water and sewerage services are provided separately, some focus group participants were confused as to which company provided which service, although they usually knew the names of both companies. However, a minority of customers continue to refer to their water and/or sewerage company as the ‘water board’.

3.4.2 Almost all participants in the focus groups were very confident in the knowledge that water companies provide a service to everyone in a certain location, as opposed to competing for customers. This contrasts with findings of the CCWater commissioned research in 2008¹⁷, where domestic customer research participants were less familiar with their water and/or sewerage company and that water was a monopoly market. This change in awareness may be as a result of significant changes and marketing activity in the energy industry in recent years, so that most people realise that they can choose their energy supplier but, in contrast, cannot choose their water (or sewerage service) supplier.

3.4.3 The majority of customers (61%) consider that the bill they receive is affordable, whilst around one in every five (21%) tend to, or strongly, disagree that it is affordable. This is broadly consistent across the regions, except in the South West where bills are highest and significantly fewer than nationally consider their bill affordable. Customers who have opted to install a meter are most likely to agree that their bill is affordable, as shown in Table 8.

¹⁷ Competition in the Water and Sewerage Industry: Switching Water and Sewerage Companies, FDS, 2008.

Table 8. Do you agree or disagree that the water and sewerage charges that you pay are affordable to you?

	YES – CHOSE TO HAVE A METER	YES – DID NOT CHOSE	NO	DON'T KNOW	TOTAL
Agree	71%	59%	56%	53%	61%
Neither Agree nor Disagree	15%	18%	20%	32%	19%
Disagree	15%	23%	23%	15%	21%
Total	100%	100%	100%	100%	100%
Base	906	868	1734	87	3595

- 3.4.4 Almost all participants across all the focus groups were satisfied with the service they receive from their water and/or sewerage service provider, including the frequency of communication and speed of response.

3.5 Experience of competition in other markets

- 3.5.1 Experience in other sectors is extremely mixed in terms of customer service, level of choice and whether the markets were considered to work well, or not.

Energy

- 3.5.2 Positive experiences in energy raised in the qualitative research included:

- a rapid response to a power cut (that had happened late in the evening, but was fixed within a couple of hours);
- a call-back option being offered, instead of having to stay on hold;
- easy to send meter readings and quick confirmation of these;
- flexibility when needing to pay bills late; and
- switching supplier and making savings on the bill.

“They were really prompt and helpful. And when I tell the energy supplier - the one who I actually pay - their call system is quite good because they’re fairly busy when you call, but they just say ... ‘leave your number and we’ll call you back and they do within ten minutes’. It saves you hanging on the phone.” (Male, aged 36-59, Eastern)

“I’ve changed the gas and electric six months ago, saved £400 a year...It’s fixed rates for two years, so you can’t really go wrong with it. [Is this market working well?] For me personally, yeah.” (Male, aged 35-59, North West)

- 3.5.3 Negative experiences cited in the energy industry mainly focussed on difficulty in moving away from one provider to another, and difficulty in identifying the best value deal to move to.

"I tried to leave them using a comparison website. I got a quote from them... they said yes but then they said no after I'd agreed to it. And basically they'd chained me. Couldn't move away, they wouldn't give me a refund." (Male, aged 60+, North West)

"It's time consuming [to be aware of all service offerings] when there's so much there to look at. And some of it is gobbledygook anyway." (Male, aged 60+, Wessex)

- 3.5.4 Participants across many of the groups expressed scepticism that the energy market, in reality, is working (for the consumer), suggesting that it has not led to an improvement in service, or a reduction in price. Some pointed to the market operating as a cartel keeping bill levels artificially high, whilst others felt that more suppliers leads to resources that should be invested in operations and retail being directed towards short-term competitive strategies. Despite these negative observations, participants remained in favour of competitive markets, in principle.

"I think, in an ideal world, you're right - but the trouble is I don't think in other utilities [competition] has necessarily brought better prices or better service... Competition, in theory, is perfect but I'm not sure it actually works in other utilities." (Male, aged 36-59, Southern)

"No, not really. The big six all got together, said 'we'll keep the price at this price' and they all colluded together." (Male, aged 35-59, North West)

"It's then only the big companies that can cut prices, and the smaller independent companies are unable to match them, and they end up being pushed out of the market. That's seemed to be what's happened with the Big Six, and it's ended up all much of a muchness." (Female, aged 35-59, South West)

- 3.5.5 Some participants felt that there was no benefit switching energy supplier because, long-term, they did not believe there were any price savings. Moreover, there was also a risk of the unknown when switching, and the potential to be unhappy with the service of a new supplier and ending a long-term supplier-customer relationship.

"I've found when you change electricity and gas you don't end up any better off ...you change, it's all going to be simple but in the end you still end up paying the same each month." (Male, aged 60+, Eastern)

"I changed a long time ago. I spent some time with the Gas Board, British Gas, and I moved to another company. But it was no good and, after a couple of months, I changed again. I've gone back to British Gas." (Male, aged 60+, Midlands)

"I had been all my life with British Gas, and then a neighbour came along and said they [another supplier] are good. And in the beginning it was fine but as time moved on, things [the price] began to move upwards again and I ended up paying more than I paid British Gas. I had always been considered a loyal customer and getting money back through loyalty rewards. With the other company I didn't have anything like that. So I got free of them after about a year or so, and I went back to my British Gas."

So I don't think I'm the kind of person to go with [embrace] competition." (Female, aged 60+, Midlands)

- 3.5.6 Despite some negative comments and experiences, the energy market was perceived to be working by some participants in most focus groups, on the basis that it is possible to change suppliers in order to get a better deal, or if you are unhappy with the customer service of your current supplier. However, participants in most groups also highlighted that the market only worked well for customers who actively sought out the best deals and kept on top of changes to existing or alternative offerings. For some, this was perceived as a problem, as it could disadvantage customers unable to do so.

"The problem that I have with the market ... is the amount of time that you have to spend researching, and researching best deals and which rate is applicable to you. And really, I haven't got time, or the interest, to wade through all these figures." (Female, aged 35-59, Northumbrian)

"I've been with EDF about 10 years and I'm almost frightened to change because I'm settled with them so even if I could get a better price I'm not sure I'd change." (Female, aged 36-59, Thames)

- 3.5.7 Participants in many groups also queried why there are different prices and tariffs available from different suppliers for what amounts to the same product. It was considered grossly unfair by some participants that customers were the ones who have to seek out the cheapest deals (especially if there was more than one tariff in operation from a single supplier), as opposed to being automatically put on them.

"They ought to put you on their cheapest tariff immediately... it's annoying when it's only for new business." (Male, aged 60+, Southern)

"Why can't companies just offer their best deal as you are a good customer?" (Male, aged 60+, Wessex)

- 3.5.8 Similarly, frustration was expressed across many groups that customer loyalty was not recognised nor rewarded in the utility, and other markets such as insurance.

"Not being rewarded for being loyal irritates me incredibly, so I nearly always shop around for any kind of insurance." (Female, aged 35-59, Yorkshire)

- 3.5.9 Some participants across a few groups felt the utility market operated very differently from others, particularly in comparison to non-essential items, such as choice in supermarkets. Participants suggested that if a product or service is not liked one week, it is easy to just move to a different supermarket, whereas a change in utilities is more of a hassle and you are more likely to be tied into a (long-running) contract.

Telecoms

- 3.5.10 Some participants across many groups cited negative experiences specifically in the telecoms market, largely stemming from poor customer service in the form of call centres.

"I've had very bad experiences with telecoms and that's largely down to their set up of customer service in call centres." (Female, aged 36-59, Eastern)

"I think if you can't speak to the actual person, it's so frustrating to be on the phone, spending absolutely ages just going through these [options]... you just want to speak to someone." (Female, aged 36-59, Eastern)

"I don't think standards are that great, my experience with TalkTalk, who I'm still with - the absolute nightmare of even trying to ring and speak to them. If I ever have to ring, I can't bear it." (Female, aged 35-59, Yorkshire)

- 3.5.11 Participants in a few groups suggested that competition in the telecoms market was not true competition as one company (BT) owns the infrastructure.

"So there's competition in the telecoms industry... but there isn't really because there's still one company that holds everything [infrastructure]." (Male, aged 18-34, South West)

- 3.5.12 Participants in a few groups mentioned receiving email updates from 'Money Saving Expert', Martin Lewis, on savings they could be making in other utilities.

Other markets

- 3.5.13 Car insurance was cited in a few groups as an example of where competition will work for customers depending on how active they are in the market-place, leading to some customers switching, or successfully negotiating, annually, whilst others may stay with the same insurer and get a worse deal than they otherwise could. For some this means the market works well as there is quite a high degree of switching; for others it is a market not working well because it is so challenging for some customers to be informed of all the offers, and does not reward loyalty but exploits customer inertia.

"With car insurance, when you do the renewal you get a good quote from a company. The year after, the renewal [with the new company] is really high." (Male, aged 60+, Midlands)

- 3.5.14 Participants across a few groups cited differing experiences with their banks: some were happy with the service they are receiving; whilst others felt switching e.g. current accounts was a time-consuming, complicated process.

- 3.5.15 Overall, customers feel that markets were working well when competition drives down prices and improves quality/customer service; and it is simple to identify the best value deal and switch to it. Whereas, markets are not working well when customer loyalty is

not rewarded; it is too time-consuming to search for best offers; and it is too complicated to find best offers.

- 3.5.16 The general perception was that most active markets in the UK are in the latter category not the former; and, when reflecting on this, their enthusiasm for competition in the water industry waned considerably compared with when considering just the principles.

4. INFORMED CUSTOMER ATTITUDES TO COMPETITION

Key Chapter Findings:

- With a more informed view (that it is the retail aspect of the water market only), two in every three customers nationally (67%) agree with the concept of competition in the water industry.
- When made aware of the prospect of price differentials for different customers, support for competition decreases at a national level (51%).
 - Some customers perceive price differentials as unfairly targeting some people, including vulnerable members of society, and other believe water, as an essential resource, should not have a variable cost in a competitive market.
- With comprehensive understanding of the difference between wholesale and retail; and the implication for somewhat modest bill savings (using stimulus material in the focus groups) respondents suggested there would be little impact on customers as worthwhile bill savings were unlikely, so too product differentiation, therefore support for competition waned considerably.

4.1 Introduction

- 4.1.1 This chapter reports customers' views when given progressively more and more information on what competition in the water industry may mean for them and for others. It also highlights how different aspects of competition influence customers' attitudes. Up to this point, participants and respondents had been informed that in a competitive market they could choose to change their supplier and that this would mean a change to the company that bills them and provides customer service, but not change the water received.

4.2 More informed attitudes to retail competition in the water industry

- 4.2.1 Respondents in our survey were asked to consider a more detailed explanation of competition in the water industry, as follows.

Competition would mean that you could choose the company which provides your **retail service**. They would read your water meter (if you have one), send your bill, deal with your payments and provide customer service. From April 2017 business customers in England will be able to choose their retail suppliers in this way.

Competition would not affect the water you get at your home which would stay the same whether you switch your retail company or not. Similarly, your waste-water/sewerage services will be exactly as before.

Pipes in and around the home will remain the responsibility of the homeowner.

So, competition in water would work in a similar way to other utilities, such as energy and telecoms, where the delivery of the actual product doesn't change when people switch supplier.

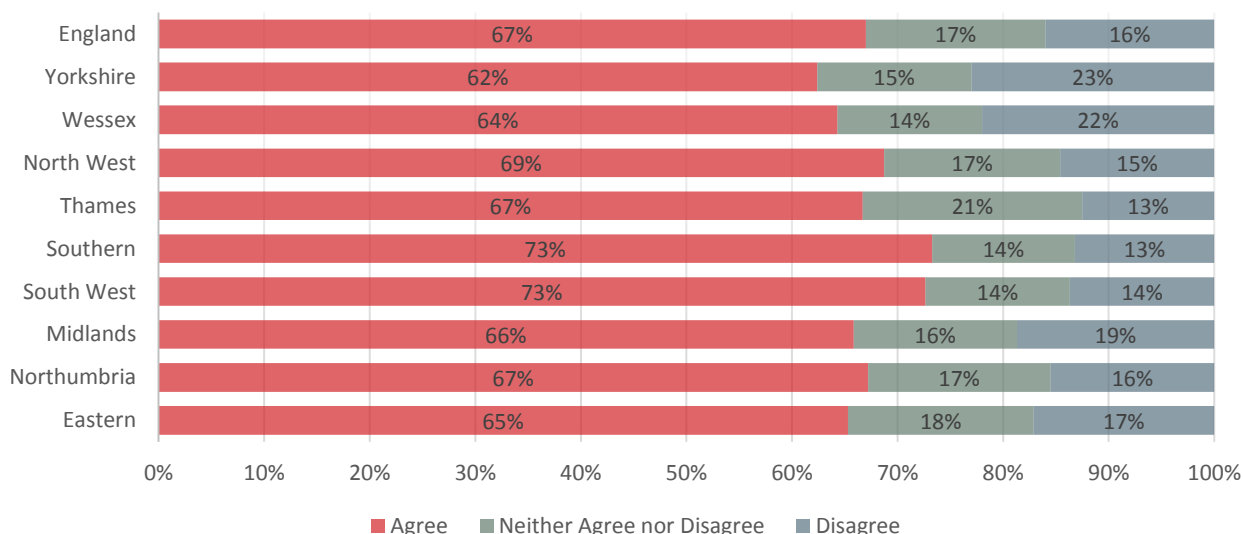
4.2.2 The above description was designed to assure respondents that the water and waste-water services they receive are not affected by switching, and that only the retail element would be open to competition; this was understood by the vast majority of focus group participants. From the qualitative research, we found that the first part of this additional information (assurances on infrastructure and quality) was received positively; whilst the fact that it is the retail component only that will have competition is received negatively by those who consider that retail is only a small part of the overall product delivery (and hence bill component).

4.2.3 Customer attitudes to this fuller description of how competition might operate in the water industry are reported in Table 9.

Table 9. Now that you know that competition would mean you could choose the company which provides your retail service, do you agree or disagree with the principle of introducing competition in the water and sewerage industry?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Agree	67%	62%	73%
Neither Agree nor Disagree	17%	14%	21%
Disagree	16%	13%	23%
Total	100%	-	-
Base	3595	-	-

REGIONAL BREAKDOWN



- 4.2.4 The results are very similar to those reported in Table 7 that reflected more limited information about competition. Across England, more than two in every three customers (67%) agree with the concept of competition in the water industry, either strongly (36%), or tending to (31%).
- 4.2.5 Customers in the Southern region are especially supportive of the idea (73%), with metered Southern customers that did not choose to have a meter installed more supportive (75%) than those who chose to be on a meter (67%). But, more than one in seven customers (16%) disagreed with the principle of introducing competition into the retail water market; with significantly higher levels of disagreement in Wessex and Yorkshire regions (22% and 23% respectively).
- 4.2.6 At a customer segmented level, other differences were:
- Customers who always pay on time or who only sometimes pay late (both 67%) are more likely to agree with water market competition than those that usually do not pay on time (59%);
 - Customers who have used the internet to decide utility providers are more likely to *strongly* agree with water market competition (40%) than those who have not used the internet for this purpose (26%); and
 - Leaseholders are more likely to *strongly* agree with water market competition (53%) than all other types of accommodation (33% on average).
- 4.2.7 Customers who perceive their water and sewerage bill to be affordable are less likely to agree with introducing competition (64%) than customers who perceive their bill as not affordable (79%). However, in terms of income, mid-range income households were the most supportive of competition (80% support amongst households with an income of £40-50k vs. 62% for <£20k households and 73% for >£60k households). So, there is some correlation between support for competition and perceived affordability; but little direct correlation between support for competition and income.

4.3 Attitudes following consideration of differential pricing

- 4.3.1 To explore whether this affected their views on competition, survey respondents were also informed about the possibility that, in an open market, suppliers might choose to offer different unit prices to different customers. The example given was that some customers are cheaper to serve – such as customers who set-up automatic payments and/or pay online – and so may be charged less than other customers.

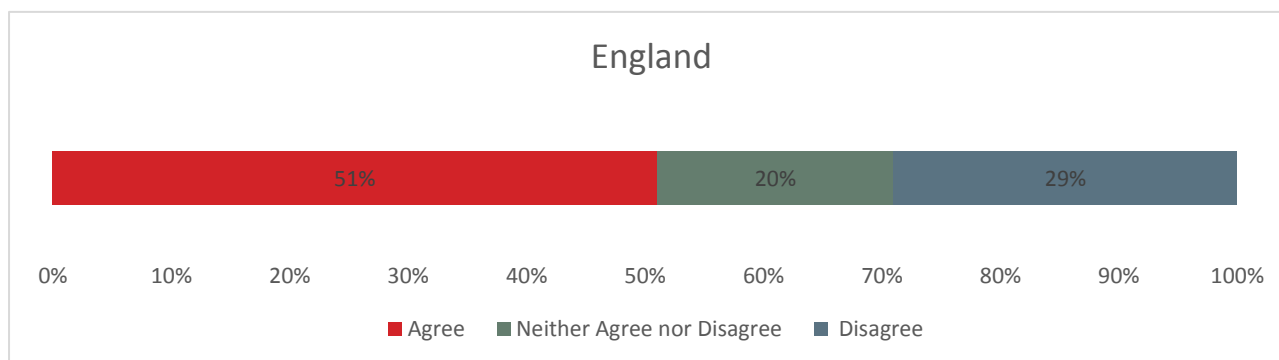
Competition may give some customers more choice of suppliers and access to better deals than others. This is what has been found in other utilities where there is retail competition. For example, customers who pay by direct debit or who manage their account on-line are cheaper to serve and so are more likely to be offered better deals.

- 4.3.2 Customers' views on the principle of retail competition in the water industry given the likely price differentials are reported in Table 10. Compared with the findings reported in Table 9, there is a decline in support at a national level (by 16%), and across the regions. Some customers perceive such price differentials as unfairly targeting some

people, many of whom are the more vulnerable members of society who do not have the internet and/or are on low incomes.

Table 10. With competition, whilst some customers would save money, others may end up paying more than before, do you agree or disagree with the principle of introducing competition in the water and sewerage industry?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Agree	51%	45%	53%
Neither Agree nor Disagree	20%	18%	22%
Disagree	29%	24%	36%
Total	100%	-	-
Base	3595	-	-



4.3.3 Segmented analysis by demographics showed little variation by type of customer, except by age. The elderly were most concerned about this issue (38% disagreed with competition if it led to price differentiation) compared with young people (21% disagreed aged below 35 years).

4.3.4 This was the last survey question that asked about sentiments towards the principle of competition, therefore these responses – now informed by further information and consideration of the wider implications of competition – were used to conduct multivariate analysis on. This enabled further exploration of any relationships between support/opposition for competition and potential influencing factors. Our CHAID analysis¹⁸ (reported in Appendix G) revealed some statistically significant groups of customers as follows:

- Group 1: Over 60s – least likely to support competition, almost one in two (46%) oppose;
- Group 2: Young and Middle-aged men that have not switched in other sectors in past two years yet are still positive supporters, with more than two in every three (69%) in support; fewer than one in three (31%) oppose; and

¹⁸ CHAID Analysis (Chi Square Automatic Interaction Detection) has been used to determine the combination of factors most likely to lead to support/lack of and likelihood of switching. Each node represents a customer 'type' as identified from the data.

- Group 3: Young and Middle-aged, switched in other sectors in past 2 years, and have a meter – most likely to support competition, with more than three in every four (78%) in support; only one in five (21%) oppose.

4.3.5 These findings confirm our separate analysis that age was the most significant predictor of support/opposition, and give indications as to the nature of customers who are more, and less, inclined to support the concept of competition. It should be borne in mind that there is also a link between age and internet use; participants aged between 18 and 59 are more likely to use the internet every day (84%) than those aged 60 and over (56%).

Differential Pricing

4.3.6 The issue of differential pricing – that is, the likelihood that, as in other retail markets, retail competition in water would mean that some customers would be able to access cheaper prices than others – polarised attitudes in focus group discussions because of the winners and losers involved. Those whose support declined when considering this aspect of competition reacted in this way for mainly altruistic reasons; some participants felt it unfairly penalised the elderly or those that do not use the internet, as it currently does in other utilities. In addition, some focus group participants felt very strongly that water, as an essential utility, should not have a variable cost.

“I think that is penalising the old people who don’t use computers and they have to do paper billing because they have no choice.” (Female, aged 36-59, Eastern)

“Sadly it’s the elderly who will be affected by that, and that £10 a year will potentially affect them... personally I think is unfair.” (Male, aged 18-35, Thames)

“Old people who aren’t very good at contacting people and negotiating would get ripped-off, whereas the younger generation are much better at finding the right deals!” (Male, aged 18-34, South West)

“We need water – why does the 90 year old lady who lives next door pay more because she’s not in a position to negotiate or barter. That’s not right.” (Female, aged 36-59, Southern)

“Why do the all the new customers get a good deal and the loyal ones don’t?” (Male, aged 35-59, Yorkshire)

4.3.7 Those whose support for competition was maintained despite, or because of, the likelihood of a reflective unit cost typically identified themselves as a type of customer who would likely benefit from it (as an online customer).

“Selfishly I’d say yes, I’d rather pay the cost of servicing me as a customer, rather than a general cost.” (Male, aged 60+, Eastern)

“From quite a selfish point of view, I live in the town centre of Harrogate, so I wouldn’t really care, as long as it saves me money.” (Male, aged 35-59, Yorkshire)

have little or no impact on customers because there was unlikely to be significant price savings between retailers.

“It’s not going to make very much difference because that [retail] can only be a small fraction of the price... it’s not going to make a huge difference to your bill I wouldn’t think.” (Male, aged 36-59, Eastern)

“I’d be assuming all companies that did that [offered retail services] would do it fairly well... and then I’d be looking for good value from each company, but can’t really see how they’d undercut each other by a lot.” (Female, aged 18-34, Yorkshire)

“I wouldn’t think that the savings, for me, would be enough to change then. Because I can’t see how, just by changing the way you’re billed and stuff... I wouldn’t think you’d be able to save so much money that it would make a difference to change.” (Female, aged 35-59, Northumbrian)

- 4.4.4 Some participants across a number of groups were concerned that they would not be able to get in contact with the wholesaler directly to resolve a problem. For some this led to the impression of reduced accountability. Some participants highlighted that the split between wholesaler and retailer in other industries leads to negative consumer experiences.

“It’s exactly the same as with broadband... BT provide all the lines anyway. So if there’s a problem, you phone up Sky – ‘internet’s down’. They’ll go ‘ah it’s probably BT’s lines so we can’t help’. You don’t have BT, you can’t contact BT – what do you do?” (Male, aged 18-34, Midlands)

“In the instance of it being [water company], and if that [separating of retail and wholesale] was to be the case, then it would seem like they are distancing them from it [talking with their customers] and, if anything, the public would like more accountability.” (Male, aged 18-34, South West)

- 4.4.5 Other concerns and comments raised by a few focus group participants included:

- Who would be responsible for checking the water and sewerage pipes for damages or leaks;
- It may discourage wholesalers from investing in the infrastructure; and
- Competition would not work due to the localised nature of water.

“Because it’s local, it’s locally produced, it’s not a national thing, I don’t see how it can really be worth them doing it.” (Female, aged 36-59, Eastern)

“I would have concerns as to whether any of the other retailers would also have that same commitment to maintaining the system.” (Male, aged 35-59, North West)

- 4.4.6 Some participants in a few groups felt that the opening of the retail market was not true competition. For some this became a sticking point and, whilst they were in favour of a competitive water market in principle, they felt that opening only the retail aspect

would fail to deliver the real benefits of a competitive market environment. Some of these participants acknowledged that whilst water market competition would be similar to the energy market, they also felt this was not true competition.

“Unless there’s competition beyond the retail level, over the pipes as well, it’s not true competition.” (Male, aged 36-59, Southern)

“I share the view that markets are always the best way to do things. My concern is that it will be a false market – that we won’t be the customer; that the regulators, civil servants will be the customer, telling them [water companies] what to do and we will not have the say. There’s a potential to make it good... it needs to be open, it needs us to be the genuine customer... we need to get away from the smoke and mirrors that you have in so many other things [e.g. rail industry].” (Male, aged 36-59, Southern)

- 4.4.7 A minority of focus group participants advised that their reasons for supporting competition would not solely be based on price, but also the way the company does business, including good customer service and brand reputation; and how they chose to invest their profits, such as in water conservation. However, the majority of customers were distinctly cool about competition in the water retail industry on this fuller understanding – that savings will be small.

4.5 Changing attitudes with information and prospects of savings

- 4.5.1 In both the quantitative and qualitative research, customers initially indicated, when given limited information, that they were in favour of competition in the water industry and had the expectation of, in particular, lower prices, but also improved quality of service.
- 4.5.2 However, the qualitative research revealed that, once customers realised that the scope for bill savings within the retail part of overall industry activities might be extremely modest, support waned considerably.
- 4.5.3 Bill savings appear to be at the centre of support for or opposition to a change in market conditions. Customers that remained in favour of water retail competition primarily cited reasons relating to price savings and were reassured that their water services would remain the same.

“There’s always going to be pros and cons of everything... but I’m still in favour if it means cheaper prices.” (Female, aged 36-59, Thames)

“Now that I understand it, if it was gonna be cheaper I’d switch like that. ... As everything stays the same, you’re just dealing with a different front man!” (Female, aged 35-59, Wessex)

“It’s an incentive for them to do a better job... Wessex Water might decide to provide a service down here and do a better job than Thames would or Scottish or Southern or Portsmouth.” (Male, aged 36-59, Southern)

- 4.5.4 As outlined in detail in Chapter 5, likelihood of switching dropped dramatically from 56% (initial view based on limited information) to 32% when participants were asked how likely they were to switch for an annual saving of £4-£8
- 4.5.5 Most customers, however, see no value in making the market competitive if there is not going to be sufficiently attractive savings on bills, as it will introduce hassle and confusion where there is none at the moment. Indeed, some customers were concerned that bills may increase because resources will need to be spent on marketing.

“I’m struggling to see what the benefit is, other than it MAY be a little bit cheaper, I can’t see what other benefit there is. It may be a little bit cheaper but it may also be incredibly stressful in comparison to what it is now.” (Female, aged 35-59, Northumbrian)

“I think in general you want there to be competition, but because we’re all happy with [water company] and our water suppliers we don’t feel that we want to change that because we’re happy with it. But in general competition is a good thing.” (Female, aged 36-59, Eastern)

“In terms of utilities, it is not necessarily [to the benefit of the customer] as sometimes all the money has to go into the marketing in order to get the most customers.” (Female, aged 35-59, South West)

“I think to begin with I was certainly in favour of competition [in the water industry] but now I think the benefits would be so small and there would be extra complications and costs involved, I think I would be against it even though I think I’m in favour of competition everywhere, I think in water it doesn’t perhaps work.” (Male, aged 60+, Southern)

“I never thought I’d say it but this is one instance where I would actually advocate one company controlling it, I’m certainly not an advocate of privatisation.” (Male, aged 60+, Northumbrian)

“If it ain’t broke, don’t fix it.” (Male, aged 60+, Eastern)

5. LIKELIHOOD OF SWITCHING IN A COMPETITIVE WATER MARKET

Key Chapter Findings:

- With limited information, more than half of customers (56%) across England said they would be likely to consider switching water and sewerage service provider.
 - Those who perceive their bill as unaffordable are more likely to consider switching (73%) than those who perceive their bill as affordable (48%).
 - Those who have switched supplier in another sector in the past two years were more inclined to consider switching (67%) compared with those who have not switched in any market (45%).
 - Those who use the internet daily were more inclined to consider switching (59%) compared with 39% who have never used the internet.
 - Those aged between 18-59 were more likely to consider switching (60%) than those aged 60 or over (46%).
- Prospective savings on the bill was the main motivating factor for those who would consider switching.
- When advised that it was the retail element of the market that would be open to competition, 58% of customer across England felt they would consider switching – suggesting that, for many water customers, the specifics make little difference to them.
- Just over half of customers (51%) would switch to a supplier already providing them with a retail service in another utility or industry, however 39% felt they would be unlikely to do this.
- Some customers may be incentivised to switch for the convenience of all household bills in one place, however most would also expect to see a price incentive.
- One in every four customers (26%) would expect to save between £31 and £39 a year off their water bills if they switched.
- The proportion of customers nationally that indicated that they would be likely to consider switching falls to around one in three (32%) when the saving indicated in between £4-£8.
 - The majority of customers (64%) indicated that they would be unlikely to consider switching in order to save £4-8 per annum.
- Many customers (44%) would want to see savings of £40 per annum or more to consider switching.
- Fewer than half of all customers (45%) would consider switching for service quality improvements, and broadly the same proportion (44%) would not.

5.1 Introduction

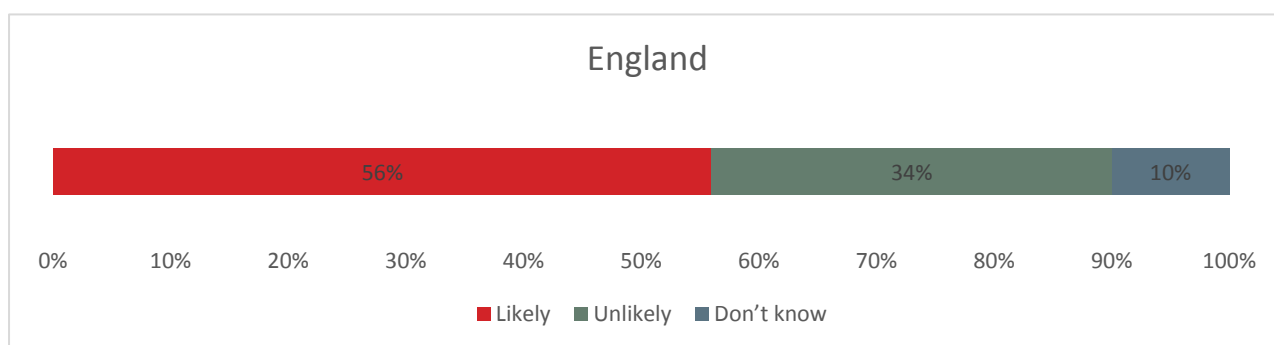
5.1.1 This chapter outlines participants' views on what they believe might motivate people to switch, or provide a barrier to doing so; and what would motivate them personally to switch, in terms of both service and potential price savings. We also explore how levels of customer understanding affects the perceived likelihood of switching supplier.

5.2 Spontaneous view of likelihood of switching

5.2.1 Following a brief explanation of the possibility of competition in the water industry (see Section 3.3), our quantitative survey respondents were asked to indicate the perceived likelihood that they would consider switching their supplier of water and/or sewerage services. The results are reported in Table 11.

Table 11. If you had a choice, how likely would you be to consider changing the company that charges you for your water and sewerage services?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	56%	47%	63%
Unlikely	34%	26%	45%
Don't know	10%	8%	13%
Total	100%	-	-
Base	3595	-	-



5.2.2 With this limited information, more than half (56%) of all customers in England think that it is fairly or very likely that they would consider switching supplier. In comparison with the 2008 FDS report, 37% of customers said that, if they were given the opportunity to switch supplier, they would be likely to do so. It is important to recognise the subtle difference in metric, as likelihood to 'consider' switching is a step earlier in the decision-making process than likelihood to deciding to switch, so we may conjecture that these findings may be broadly in line with each other. From a research perspective, we prefer asking the respondent whether they would, or would not,

‘consider’ as it enables respondents to be more confident with their response¹⁹ and, hence, we can be more confident in our interpretation of findings.

5.2.3 At a customer segmented level, the main differences were:

- Customers who perceive their water and sewerage bill to be unaffordable were more likely to consider switching (73%) than customers who find their bill affordable (48%).
- Those who have switched supplier in another sector in the past two years were more inclined to consider switching (67%) compared with those who have not switched in any market (45%).
- Those who use the internet daily were more inclined to consider switching (59%) compared with 39% who have never used the internet.
- Those aged between 18-59 were more likely to consider switching (60%) than those aged 60 or over (46%).
- Men were more inclined to consider switching (60%) than women (53%);
- Young people (under 34 years) were more inclined to consider switching (59%) compared with 47% of people aged 60+ years.
- ABs (57%) were more inclined to consider switching than DEs (49%).

5.2.4 The qualitative research identified bill savings as the main driver for switching. Many participants across the majority of groups felt this was the single most significant motivating factor in deciding whether or not to switch suppliers; this is also reflective of the research undertaken in 2008³.

“Money, purely money, unless they’ve had some major problem with them.” (Female, aged 35-59, North West)

“It’s gotta be for money hasn’t it.” (Female, aged 18-34, South West)

5.2.5 Participants across many of the focus groups felt that they did not have enough contact with their water company for poor customer service to be a likely motivator to ‘push’ them away from their existing supplier, or that the offer of improved customer service would ‘pull’ them to a different company.

“It can’t be customer service; I think I’ve contacted the water company once, maybe twice [in several years].” (Male, aged 36-59, Eastern)

¹⁹ i.e. intuitively, it would be for the customer, alone, to decide whether they would consider alternative suppliers, and offers; whilst the likelihood of switching ultimately depends upon external factors, including the quality of the alternative offers, the reputation of the alternative supplier, satisfaction with the status quo, etc.

“Customer service is not that important really because how often do you have to ring up your water company.” (Female, aged 36-59, Thames)

“I’ve lived where I am now for 30 odd years and I’ve spoken about my water supply once. So I wouldn’t change my [water] supplier on the fact whether I understood that person or not... The few times I do need to speak to them I’m sure I’ll get by.” (Male, aged 60+, Southern)

- 5.2.6 There is also recognition amongst customers that the difficulty in confidently identifying the ‘best deal’ for the household, combined with the ‘hassle’ of switching, being time-consuming, would be a barrier which would stop people engaging in the market.

“All the information with the gas and electricity is there but if you can work out what this and that and all these different bits and how much a unit is you’re bloody clever, because I can’t.” (Male, aged 60+, Eastern)

“I think I’m just quite lazy, it [the existing service offering] has to be really bad... because it does take a long time to switch.” (Female, aged 36-59, Eastern)

“Just inertia, like with banking, energy and other areas with big suppliers. You just get used to paying the same people.” (Male, aged 60+, Wessex)

- 5.2.7 Other identified barriers, or motivating factors, to switch included:

- Having had a previous poor experience switching in other utilities; and
- Not wanting to switch to a company without brand reputation; whilst
- Innovative technology, or investment, in water conservation methods would make a company more attractive and might make people consider switching.

“It would have to be someone that you know that was well established. If it wasn’t well established then I’d rather stay where I am.” (Female, aged 36-59, Thames)

“If a company was doing something that was green like installing green roofs and conserving water and if they weren’t making a profit but reinvesting it into preserving water for people then that would be one ok use.” (Male, aged 36-59, Thames)

- 5.2.8 The qualitative research indicated that an environmentally friendly service offering would appeal to some customers. Although demand for such a service might help increase environmental considerations, and product differentiation, amongst new retailers, it also introduces additional scope for misunderstanding (and possible miss-selling) of products²⁰.

²⁰ Green tariffs in the energy market have led to confusion amongst customers who have not understood that the energy they receive is not itself ‘green’.

- 5.2.9 Views were mixed on smart meters: some see it as helping to conserve water and empower customers to be in control of what they use, and pay. Others were concerned that smart meters might put people off using water if they could see their bill increasing. A few participants felt that smart meters were simply a way for companies to monitor activity more closely. Very few participants felt this was a service offering that would motivate them to switch.

“You already hear about people who go without heating their homes because they are frightened of the bill. You don’t want people who are afraid to use water or afraid to drink or wash or clean their house because they are frightened of the bill.” (Female, aged 36-59, Thames)

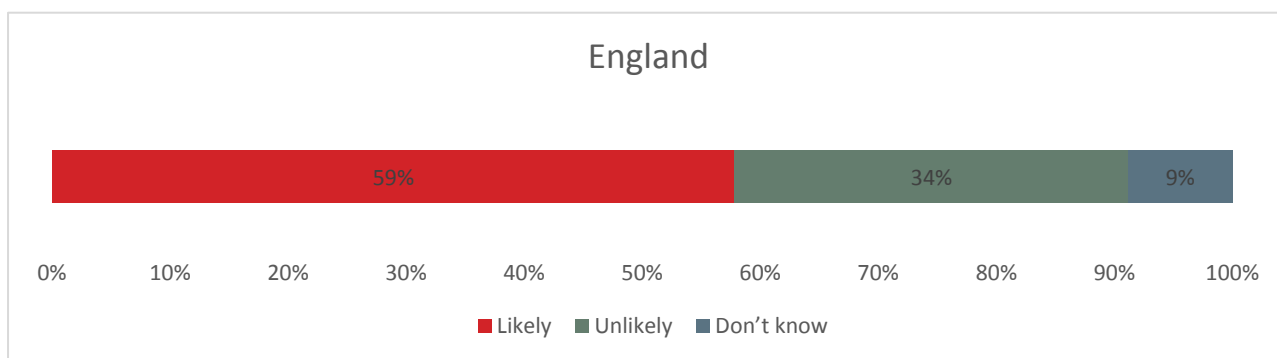
“A smart meter in the sense of water isn’t going to make a difference because I still have to wash the clothes and I still have to have a shower.” (Female, aged 35-59, Yorkshire)

5.3 Informed view regarding likelihood of switching

- 5.3.1 After the fuller explanation of how competition in the water industry might work (see Section 4.2), our quantitative survey respondents were asked to re-consider the perceived likelihood that they would consider switching their supplier of water and/or sewerage services. The results are reported in Table 12.

Table 12. If you had a choice, how likely would you be to consider changing the company that charges you for your water and sewerage services?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	59%	50%	66%
Unlikely	34%	25%	41%
Don’t know	9%	6%	11%
Total	100%	-	-
Base	3595	-	-



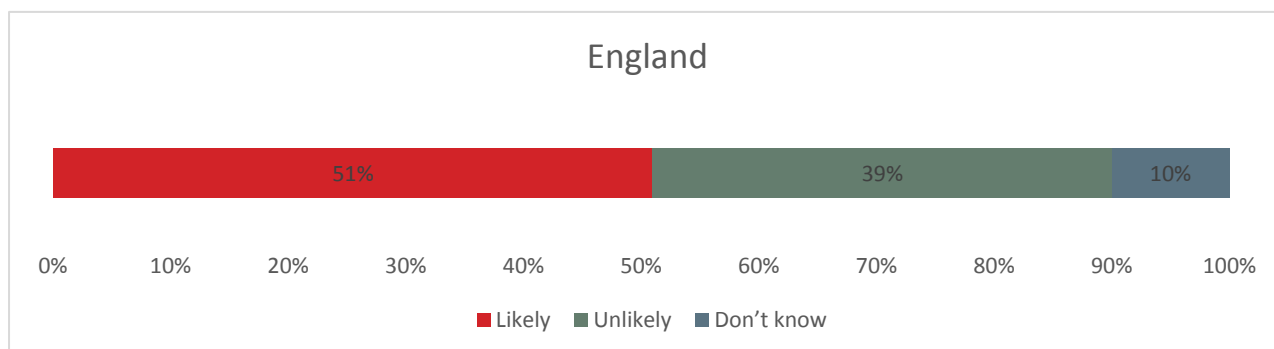
- 5.3.2 These results (59% very or fairly likely to consider switching) are very similar to those reported in Table 11 (56%) suggesting that the provision of additional information about the retail market being the aspect open to competition, has little impact on customers' consideration of switching supplier. This is consistent with the very limited change in attitude amongst our qualitative sample of customers reported in the previous chapter.
- 5.3.3 The proportion expecting to switch is again fairly similar across the regions, ranging from 50% in the Midlands to 66% in the South West. One in three customers in England (34%) considered that they would be (fairly or very) unlikely to consider switching, and this varies from one in every four customers in the South West (25%) to more than two in every five customers in Yorkshire (41%). There is some correlation between likeliness to switch and bill levels, for instance South West customers have the highest bills and were most likely to switch; and Severn Trent customers have the lowest bills and were second from least most likely to switch. However this correlation is not completely consistent, for instance Wessex Water customers have the second highest bills but were least likely to consider switching.

5.4 Likelihood of switching to a single retailer

- 5.4.1 Our quantitative respondents were asked how likely they would be to switch their retail water account to a retailer whom they were already a customer of for another service or utility. Levels of interest amongst customers remained high, as reported in Table 13, with just over half of all customers nationally (51%) indicating they were fairly or very likely to switch; this is a slight decrease from those likely to consider switch with little information (56%) and those likely to consider switching with fuller information (59%). A significant minority (39%) would not consider switching in order to have a 'one stop retail shop'.

Table 13. If a company that already bills you for other services such as energy or broadband, offered to be your water retailer as well – how likely would you be to switch from your current water retailer?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	51%	45%	56%
Unlikely	39%	32%	45%
Don't know	10%	5%	13%
Total	100%	-	-
Base	3595	-	-



5.4.2 At a customer segmented level, the main differences were:

- Those who have switched supplier in another sector in the past two years were more inclined to consider switching (71%) compared with those who have not switched in any market (49%).
- Those who disagreed that their water and sewerage charges were affordable were more likely to consider switching (61%) than those who agreed their charges were affordable (47%).
- Those who use the internet daily were more inclined to consider switching (62%) compared with those who have never used the internet (37%).
- Young people (under 34 years) were more inclined to consider switching (62%) compared with people aged 60+ years (48%).
- ABs (60%) were more inclined to consider switching compared with DEs (47%).

5.4.3 Findings from the qualitative research suggested that the convenience of having utility bills grouped together (such as gas, electricity and water) may be sufficient to incentivise a switch for some without a significant price saving.

“There’s not enough money involved here... it’s not going to make any of us change, but if it was a lot more convenient, one bill, it might be enough to make me consider it.” (Male, aged 36-59, Southern)

“I think it would be pretty cool if there was something in place where you got your gas and electricity and water all in one place... that would be pretty cool and manageable as well.” (Female, aged 18-34, North West)

“As long as they gave a good service, it would make life a lot easier.” (Male, aged 36-59, Eastern)

5.4.4 However, most customers said that they would not be likely to switch their water retail custom to one they were already a customer of unless there was a financial saving on offer.

“If it meant I could save for all my electric, my water, my gas all in one – if I got a subsidy off of all of them [it would incentivise me to switch].” (Male, aged 36-59, Southern)

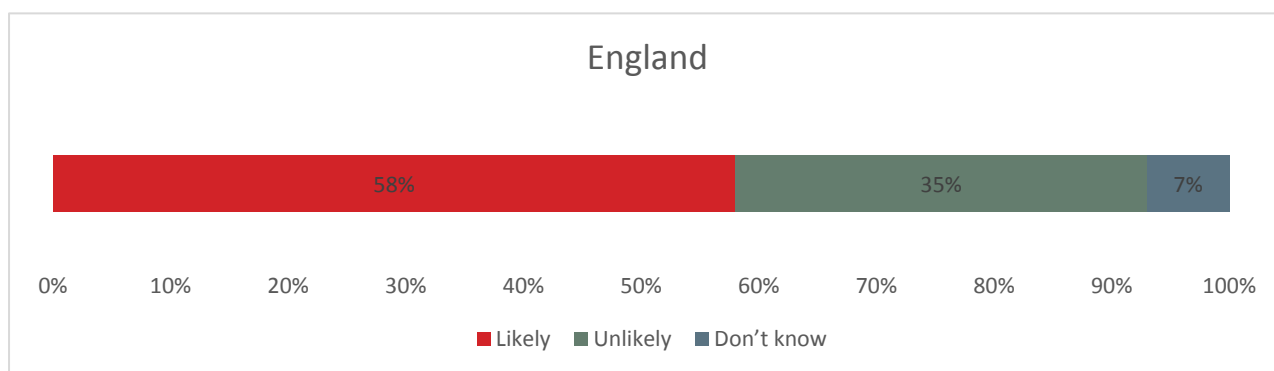
“A triple thing, like dual fuel and water, if that brought in significant savings, you could see people going for that.” (Female, aged 36-59, Eastern)

5.5 Likelihood of switching to save on their annual bill

5.5.1 Respondents were asked how likely they would be to switch if a new company offered a better price, however small. The results are reported in Table 14.

Table 14. If a new company offered you a better price, however small the saving was, how likely would you be to switch from your current water retail?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	58%	51%	63%
Unlikely	35%	30%	42%
Don't know	7%	5%	8%
Total	100%	-	-
Base	3595	-	-



- 5.5.2 Implied levels of participation in a competitive water market are again high with 58% of customers in England indicating they would be fairly or very likely to consider switching supplier for any level of saving, no matter how small. In isolation, this finding suggests that the majority of customers in England believe that they would actively seek to switch if they became aware of an alternative supplier offering a saving. We suspect that such a finding should be interpreted with an 'in principle' prefix as customers themselves have highlighted that inertia and trust are potential barriers to switching.
- 5.5.3 Moreover, up to this point respondents to the quantitative survey had not been given any actual monetary figures to consider. Through our qualitative research, we can be confident that whilst customers may say that they would be likely to switch for any level of saving, when presented with possible savings it transpires that this isn't the case; many are actually thinking of greater savings than those considered realistic by the water industry.
- 5.5.4 The expectation of typical bill savings cited by focus group participants were around £40 per annum; or between £50-£100 per annum. These are similar bill savings to those required by customers in 2008³, where some participants said they would want to save 20% off their current bill.

"I'd say a hundred [to save], yeah definitely, otherwise what's the point?" (Male, aged 35-59, North West)

"I'd probably need a much bigger sum of money, like fifty pounds a year." (Female, aged 35-59, Midlands)

"I would only switch if it was going to be a difference of about £40 or £50 a year." (Male, aged 36-59, Eastern)

- 5.5.5 Whilst the majority of participants across the focus groups felt they would need to be offered a significant saving to switch, in contrast a few participants felt the saving amount would be irrelevant as they would simply go with the cheapest using a price comparison website.

"With Money Supermarket, it could be pennies. The point is, if that's the cheapest, why would you pay more?" (Male, aged 18-34, Midlands)

Customer Reaction to Realistic Bill Savings

- 5.5.6 The quantitative survey respondents were informed of current industry expectations as follows.

The retail service makes up around 10% of the average bill, so any money that can be saved off the bill when a customer switches comes out of this 10%. The average water and sewerage bill in England and Wales is £389 a year. So, the retail service of 10% is about £39 a year.

- 5.5.7 The results are reported in Table 15 for customers in England, and by age as our segmented analysis showed age to have the greatest influence on amount suggested.
- 5.5.8 It should be noted, at this point, that many participants in each of the focus groups around the country, had volunteered (unprompted) the kinds of savings they would need in order to switch prior to being given the above likely context. The amounts quoted by customers were typically above the retail element of the average bill, £39, stated as an upper limit in the above question, so it is reasonable to assume that some survey respondents will have had difficulty answering the question. Indeed, one in three customers (34%) felt unable to give a response, and we are confident – from the qualitative findings and from listening back to some of the quantitative interviews (which are recorded for such research purposes, as well as for checking data quality) – in speculating that many 'missing' responses could be considered as expecting in excess of the £39 on offer.

Table 15. How much of this £39 would you expect to save if you decided to switch? by Age

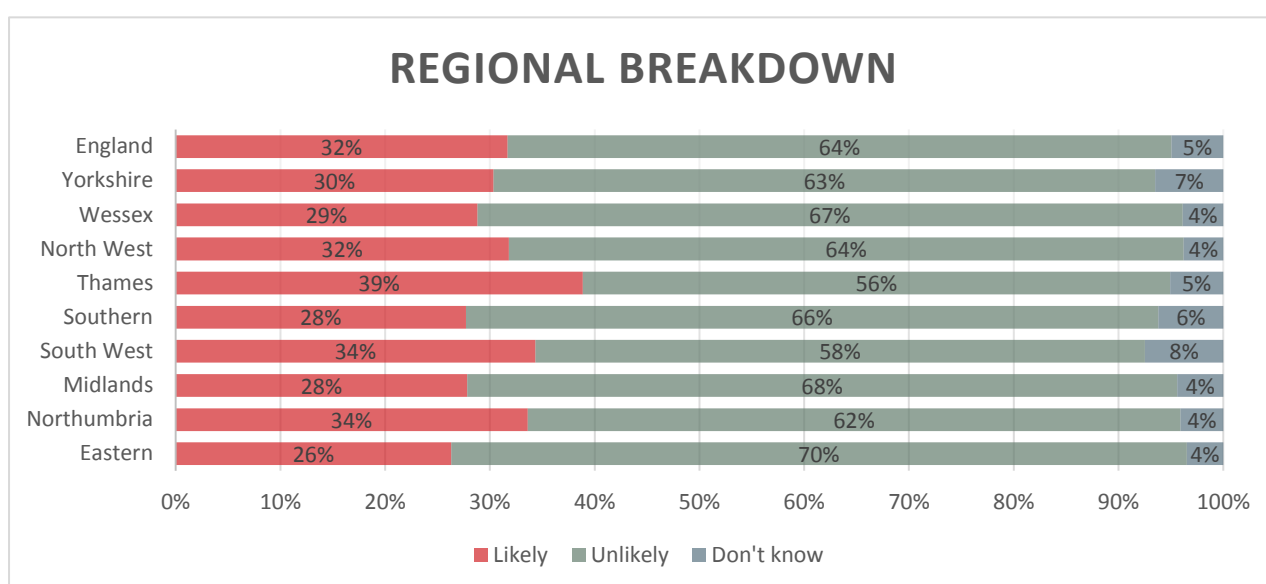
	18-34	35-59	60+	TOTAL
£1-£10	20%	14%	8%	13%
£11-£20	24%	19%	14%	18%
£21-£30	13%	10%	7%	9%
£31-£39	22%	28%	25%	26%
Missing/Unable to Answer	20%	30%	45%	34%
Total	100%	100%	100%	100%
Base ²¹	611	1582	1118	3595

- 5.5.9 Around one in every eight customers (13%) indicate that they would expect to save no more than £10 if they were to switch. The expectation of a £10 saving is based on knowing that retail costs are just £39 of the total bill and so the scope for greater savings is limited. Therefore these customers may be being realistic i.e. realising £10 is a more reasonable expectation but nevertheless wanting/needing a higher bill saving to make switching likely. Qualitative evidence strongly suggests that customers would have found this question hard to answer because the scale of the potential margin confounded their expectation of price savings, which was a lot higher.
- 5.5.10 The above results suggest that older customers, especially those aged 60+ years expect far greater savings (70% expect more than £30) than younger customers (57% expect less than £30). Over-lapping with this finding is that 81% of those customers who never use the internet expect more than £30 of the £39 available in order to switch.
- 5.5.11 Respondents were then asked the likelihood that they would consider switching their supplier if they could save '£4-8 a year'. The results are reported in Table 16.

²¹ It should be noted that, for a sub-sample of boosted quantitative survey respondents, the ordering of the constrained (upper limit of £39 per annum, Table 14) question and the unconstrained question (Table 16) was reversed. These responses have not been included in this report.

Table 16. How likely would you be to switch if you could save £4-8 a year?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	32%	26%	39%
Unlikely	64%	56%	70%
Don't know	5%	4%	8%
Total	100%	-	-
Base	3595	-	-



5.5.12 With this modest financial saving, the proportion of customers nationally that indicated that they would be (fairly or very) likely to switch falls to around one in three (32%). This proportion drops to closer to one in every four customers in the Eastern region (26%) and the Midlands (28%); but rises to almost two in every five customers in Thames (39%).

5.5.13 The majority of customers (64%) indicated that they would be fairly, or very, unlikely to consider switching in order to save £4-8 per annum. This is broadly the case across the regions but with statistically different proportions in Thames where the proportion drops (56%); and in the Midlands and Eastern regions where it rises (68% and 70% respectively).

5.5.14 Other differences at customer segmented level were:

- Customers that always pay on time are less likely to switch to save £4-8 (31%) than those who sometimes (39%) or usually (39%) do not pay on time or have problems paying;

- Customers who have used the internet to decide utility provider are more likely (34%) to switch to save £4-8, than customer who have not (27%); and
- Leaseholders are least likely to switch to save £4-8 (24%) than housing association tenants, council tenants private tenants (all 34%) or owner occupied (30%).

5.5.15 Respondents were also asked to think of their own household bill and state how much money they would need to save annually to consider switching. The results are provided in Table 17.

Table 17. And thinking of your own water bill, how much money would you need to save a year to consider switching?

	18-34	35-59	60+	TOTAL
£1-£10	11%	6%	3%	6%
£11-£20	15%	10%	6%	9%
£21-£40	19%	19%	14%	17%
£41-£60	21%	23%	21%	22%
£61-£80	1%	3%	2%	2%
£81-£120	11%	16%	13%	14%
£121 and over	8%	5%	7%	6%
Missing/Unable to Answer	14%	18%	34%	23%
Total	100%	100%	100%	100%
Base	611	1582	1118	3595

5.5.16 With no upper limit, many customers (44%) quoted considerable sums, of £40 per annum or more. At the other end of the spectrum, around one in twenty customers would be content to save £10 or less in order to consider switching. More than one in five customers (23%) were unable to answer, perhaps finding it difficult to seemingly name their own price.

5.5.17 The £1-10 bracket is of greatest interest since it encompasses the bill saving that experts currently expect. More than one in ten young people (11%) would consider switching for this modest saving, whilst only 3% of those aged over 60 years would consider switching; this may be driven by the perceived effort to switch. Customers that perceive their bill as unaffordable would need to save a greater about of money per year to consider switching, with 29% of customers that disagree that their bill is affordable citing £81 and over, compared with 18% of customers that perceive their bill as affordable. Proportionately more customers on a lower income (less than £10,000 per annum) need to save between £1-£10 (11%) to consider switching than customers above this income (8%).

- 5.5.18 The disappointment with the savings on offer that underpins the considerable change in proportions likely to consider switching in the quantitative sample was echoed in the qualitative research.

“With electricity, you look on price comparison sites and the differences are quite huge. You might be saving over 100 or 75 quid, or whatever, in which case you can see it might be worth the effort.” (Female, aged 36-59, Eastern)

“By the time you’ve phoned them, you’ve probably already paid that [£4-£8] on your phone bill.” (Female, aged 35-59, Northumbrian)

“I’m not interested in saving such a small amount of money, I can do interesting things with my life rather than worry about pennies.” (Male, aged 36-59, Thames)

“Really, if it’s only going to be £5 no one is going to bother, it’s not worth it. It’s got to be more than that.” (Male, aged 36-59, Eastern)

“I think in principle I’m in favour of competition in all markets but there has got to be some incentive in order to switch, to save £5 just isn’t going to do it.” (Male, aged 60+, Thames)

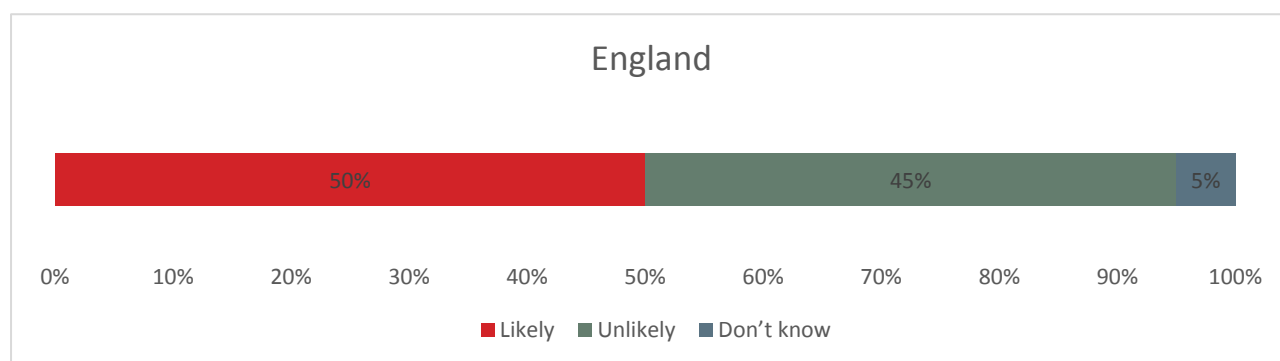
- 5.5.19 The findings in this chapter are consistent with the attitudinal findings in the previous chapter, with both combining to suggest that support for competition is high when ‘significant’ savings are considered realistic. However, if competition is understood to lead to minimal savings, and when the existing service is satisfactory, the appetite for market reform, amongst customers nationally, is considerably diminished.

Appeal of Cash-back or Loyalty Points

- 5.5.20 Quantitative survey respondents were asked how likely they would be to switch if they were offered an (undisclosed) financial incentive. The results are reported in Table 18.

Table 18. How likely would you be to switch supplier if an incentive – such as cashback, loyalty points (e.g. Nectar points) – was offered?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely	50%	40%	54%
Unlikely	45%	38%	53%
Don't know	5%	4%	8%
Total	100%	-	-
Base	3595	-	-



Half of all customers nationally (50%) are fairly or very likely to consider switching in response to some form of financial incentive, such as cash-back or a cash proxy such as Nectar points, particularly if they have switched another utility in the last two years (62%). This proportion is broadly in line with the above findings that suggest between 50-60% of customers nationally will consider switching if a worthwhile saving can be achieved.

- 5.5.21 The reference to loyalty points hit a chord with many customers because they feel that most competitive markets punish 'loyalty' by charging a higher price to existing customers than the price offered to new customers.

Negotiating with current supplier

- 5.5.22 Participants in many of the focus groups would consider negotiating with their current supplier, however some participants were frustrated by the fact companies do not always proactively offer them their best deal, even if they are loyal customers.

"If you've got a computer and you've got the time and the wherewithal and the knowledge then you can probably get a better deal than somebody down the road." (Female, aged 36-59, Eastern)

"I'll haggle for anything, my car got fixed last week and I haggled that down." (Male, aged 35-59, North West)

- 5.5.23 Given customers' current satisfaction with their current supplier, negotiating a better deal with their current supplier was more appealing than switching for many. However, no-one was confident how their water company would respond.

"It saves you the hassle of setting up a new account." (Male, aged 36-59, Eastern)

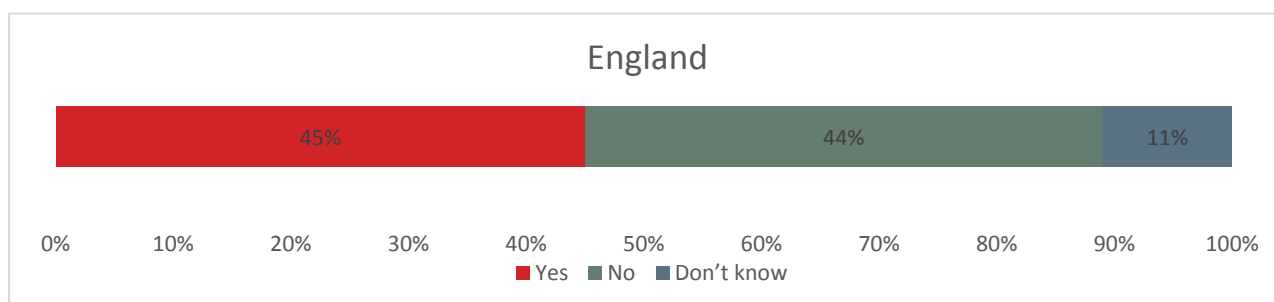
"I think it's safer to stay with the same supplier and just negotiate a better price because of the fear of switching. Thames is the only water utility company I've ever know so I feel a bit sceptical... it would have to be a big saving price-wise to lure me." (Female, aged 36-59, Thames)

5.6 Likelihood of Switching for Improved Service Quality

- 5.6.1 Survey respondents were asked whether they would consider switching if a better service was offered. The results are reported in Table 19.

Table 19. In principle, would you consider switching if an alternative water supplier offered better retail services – that is meter readings (if you have one), billing, customer service and payment handling?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Yes	45%	35%	50%
No	44%	37%	57%
Don't know	11%	8%	13%
Total	100%	-	-
Base	3595	-	-



- 5.6.2 Slightly fewer than half of all customers (45%) would consider switching for offered service improvements, and broadly the same proportion (44%) would not. The proportion reduces to just over one in three customers likely to consider switching in Wessex (35%) and Yorkshire (36%); and significantly increases in Thames (50%).

- 5.6.3 Those customers most likely to consider switching for service quality improvements are:

- Those who have switched supplier in another sector in the past two years were more inclined to consider switching (54%) compared with those who have not switched in any market (39%);

- Those who use the internet daily were more inclined to consider switching (48%) compared with those who have never used the internet (32%); and
- People aged under 34 years were more inclined to consider switching (58%) compared with people aged 60+ years (37%).

5.6.4 The sub-sample of respondents who would consider switching for service improvements were asked what kinds of improvements would most encourage them to switch. The responses are charted in Figure 7. Despite the question focussing on service aspects, half of respondents (50%) reiterated the desire for a price saving, this is most likely reflective limited engagement customers have with their water company. Of the non-financial offerings, the most frequently suggested service elements were: better customer enquiry handling; better water quality; smart meters; and more flexible ways of managing accounts. The inclusion of 'better quality water' in customers' responses emphasises the view that water, as a product that is consumed, is a different 'type' of utility to others, such as energy.

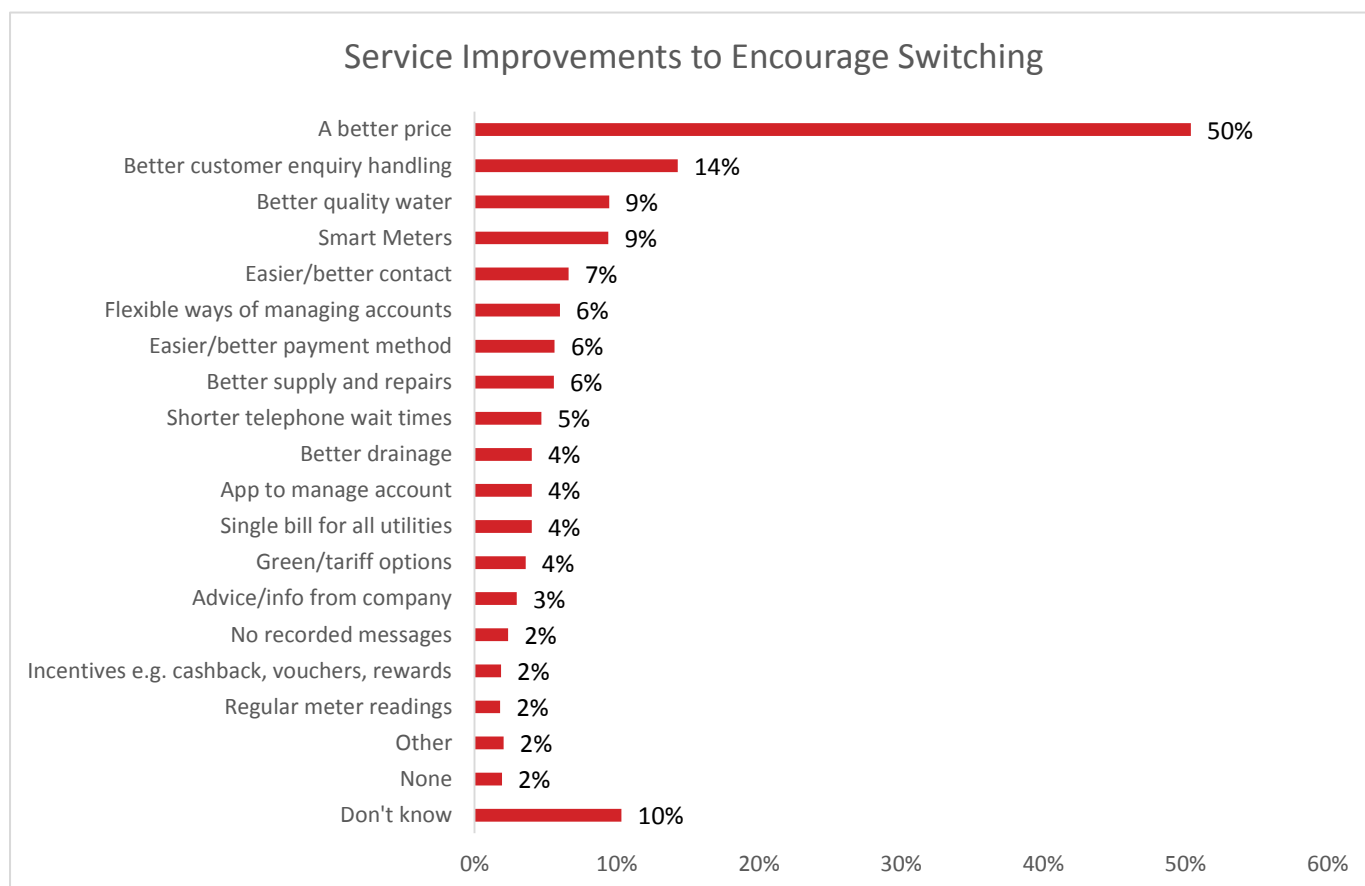


Figure 7. Service Improvements to Encourage Switching (n=1616)

5.6.5 Figure 8 gives the reasons why some customers would not be swayed by offers of improved service delivery, with half of customer (50%) not believing any promised service improvements would indeed be delivered; and one in five (20%) reiterating they would only switch for a price saving.

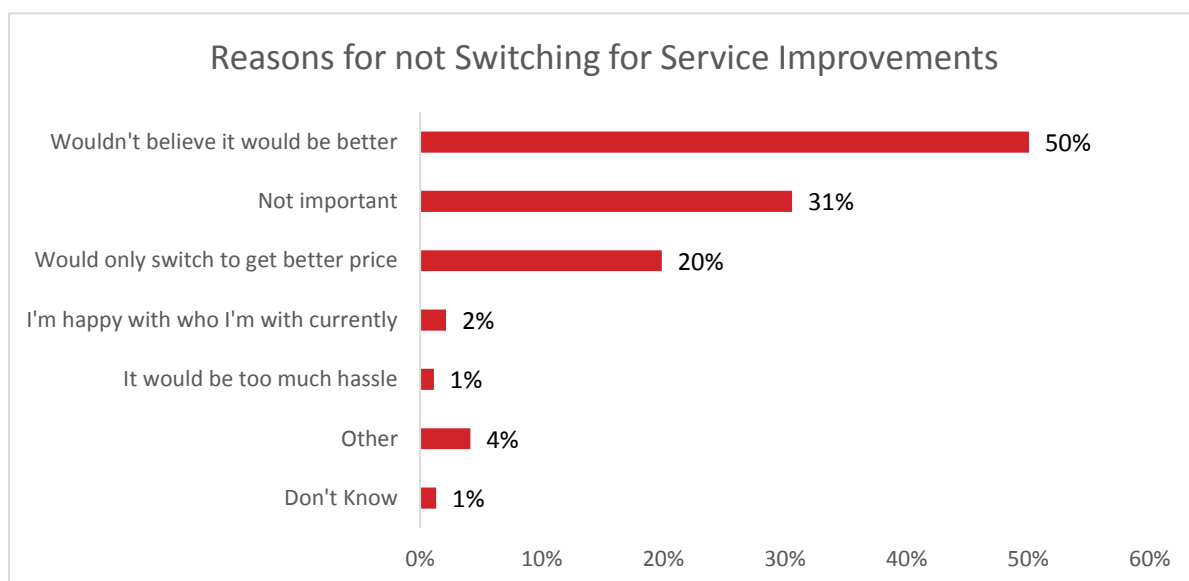


Figure 8. Reasons for Not Switching on Quality Grounds (n=1597)

- 5.6.6 The qualitative research provides further insight into barriers to switching for improved service. For many customers, it would be poor performance by the incumbent (i.e. the satisfaction that comes with voting with one's feet) that would motivate a move on performance grounds; whilst any attractive offer of improved service would be unreliable as, by definition, it is untried.

"You don't really know what service a new supplier is going to provide, it's only if you've had a bad experience with supplier A, who you've tried to contact and it's been terrible then that would prompt you to think, oh I'm going to change." (Male, aged 36-59, Eastern)

"Bad customer service tends to push you, rather than good customer service attracts you. If you've had a bad experience you're more likely to change, rather than the thought of having a good experience." (Male, aged 36-59, Eastern)

- 5.6.7 The overall perception by customers across the country is that it will be difficult for new suppliers to differentiate their retail offering, and there is currently reasonable satisfaction with a service that is perceived to be seldom needed.

6. WIDER MARKET CONSIDERATIONS

Key Chapter Findings:

- Attitudes towards competition were relatively unaffected by any change in policy on disconnections.
 - However, in the (more-considered) focus group environment, participants were strongly against disconnection and felt there were no situations in which someone's water should be cut off.
- The majority of survey respondents nationally (64%) are of the view that customers owing money should not be allowed to leave the retailer whilst still owing them money.
- The majority of customers (61%) believe that all suppliers should offer discounts in the form of social tariffs.
- Retail exit is likely to have a negative effect on customers' attitudes to competition in the water industry with 31% of customers being less supportive because of retail exit, and 15% being more supportive.
- More than one in three customers nationally (36%) think they will be more likely to switch if their account is handed over to another organisation. However, there are negative customer connotations with a retail exit, as many customers (especially those in vulnerable circumstances) indicated they would be confused and angry about their customer accounts being handed over to a third party without their say so.
- The proportion of unmetered customers initially likely to consider switching dropped considerably from over half (54%) to a quarter (26%) **if** they had to have a water meter installed in order to get a better deal.

6.1 Introduction

- 6.1.1 This chapter provides customers' attitudes in response to wider market considerations, including changes regarding existing disconnection policy; the possibility of having to have a water meter to access the best deals, the application of social tariffs; and the impact of retail exit²² policy. We first assess their implications on customer support; and then on likelihood to switch.

6.2 Further influences on support/opposition of retail competition

Disconnections

- 6.2.1 Survey respondents were informed of the current disconnection policy, as follows:

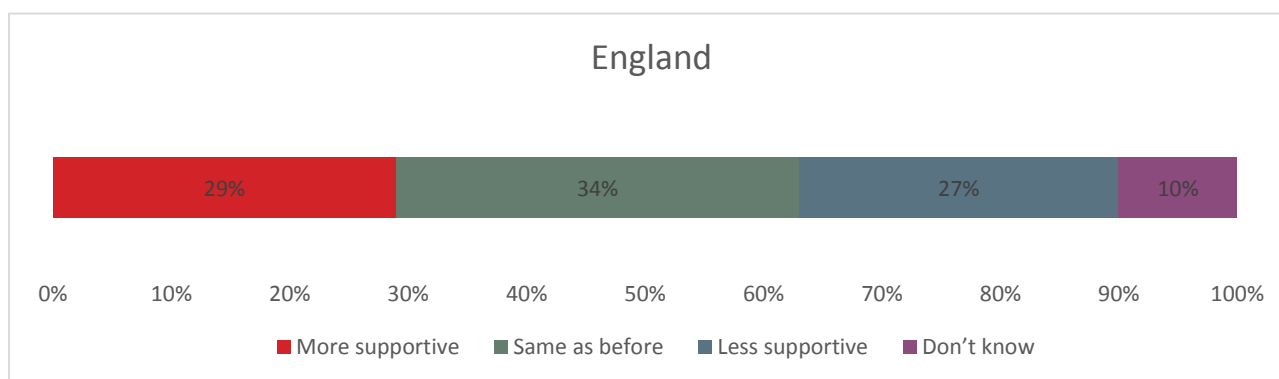
²² Where a company decides to stop providing retail and customer services, so customer accounts are transferred to another retailer.

At the moment, it's against the law for water companies to cut off or restrict the water supply to households which don't pay their water bills. Households are protected from disconnection by law because of the public health aspects of having a water supply. The cost of unpaid bills is spread across the bills of customers who do pay – on average, every customer pays an additional £21 to make up for customers who do not pay their bill.

6.2.2 Respondents were then asked whether a review of this policy would impact their views on the appropriateness of competition in the retail water market. The results are provided in Table 20.

Table 20. If the policy on disconnections were reconsidered, would this make you more or less supportive about retail competition?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
More supportive	29%	26%	37%
Same as before	34%	29%	38%
Less supportive	27%	23%	28%
Don't know	10%	7%	12%
Total	100%	-	-
Base	3595	-	-



6.2.3 These results suggest that attitudes to competition will be relatively unaffected by any change in policy on disconnections, with the 29% being more supportive of competition being almost completely cancelled out by 27% whose support will lessen. This result is reflected across all the regions except in the South West where support for competition increases for 37% of customers, and reduces for 23% of customers.

6.2.4 These quantitative results are at odds with our qualitative findings where focus group participants were strongly against disconnection and felt there were no situations in which someone's water should be cut off. It was felt that this could lead to wider

societal and health impacts by some participants. However, unlike survey respondents, focus group participants were not aware that on average £21 is added to their bill.

“The system we’ve got now is fine – you can’t shut someone’s water off.” (Male, aged 36-59, Eastern)

“It would affect all the rest of society because if you’ve got houses in the street where all the loos aren’t being flushed constantly, people can’t wash their hands and they’re going out in society touching things, there will be illness.” (Female, aged 36-59, Thames)

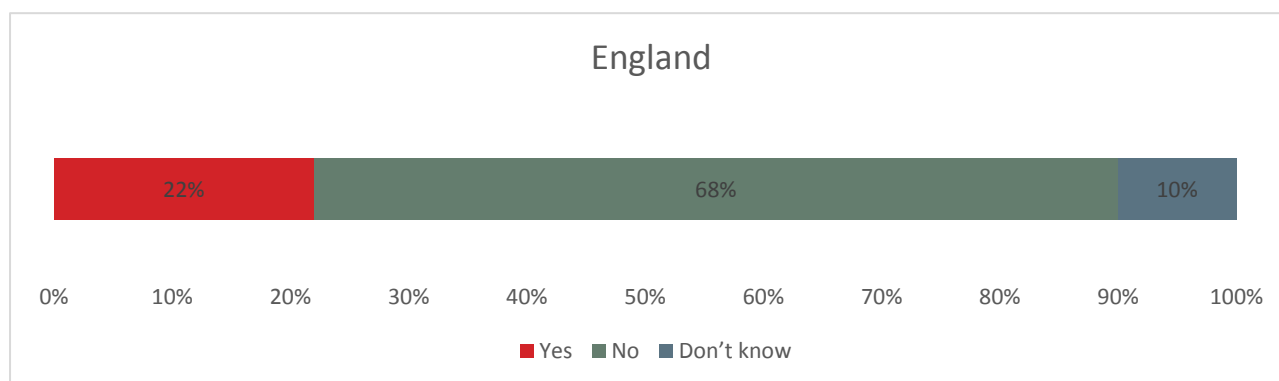
“It’s absolutely vital that everyone has a clean water supply and if you withdrew it, the costs would exceed the savings because of the risk to health.” (Male, aged 36-59, Southern)

6.2.5 This difference in viewpoint may reflect the opportunity, within a focus group environment, for customers to fully consider the implications of the policy on their household and wider society; whereas discussion of disconnections over the phone may have led to a much narrower focus by customers. Moreover, the open dialogue of a focus group environment is more likely to lead to altruistic considerations which may also explain the differences in attitudes on disconnections.

6.2.6 Survey respondents were also told that most customers pay on time but some do not, and they were asked whether those customers who owe money to their water company should be allowed to switch. The results are reported in Table 21.

Table 21. Most customers pay on time but some do not, which means some customers owe their water company money. Should customers who owe money to their water retailer be allowed to switch?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Yes	22%	16%	24%
No	68%	64%	73%
Don’t know	10%	8%	14%
Total	100%	-	-
Base	3595	-	-



The majority of survey respondents nationally (64%), and across all the regions, are of the view that customers owing money should not be allowed to leave the retailer until this is paid.

- 6.2.7 However, about one in five (22%) of customers nationally were content for debtors to switch retail company. A minority of focus group participants were also relaxed on this issue - especially if there was the possibility that switching could help alleviate the debt.

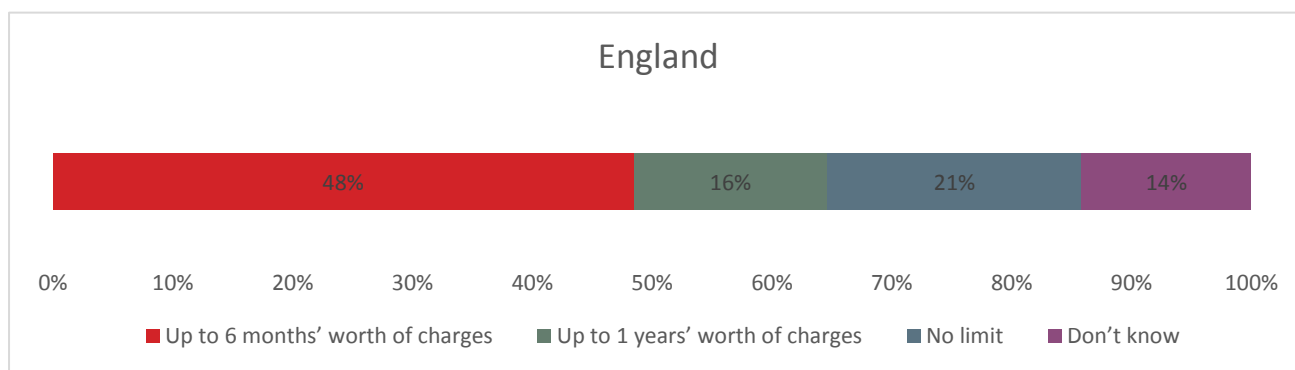
"Yes, if they could make a saving which might help them get out of debt." (Male, aged 36-59, Eastern)

"One could argue that if they are doing it to make a saving so they could cut their debt down. If someone is in a bad situation then I don't see why that would be wrong." (Male, aged 18-35, Thames)

- 6.2.8 Respondents who believed these customers should be allowed to switch were asked how much debtors would need to be in arrears to be stopped from switching. The results are reported in Table 22.

Table 22. How much would someone have to owe to their water company before they are stopped from switching?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Up to 6 months' worth of charges	48%	32%	62%
Up to 1 years' worth of charges	16%	11%	24%
No limit	21%	14%	32%
Don't know	14%	10%	21%
Total	100%	-	-
Base	779	-	-



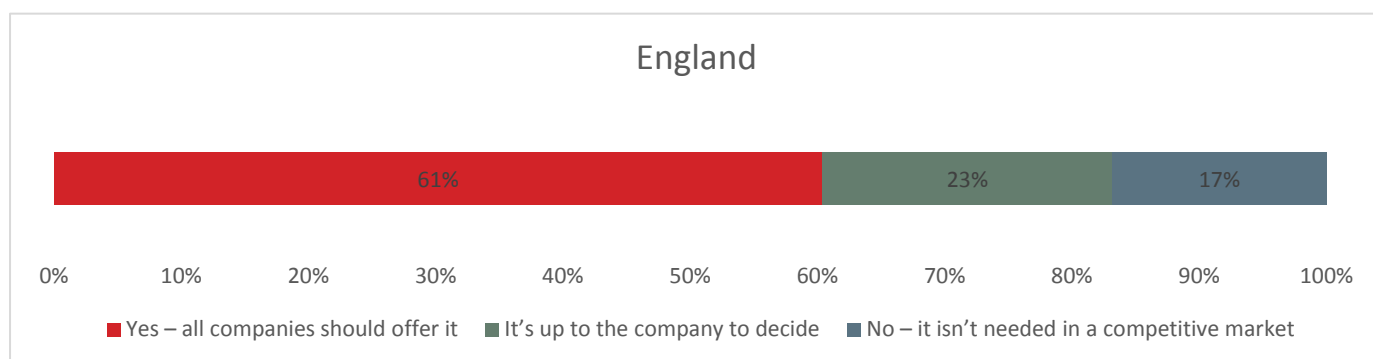
6.2.9 Around one in every five customers (21%) consider that any debt should be paid off before the debtor is allowed to switch whilst the majority of customers think that people who owe less than six month's charges should be able to switch.

Social Tariffs

6.2.10 Survey respondents were then asked whether customers in genuine hardship should be able to apply for a discounted bill under a competitive regime. The results are reported in Table 23.

Table 23. If competition were to be introduced, should customers in genuine financial hardship still be able to apply for a discounted bill?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Yes – all companies should offer it	61%	51%	67%
It's up to the company to decide	23%	17%	27%
No – it isn't needed in a competitive market	17%	13%	22%
Total	100%	-	-
Base	3595	-	-

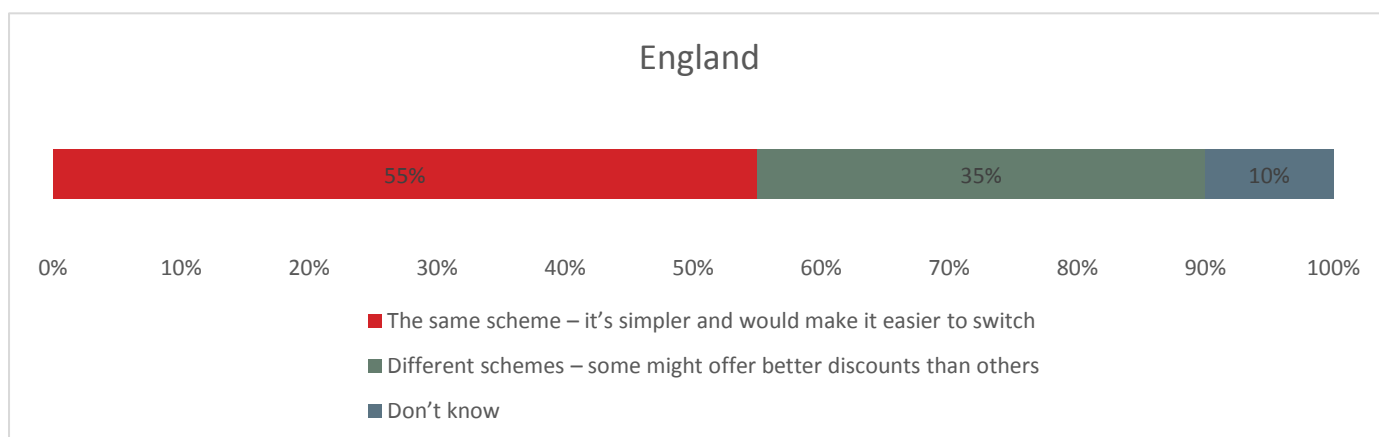


6.2.11 The majority of customers (61%) believe that all suppliers should offer discounts in the form of social tariffs. This majority varies across the regions with statistically different levels ranging from 51% in Yorkshire and 56% in Anglia through to 67% in Thames.

6.2.12 Customers are of the view that it should be the same scheme across all suppliers, to make it easier for vulnerable customers to switch, as reported in Table 24.

Table 24. Should retailers in England all offer the same discounted bill scheme, or should they all offer different ones?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
The same scheme – it's simpler and would make it easier to switch	55%	52%	60%
Different schemes – some might offer better discounts than others	35%	27%	41%
Don't know	10%	7%	14%
Total	100%	-	-
Base	3595	-	-



6.2.13 These results are consistent with our qualitative research, where the majority of participants across all groups felt that there should be social tariffs to protect customers in vulnerable circumstances and that these should be closely regulated. Similarly, social tariffs should be able to move with the customer when they switch.

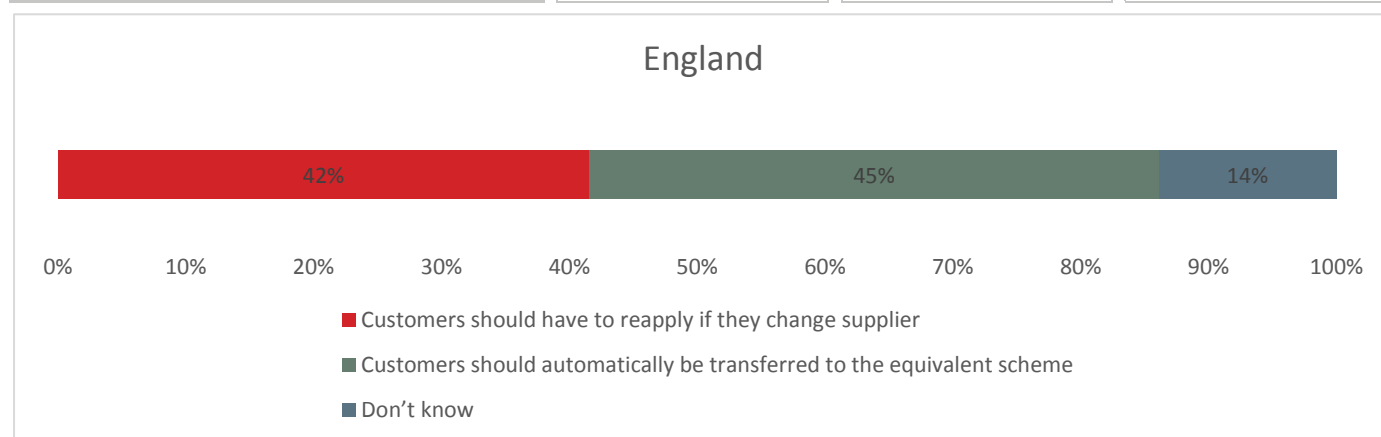
"I think the social tariff should be protected and should never be taken away because it's not the person's fault if they've got a disability or a genuine need for the water so for me that [company decides scheme] would be wrong." (Female, aged 36-59, Thames)

"I think it would be good if they could take it with them, all companies should have a set default ... so you don't have to go through all of that rigmarole of applying again." (Female, aged 36-59, Thames)

- 6.2.14 Customers do not have a consensus regarding whether vulnerable customers should have to reapply, or be transferred automatically to the right scheme, when they change their supplier, as reported in Table 25.

Table 25. Should customers who are on a discounted bill scheme have to reapply if they change supplier, or should they automatically be transferred to the equivalent scheme offered by their new supplier?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Customers should have to reapply if they change supplier	42%	37%	47%
Customers should automatically be transferred to the equivalent scheme	45%	39%	51%
Don't know	14%	14%	18%
Total	100%	-	-
Base	3595	-	-



Retail Exit

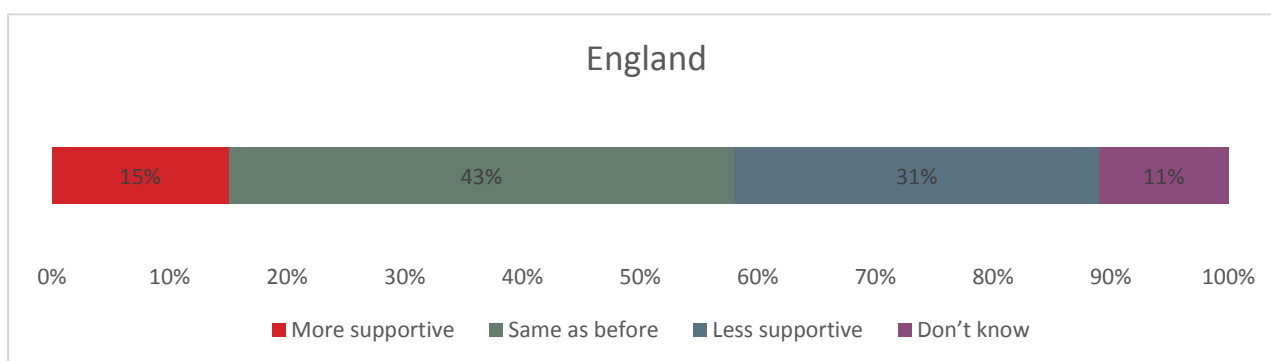
- 6.2.15 Survey respondents were advised of the possibility that some water companies could decide to stop offering retail services as follows.

If competition were introduced, some water companies may decide not to take part and transfer their customer accounts to another retailer. Price and services would not be affected by this. Householders would not have any choice in the company their account was initially transferred to, but could still subsequently switch to a preferred supplier if they wanted.

- 6.2.16 Customers were then asked whether this affects their views on support, or opposition to competition in the water industry. The results are provided in Table 26.

Table 26. Does retail exit make you more, the same, or less, supportive of retail competition in the water industry?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
More supportive	15%	12%	19%
Same as before	43%	36%	46%
Less supportive	31%	29%	35%
Don't know	11%	8%	18%
Total	100%	-	-
Base	3595	-	-



6.2.17 Overall, retail exit is likely to have a negative effect on customers' attitudes to competition in the water industry, with 15% of customers being more supportive, and 31% of customers being less supportive because of retail exit. Figures 9 and 10 give the underlying considerations.

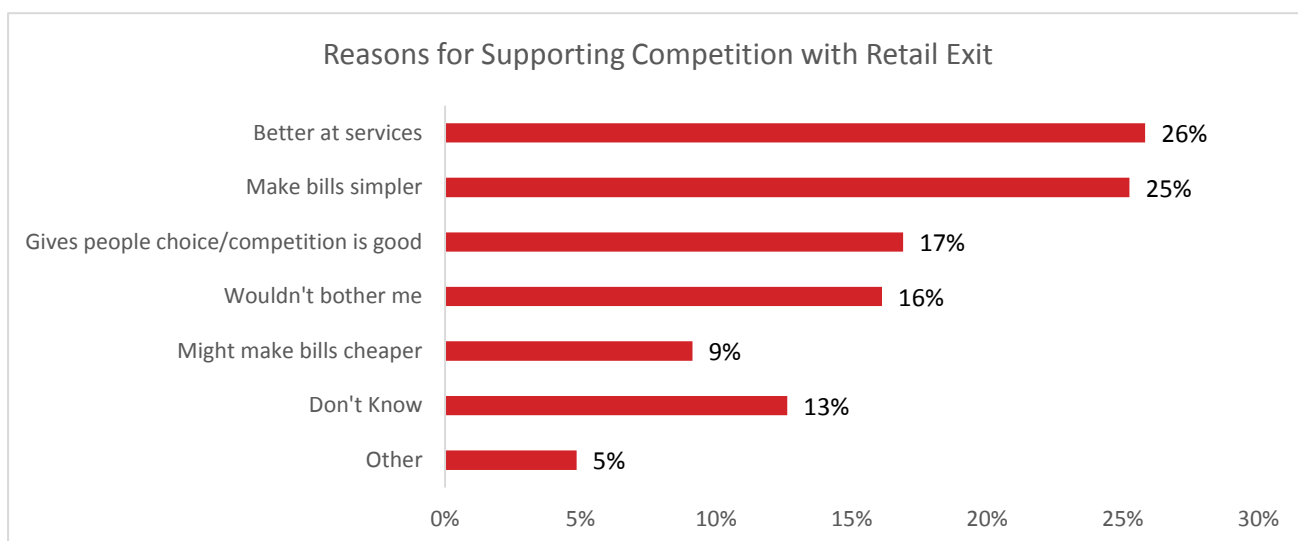


Figure 9. Reasons for Retail Exit making Customers More Supportive (n=516)

6.2.18 Amongst those who were positive about retail exit, their expectation is that it will lead to better services and may make bills simpler.

6.2.19 The main reasons why some customers are negative about retail exit, is that they do not want their details passed onto another company without their approval; would want to have a say in who their retail company is; and just on principle because they are against competition anyway.

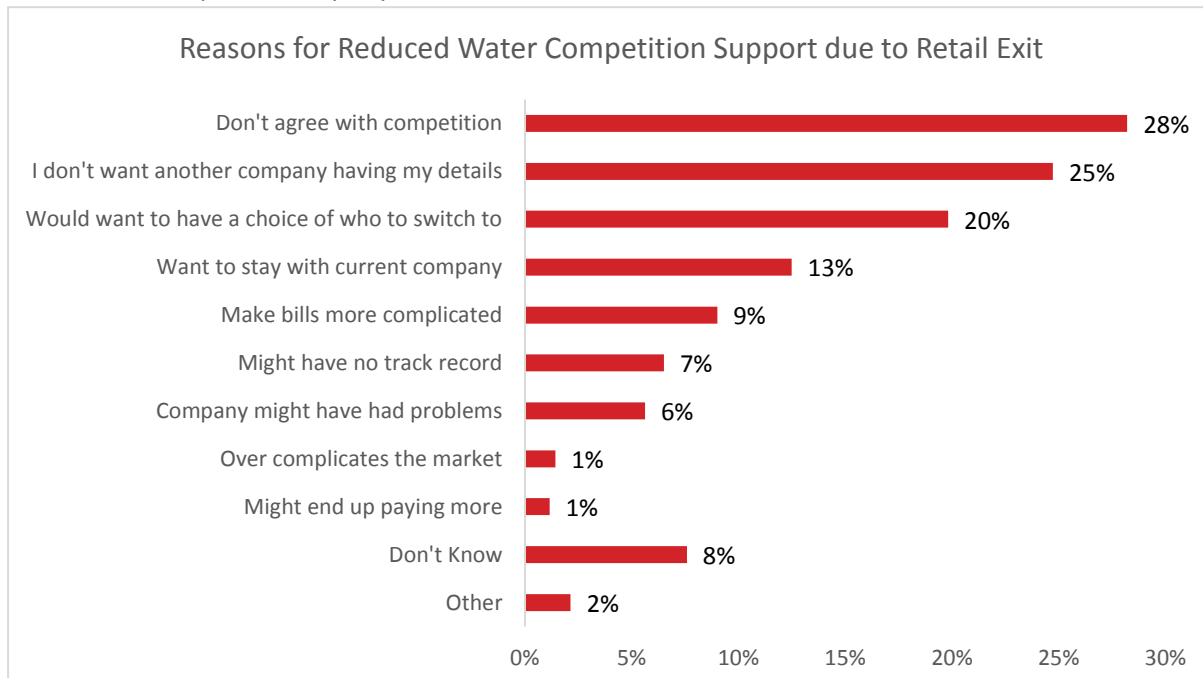


Figure 10. Reasons for Retail Exit making Customers Less Supportive (n=1120)

6.2.20 These feelings relating to a company making decisions without their say so were prevalent in the focus groups.

"I'd rather look into it myself, if you're given plenty of notice and saying you've got 'til X day... rather than just transferred automatically." (Male, aged 60+, Yorkshire)

"If they're going to do things like that they should keep you in the loop...we pay our bills so we should have some right to know what's going on." (Female, aged 36-59, Thames)

"I'd be disappointed in Wessex Water. Because I've been a loyal customer to them and they should be loyal at my level. I should have the choice of whether I stay with them, they shouldn't just be able to sell me." (Male, aged 35-59, Wessex)

- 6.2.21 However, many other participants were comfortable with the notion, as long as they received forewarning and would be able to switch if they desired. Other participants were also comfortable with not knowing about the change as they did not believe it would have any impact on them.

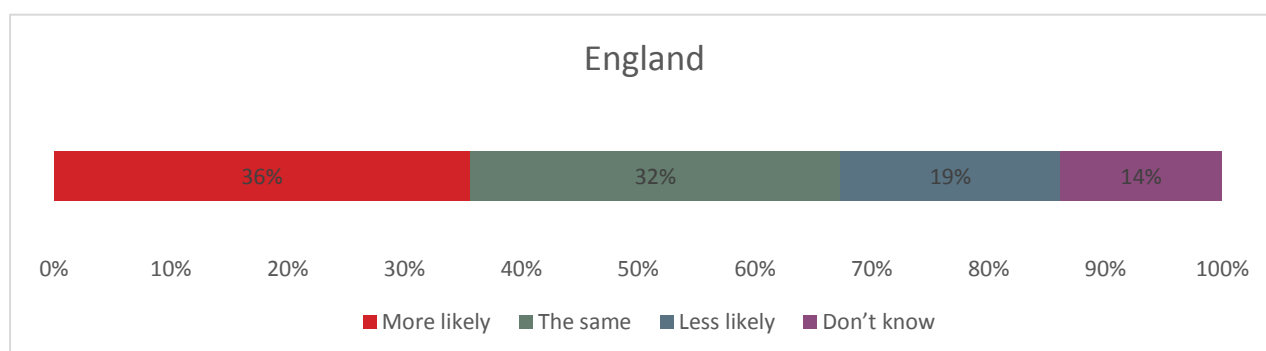
"Wouldn't bother me. Straight away I'd be off to find the cheapest. Why not, it's the same product!" (Male, aged 18-34, Midlands)

6.3 Further influences on likelihood of switching

- 6.3.1 Survey respondents were asked whether they would be more, or less, likely to switch supplier if their customer account was transferred to a new supplier. The results are provided in Table 27.

Table 27. If your customer account was transferred to a new supplier – would this make you more, the same, or less, likely to consider alternative suppliers and/or change your supplier?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
More likely	36%	30%	41%
The same	32%	25%	38%
Less likely	19%	14%	26%
Don't know	14%	9%	15%
Total	100%	-	-
Base	3595	-	-

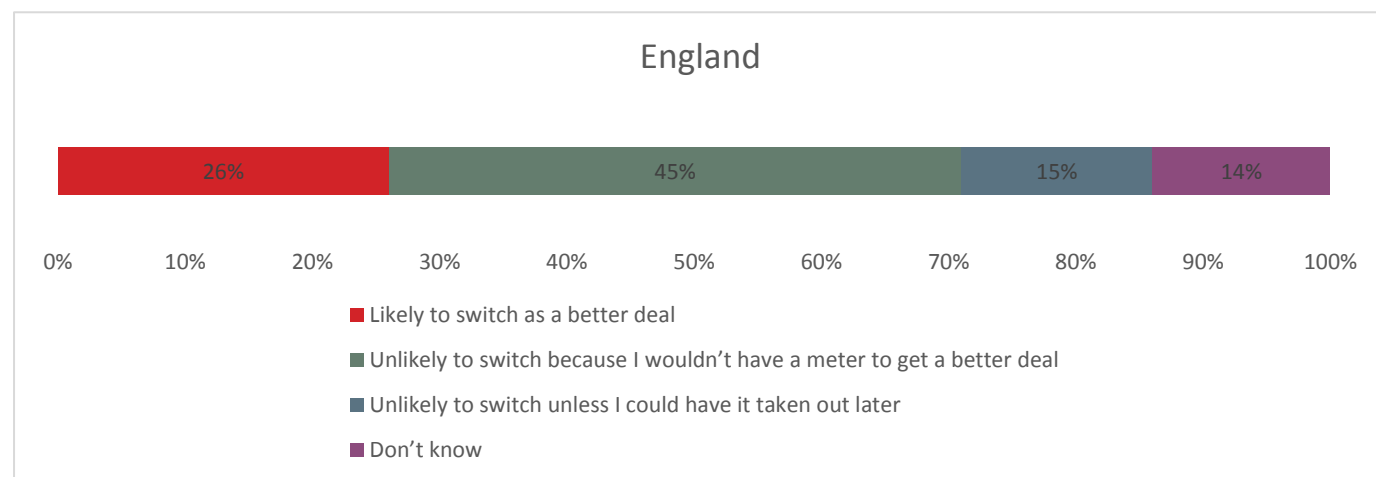


6.3.2 More than one in three customers nationally (36%) think they will be more likely to switch if, on the first day of open competition, their account is handed over to another organisation. Around one in five customers think they would be less likely to switch if they are transferred to another retailer. However, almost half (46%) either think a transfer of their account will make no difference or they don't know.

6.3.3 Those not currently on a water meter were asked whether they would be likely to switch supplier for a better price and service but, if as a condition of this they had to go on a water meter. The results are provided in Table 28.

Table 28. If a new supplier offered you a better deal than your current supplier - in terms of price and quality – but as part of this deal you had to go on a water meter, would you be likely, or unlikely to switch supplier?

	ENGLAND	MIN. VALUE ACROSS REGIONS	MAX. VALUE ACROSS REGIONS
Likely to switch as a better deal	26%	20%	39%
Unlikely to switch because I wouldn't have a meter to get a better deal	45%	38%	51%
Unlikely to switch unless I could have it taken out later	15%	10%	22%
Don't know	14%	7%	18%
Total	100%	-	-
Base	1734	-	-



6.3.4 Most unmetered customers nationally (60%) would be unlikely to install a meter as they think it might jeopardise their chances of securing the best deal in the longer term (which might be to not be on a meter).

6.3.5 Statistically significant results by region showed that a higher proportion in South West (39%) and the Midlands (31%) than nationally (26%) would be likely to have a meter to secure the better deal.

7. VIEWS OF CUSTOMERS ON WATERSURE SOCIAL TARIFF SCHEME

Key Chapter Findings:

- Customers on the WaterSure social tariff scheme are pleased with the scheme, recognising the discounted bill they receive because of it and encouraging the companies to advertise it more widely.
- Though keen on the principle of competition in the water industry, many find other markets (such as energy, insurance and telecommunications) to be complicated and confusing.
- Customers on WaterSure considered that they would be unlikely to move from their current water supplier.
- They were keen for the WaterSure scheme to continue even in a competitive water market as they have come to rely on it.

7.1 Introduction

- 7.1.1 This chapter provides insights into the views of customers in specific vulnerable circumstances regarding competition in the water industry. It is based on qualitative evidence from 10 in-depth interviews in different parts of England with customers on the WaterSure scheme, which has been taken as proxy for a household in vulnerable circumstances. As such all respondents were on low income and either have someone in the household who medically relies on water or have three or more dependent children in the household.
- 7.1.2 The customers in vulnerable circumstances who qualified on medical grounds had a range of medical and water needs, including:
- a quadriplegic son (paralysed from the neck down) after an accident two years ago and has painful muscle spasms;
 - registered disabled with a medical condition requiring significant amounts of water usage;
 - a wife with arthritis and fibromyalgia, (a rheumatic condition characterised by muscular or musculoskeletal pain with stiffness and localized tenderness at specific points on the body) which causes her to use a lot of water;
 - a son with a disability which requires him to have baths regularly; and
 - needing extra water to deal with their child's eczema and husband's disabilities.
- 7.1.3 It should be noted that water companies' social tariffs provide support to a wider group of customers than those on WaterSure; and that there are other customers that could be considered 'vulnerable', such as the elderly, the disabled, and those without internet access.

7.2 Attitudes to the WaterSure scheme

- 7.2.1 These customers are extremely pleased with the WaterSure scheme, highlighting its cost-effectiveness and encouraging the companies to advertise it more widely. They also remark that the process of reapplying every year is simple, and all they have to do if their circumstances change is to write a letter.

“It might cost me £150 for the year whereas before it was costing me four-hundred and something pound a year.” (Female, Medical, Eastern)

“I’m able to not be worried about washing the laundry when I need to... without worrying about the fact my bill’s gonna be outrageous every month, it puts a cap on it ... It offers people on low incomes or on these benefits to be able to feel less stressed because we don’t have to worry about the bill that’s gonna come... that’s what I think is great.” Female, Medical, South West)

“It’s a guarantee that your bill doesn’t go past that point.” (Male, Medical, Eastern)

- 7.2.2 Typically, WaterSure customers are not on similar schemes in other sectors. One or two research participants made reference to ‘warm home’ discounts from their energy supplier but were not as complementary about the schemes as they were in relation to WaterSure.

7.3 The principle of competition

- 7.3.1 Compared with other household customers, customers on WaterSure were less enthusiastic about the idea of competition in the water market.

“It’s alright really, but I stay with the people I’m familiar with... I’m not a shopper-rounder because I don’t have the time to do it.” (Female, Medical, South West)

“I’m one of those people that once I’m with somebody, I don’t change because they might encourage them to take your custom but as soon as they have this, they up the price and you’re no better off.” (Male, Medical, Thames)

- 7.3.2 One customer said he would be reluctant to change companies in a competitive environment because he perceived that it would mean spending a long time in front of the computer looking at deals which he would find difficult due to his disability, sleep apnoea.

7.4 Experience of competition in other sectors

- 7.4.1 Experiences of competition in other sectors were mixed. Most consider the energy sector to be a confusing and challenging market with a lot of information, much of it online which some people find difficult to access. Moreover, many considered energy suppliers’ customer service to be poor with long waiting times on the telephone to get hold of someone when there is a problem.

“It’s such a vast market and we got confused with it and so I think a lot of people could get quite confused, especially as we’re in our late 50’s and we do use the computer - but anyone who is older or just doesn’t use computers I think would just be absolutely flummoxed.” (Female, Medical, Yorkshire)

“It’s very, very difficult because I’m on pre-payment meters and every time I swap...British Gas send me a bill...I’ve already paid you for the gas!...I’ve had all the stress and the hoo-ha...so I don’t swap any more, purely and simply because I can’t deal with all the stress” (Female, Medical, Eastern)

“I’m on pre-payment meters so they won’t let me on any schemes at all... they won’t let me get off the pre-payment meter unless I give them £150 per utility...as a deposit for a year. ... I pay more pence per unit, either for gas or for electric, than anyone else in the country, because I’m on a meter, which I think it’s bad cos it’s just basically billing poor people for being poor.” (Female, Medical, Eastern)

- 7.4.2 Experiences of the telecommunications sector were better, although still mixed. Some customers in vulnerable circumstances had generally had a good experience and saved considerable money (£700 saving per year) and/or enjoyed having a one-stop shop encompassing a range of retail activity.

“I’ve switched my mobile phone to Virgin Media, because I’m with Virgin Media for everything so I tend to get everything from one person, and that makes it so much easier.” (Female, Medical, South West)

“They’ve always solved any problems I’ve had.” (Male, Medical, Thames)

- 7.4.3 In general, those who had been prompted to switch companies within the energy market had been influenced by the cheaper rate being offered and the company having ‘nicer people’.

- 7.4.4 Customers on WaterSure are more likely than customers generally, to recognise that there are winners and losers from competition. As long as you shop around they felt that competition could work, but they acknowledged that not everyone knows how to shop around and it can be incredibly difficult to find other suppliers if you are of a certain age or not ‘worldly wise’.

7.5 Attitudes to competition in the water industry

- 7.5.1 When presented with limited information about the possibility of open competition - ‘Competition in the water and sewerage industry would mean customers could choose their supplier’, customers on WaterSure, in general, have a similar reaction to other domestic customers. Most consider it to be good for customers, in principle, highlighting that it should lead to reduced complacency from the existing suppliers and reduced bill levels. Some used experience in other sectors as a means of supporting their positive viewpoint.

- 7.5.2 However, though they were keen on the idea of competition in the water industry, most customers on WaterSure considered that they were unlikely to move from their current supplier. This was due to a mix of satisfaction with their existing supplier(s), high satisfaction with the WaterSure scheme, and simple inertia.

"I suppose it would be a good thing really but I don't think I would change personally, because I can't sit there and look through all the information really, it's up and running [current service] and I've been with them years and had no problems so I can't see a point in changing really." (Male, Medical, Thames)

"There would be no reason for us to change unless they offered us the WaterSure at a cheaper rate." (Female, Medical, Yorkshire)

- 7.5.3 There was some acknowledgement of potential drawbacks with the opening up of the market amongst some customers in vulnerable circumstances. For competition to be effective, different discounts would need to be offered by different retailers, but there was a concern amongst these customers that they would struggle to identify the best deal, that it would require considerable effort to secure it, and with a distinct possibility of being rejected.

"It would mean more services but the cons would be that it could be confusing for some customers if something went wrong with your drainage, you wouldn't always know who to call, there might be a bit of buck passing so really it's a double edged blade." (Male, Dependent Children, Southern)

"If I was say 30 or 40 I most probably would [switch] but when you get to a certain age you don't bother do you, your quite happy going along as you are." (Male, Medical, Thames)

"I couldn't put up with the embarrassment of being turned down." (Male, Medical, Thames)

"I have a trust issue. I don't trust anyone and for the last 17 years I've build this trust up with Anglian Water and I do trust them... I'm happy with the way Anglian Water do work things, they don't pester you so I'm quite happy with their service." (Female, Medical, Anglian)

- 7.5.4 One customer expressed uncertainty regarding how competition would work in practice, even when told it would just be the retail aspect that would change.

"I'm not sure how you would work it because you can only get the same water from the same place and the sewerage can only go out of the same place... but hopefully it would mean less money to pay." (Male, Medical, Thames)

- 7.5.5 Overall, attitudes towards the principle of competition did not change with levels of information – there continued to be general support for the idea.

7.6 Switching

- 7.6.1 Though some customers on WaterSure were content to stay with their existing supplier, others indicated that they would be happy to take advantage of increased choice. Some mistakenly assumed that different types of soft/hard water could be on offer.

"I don't particularly want to save an awful lot, I'd just rather have better customer services and be able to pay the same person or pay two totally different people."
(Female, Medical, Eastern)

"It would have to be quite a reduction [in price], price is the top of the bill for us."
(Male, Medical, Thames)

"We've just changed electricity and gas suppliers to a green energy so if there was a greener firm that came along and said we can do it and not discharge into the sea then we'd go for them, probably even if it was a few pence more... I think morals and charges come into play here." (Male, Dependent Children, Southern)

"I'd definitely try and find some a lot cheaper, I mean the water is so hard so that would be something I would bring up and say is there anything I could do to make it not so hard because with [child's] eczema problem hard water is not always good for him because it dries the skin more which I why I have to put bath oils in his bath to soften the water." (Female, Medical, Eastern)

- 7.6.2 Overall, some WaterSure customers would be motivated to switch only if they become displeased with their existing supplier's service or if a new entrant offers an attractive price. The bill saving could be as low as £10 annually to consider switching, whilst others would need a bigger saving (typically £50 a year or more).
- 7.6.3 Others are unlikely to switch even with an attractive offer from an alternative supplier. Customers on WaterSure are more likely than other domestic customers to think highly of their current (WaterSure) service and have fewer factors pushing them towards an alternative supplier. Those respondents unlikely to switch explained that a potentially better service in energy, telecoms or banking had never prompted them to switch service providers. They also felt that within the water industry there were no retail services that would prompt them to switch. Therefore based on this small sample, it seems that satisfied customers on existing social tariffs could be less likely to engage with a potential water market than other customers.

7.7 WaterSure in the future

- 7.7.1 These customers were understandably keen for the WaterSure scheme to continue even in a competitive water market as they have come to rely on it.
- 7.7.2 If the WaterSure scheme disappeared with the arrival of competition, then they expect to be offered similar social discounts with any new system; and that this should be overseen by the appropriate independent authority.

“I think they need to be regulated... they need to have the guidelines and the protocols set down for these schemes so that they are not abused.” (Female, Medical, Yorkshire)

“There’s too many rogue companies about isn’t there doing as they please.” (Male, Medical, Thames)

“They won’t bill me any more than for an average household...The reason why I won’t go on a meter is cos I’m scared of the bill. I’m scared the bill will keep going up and up and up. I live on benefits and they don’t give us any more money” (Female, Medical, Eastern)

7.8 Cross-sector offering

- 7.8.1 Some customers on WaterSure thought a one-stop shop for retail would be of interest, making management of bills easier.

“If it was all lumped in together and we got one bill, I would be very tempted by that because it would be a lot easier than having one payment for one thing and one payment for another each quarter.” (Male, Dependent Children, Southern)

“Yeah definitely, if it was all under one roof it would be really useful.” (Female, Medical, South West)

- 7.8.2 Others were worried by the thought of a single, combined bill and considered this as a dis-benefit – preferring the wider spread of lower bills.

“I think that would be too much of a shock because we’re on a pension and we live from month to month so one massive bill would just about knock our socks off... The trouble is I’ve only got my pension coming in so it’s better to have three little sums than one big sum.” (Male, Medical, Thames)

“I still don’t think I’d do it because it would all be going out at the same time and sometimes that is not practical.” (Female, Medical, Eastern)

- 7.8.3 So, for many customers on low incomes, the risk of receiving a large combined bill outweighs the benefit of the greater convenience that comes with just the one retailer. This finding implies that a retailer who offered cross-sector billing that spread the overall annual cost into monthly instalments might be more appealing to customers on low incomes.

7.9 Disconnections

- 7.9.1 WaterSure customer attitudes to reviewing the policy of disconnections were also polarised. The lack of affordability, combined with the ability to identify with hard-up families, is likely to heighten the issue for this group, leaving some unable to decide. These customers typically feel that, whilst in principle everyone should have clean

water, the idea that other customers pay more on their bill to make up for those who do not pay was wrong.

- 7.9.2 However, despite this feeling, most customers on WaterSure did not want to see the policy reviewed.

"I think it's awful, I wouldn't like that at all, as I say water is a right to life and I don't think people should be restricted in their supply of water." (Male, Dependent Children, Southern)

"Well I don't think it's a good idea because people have got children and also older people, and just because you're in bad financial straits you shouldn't be made to suffer like that." (Male, Medical, Thames)

"No, I don't think that's humane. I don't think in a civilised society we should be restricting a basic human need...there's other ways of looking at it apart from restricting the actual water." (Female, Medical, Eastern)

- 7.9.3 A few respondents were unsympathetic towards those not paying the water bill and were in favour of reviewing policies against them.

"I am completely and utterly for it being reviewed, because I feel that some people do take the mick a bit, and don't pay their bills. I agree with the fact that you need to bathe your child or have some drinking water, but I don't agree with filling the paddling pool... they should put a clamp on your outside hosepipes." (Female, Medical, South West)

"I think it's wrong that us that pay our bills have to pay for them that don't; and while every household should have clean water and working loos and that I think it's something that would need to be looked into... At the end of the day, if you don't pay your electric bill you get cut off which then means that technically people can't get anything hot such as hot food so they're restricted that way - and you can go to the shop and buy a bottle of water." (Female, Medical, Yorkshire)

- 7.9.4 Customers on WaterSure thought that people who do not pay their bill should not be allowed to switch until they had paid their bill off.

"Providing they pay off what they owe before they transfer they go to another company then they should be allowed to switch after." (Male, Medical, Thames)

"I think you should sort your bill out before you do switch... if you can't pay that bill, how are you gonna pay the next bill?" (Female, Medical, South West)

7.10 Retail exit

- 7.10.1 In general, customers on WaterSure were not too concerned by a retail exit nor did it significantly affect their views on competition per se, provided it was clearly communicated to customers.

“As long as they flag it, with letters, or phone calls to inform you that it’s going to happen... It’s making sure the customer understands- a lot of elderly people don’t get it. My husband, he gets very confused, very upset and angry and befuddled about it when he picks up the phone and someone tells him something.” (Female, Medical, South West)

- 7.10.2 However, there is a need to allay fears regarding confidentiality of personal data and the risk that the new retailer could put the prices up very high before customers have time to react.

“That they would put you with someone who was going to cost you five times more than what you were paying.” (Female, Medical, Eastern)

7.11 Overall comparison between customers in receipt of the WaterSure social tariff and those of other household customers

- 7.11.1 Compared with other household customers, WaterSure customers are:

- more satisfied with current service, as they know they have a discount and hence get value for money, so are more likely to stay with what they are happy with;
- as experienced of switching in other markets but, generally, are not a proactive group and some have limited access to the internet and access to the best deals;
- generally positive about the principle of competition, but most think they are unlikely to switch;
- very keen on WaterSure continuing or a very similar scheme. They are more wary of alternative suppliers’ motives, and most keen for a proactive authority ensuring against rogue companies;
- more appreciative of even small savings, making switching more likely – but overall, satisfaction with the status quo combined with a perceived risk to the existing WaterSure scheme eligibility and the potentially small saving is likely to mean few switching; and
- less inclined to be swayed by a one-stop retail shop, as most customers in vulnerable circumstances want to avoid a single large bill. Indeed, the risk of a single, large bill could prevent customers in low income households from engaging with cross-sector retailers.

8. CONCLUSIONS

8.1 Current attitudes to existing retail service

- 8.1.1 The findings of the qualitative and quantitative research with water and sewerage customers nationally suggest that domestic customers are generally aware of their water and sewerage provider(s), and satisfied with the customer service being provided. Most customers have had little reason to contact their water company in the past so, when considering the potential benefits of competition in the retail water market, few could imagine much scope for product differentials. Moreover, most customers seem satisfied with the existing service and price so there are no obvious 'push' factors to drive existing customers to alternative suppliers. New entrants must rely on 'attracting' potential customers.

8.2 Appetite for competition in the water retail market

- 8.2.1 Customers are supportive of the general principle of competition in markets, and bullish about it directly leading to reduced prices and increased quality. They were therefore, initially, very positive about the concept of competition in the water industry. Significantly, most also thought they would actively participate in finding, or haggling for, the best deal. However, after consideration of how competition 'works' in other sectors, some became less positive because they were not confident that customers did get the 'best deal' for their household; and that to do so one would need to be forever vigilant of the service offerings. And life is too short for that.
- 8.2.2 Some customers, particularly when only provided with limited information, also felt that market strategies to woo customers (inevitable with competition) would mean less resources invested in constructive wholesale and retail operations. A few participants highlighted that water was different to other utilities because it is vital for health and cleanliness, and needed safe-guards from simple open-market forces. Overall though, most customers continued to think that competition was good for customers as it helped ensure against water company complacency, and allows those who are willing to search out offers to get a better deal.
- 8.2.3 So, when fairly uninformed of what competition in the water industry will involve, the appetite for competition, and the expectation of actively engaging in a competitive water market, amongst domestic customers is high (67%), and 10% above the proportions found in 2008.
- 8.2.4 There was confusion for some customers as to how competition would actually work in the water industry, with a few wondering how new entrants could rent, or otherwise gain access to, the existing infrastructure that they presumed was still owned by their water company. With additional information that sought to explain that only the retail part of the market was to be competitive (and how the supply is split between wholesale and retail elements), customer understanding increased - but not to the extent that it brought home to customers that the retail element is small compared to the overall size of the water market and thus scope for savings must be modest. (We found that customers only fully absorbed and understood this when presented with a detailed illustration showing the scale and activities of the wholesale and retail

elements.) Only when customers were advised of the actual savings that are likely to be as a result of retail competition in the water industry does support significantly wane.

- 8.2.5 Providing clear information to customers about how the market would operate in a competitive environment is vital for many customers to be reassured about the quality and infrastructure not changing. For example, continued phraseology around “alternative suppliers” rather than “alternative retailers” undermines customers’ ability to fully grasp what industry activities are covered by whom. Without good information, these barriers to positive support (and to switching) will remain.

8.3 What would make people switch?

- 8.3.1 Customers were disappointed with the proportion of the overall bill that will be open to competition and, hence, with the scope for reduced bills. The majority felt that the likely £4-8 per annum range of savings would be insufficient to make them consider switching. However, a few participants thought that they would switch even for a very small saving – on the basis that the service was the same across all ‘suppliers’ so why pay more. For others, there was inertia, loyalty or risk associated with switching, and they would not switch unless the savings were significant (i.e. annual savings of £50 or more).
- 8.3.2 When asked, customers said that they do not, in general, switch supplier in other markets for retail service quality reasons; and thought this would be an unlikely motivator in the water market. Indeed, a significant perceived down-side of retail-only competition was that it would mean that two companies, rather than one, would need to be involved in every customer enquiry concerning infrastructure (e.g. a leaking pipe or sewer/drain).
- 8.3.3 Most unmetered customers said that they would be reluctant to switch to suppliers that forced them to install a meter. Thus, metering is an additional barrier to switching for around half of the customer base; and these customers may only consider engaging in the market if metering was not a precursor to switching supplier.

8.4 Would a ‘one-stop shop’, on its own, motivate people to switch?

- 8.4.1 Some participants thought that it would be a benefit (in terms of making management of utility bills easier) if a single retailer, whom they were already a customer of, covered the retail for water as well as the other utilities (i.e. a one-stop retail shop). Few thought that this increased convenience would be sufficient to make them switch, and that they would most likely need to see a financial saving as well, either from the water specifically, or from the bill overall.

8.5 Views of customers on the WaterSure scheme

- 8.5.1 Customers in vulnerable circumstances on the WaterSure scheme want low, discounted bills from a familiar supplier that is aware of its social responsibilities to its customers. They are very content with the current WaterSure scheme and do not want to risk losing it. In contrast, they expect a competitive market to introduce confusion over the different offers. Thus these customers are less likely to engage in a competitive market because there are more barriers than for other domestic customers; and they will be

reliant on the regulator to ensure they are not taken advantage of by commercially ruthless retailers.

- 8.5.2 Though also recognising that a single retailer might make transactions simpler for them, customers in vulnerable circumstances’ – particularly low income households - overriding concern would be to avoid the implied single, large bill that would come with a single retailer.

8.6 Overall position

- 8.6.1 On the one hand, and based on experience in other markets, most customers recognise that competition will bring a few negatives:

- confusion of offers;
- time/hassle needed to research and secure the best deal every so often; and
- the distinct possibility that some of the social care and responsibilities that water companies currently informally undertake (including the WaterSure scheme) may be replaced by a more limited model.

- 8.6.2 However, if the bill savings as a consequence of competition were significant (i.e. £40 or more p.a.) then many more may consider that the benefits outweigh the negatives; especially if they were likely to be one of the beneficiaries who have the time and information to gain the best deal.

- 8.6.3 Currently, it is envisaged that the savings will be modest. In which case, only a small proportion of customers are likely to switch. They will be content as they will have secured a (slightly) better deal and (customers assume) everyone will also be content as they can continue with their existing supplier - with whom they have a long-standing customer/company relationship and are satisfied with how they are treated and served – on the existing terms. The main caveat on this ‘acceptable’ situation for all customers would be if policy dictates that all existing suppliers need to set up different retail elements, giving them new names etc. that breaks up the positive relationship feeling that most customers appear to have for their local water company.

SYSTRA provides research and advice to central, regional and local government, agencies, developers, operators and financiers.

A diverse group of results-oriented people, we are part of a strong team of professionals worldwide. Through client business planning, customer research and strategy development we create solutions that work for real people in the real world.

For more information visit www.systra.co.uk

Abu Dhabi

AS Business Centre, First Floor, Suites 201-213,
Al Ain Road, Umm al Nar, P.O. Box 129865,
Abu Dhabi, UAE
T: +971 2 558 3809 F: +971 2 558 9961

Birmingham

5th Floor, Lancaster House, Newhall St,
Birmingham, B3 1NQ
T: +44 (0)121 233 7680 F: +44 (0)121 233 7681

Dublin

2nd Floor, Riverview House, 21-23 City Quay
Dublin 2, Ireland
T: +353 (0)1 542 6000 F: +353 (0)1 542 6001

Edinburgh

Prospect House, 5 Thistle Street, Edinburgh EH2 1DF
United Kingdom
T: +44 (0)131 220 6966

Glasgow

Seventh Floor, 124 St Vincent Street
Glasgow G2 5HF United Kingdom
T: +44 (0)141 225 4400

Lille

86 Boulevard Carnot, 59000 Lille, France
T: +33 (0)3 74 07 00 F: +33 (0)1 53 17 36 01

London

Seventh Floor, 15 Old Bailey
London EC4M 7EF United Kingdom
T: +44 (0)20 7529 6500 F: +44 (0)20 3427 6274

Lyon

11, rue de la République, 69001 Lyon, France
T: +33 (0)4 72 10 29 29 F: +33 (0)4 72 10 29 28

Manchester

25th Floor, City Tower, Piccadilly Plaza
Manchester M1 4BT United Kingdom
T: +44 (0)161 236 0282 F: +44 (0)161 236 0095

Marseille

76, rue de la République, 13002 Marseille, France
T: +33 (0)4 91 37 35 15 F: +33 (0)4 91 91 90 14

Newcastle

PO Box 438, Newcastle upon Tyne, NE3 9BT
United Kingdom
T: +44 (0)191 2136157

Paris

72 rue Henry Farman, 75015 Paris, France
T: +33 (0)1 53 17 36 00 F: +33 (0)1 53 17 36 01

Woking

Dukes Court, Duke Street
Woking, Surrey GU21 5BH United Kingdom
T: +44 (0)1483 728051 F: +44 (0)1483 755207

Hong Kong

14th Floor West, Warwick House, TaiKoo Place,
979 King's Road, Island East, Hong Kong
T: +852 2529 7037 F: +852 2527 8490

Shenzhen

Room 905, Excellence Mansion, No.98, No.1 Fuhua Road,
Futian Central Zone, Shenzhen, PRC, Post Code : 518048
T : +86 755 3336 1898 F : +86 755 3336 2060

Shenzhen - Beijing Branch Office

Room 1503, Block C, He Qiao Mansion, No. 8 Guanghua Road,
Chaoyang District, Beijing, PRC, Post Code : 100026
T : +86 10 8557 0116 F : +86 10 8557 0126

Beijing Joint Venture

Room 1507, Main Building, No. 60, Nan Li Shi Road,
Xi Cheng District, Beijing, PRC, Post Code : 100045
T : +86 10 8807 3718 F : +86 10 6804 3744

Mumbai

Antriksh, Unit no. 301, 3rd Floor, CTS Nos.
773, 773/1 to 7, Makwana Road, Marol, Andheri East ,
Mumbai 400069
T: +91 22 2647 3134
B 307, Great Eastern Summit Sector - 15, CBD Belapur Navi
Mumbai - 400 614
T: +91 22 2757 2745

New Delhi

5th Floor Guru Angad Bhawan, 71 Nehru Place, New Delhi
110019
T: +91 11 2641 3310

Noida

3/F, C-131, Sector 2, Noida-201301, U.P.
T: +91 120 432 6999

Singapore

25 Seah Street #04-01 Singapore 188381
T : +65 6227 3252 F : +65 6423 0178

Thailand

37th Floor, Unit F, Payatai Plaza Building, 128/404-405 Payathai
Road, Rajthwee, Bangkok 10400, Thailand
T : +662 216 6652 F : +662 216 6651

Vietnam

5/F Perfect Building, Le Thi Hong Gam St, District 1,
Ho Chi Minh City, Vietnam
T : +84 8 3821 7183 F : +84 8 3821 6967

The SYSTRA logo is displayed in a large, bold, red, sans-serif font. The letters are slightly stylized, with the 'Y' and 'S' having a modern, geometric feel. The logo is positioned in the bottom right corner of the page.

CONSUMER COUNCIL FOR

CYNGOR DEFNYDDWYR



The Consumer Council for Water

1st Floor, Victoria Square House, Victoria Square, Birmingham B2 4AJ

Visit our website: www.ccwater.org.uk

Follow us @WaterWatchdog

Contact: Michael Barnes, Policy Manager