Welsh Household Customer Views On Water Market Reform

July 2016

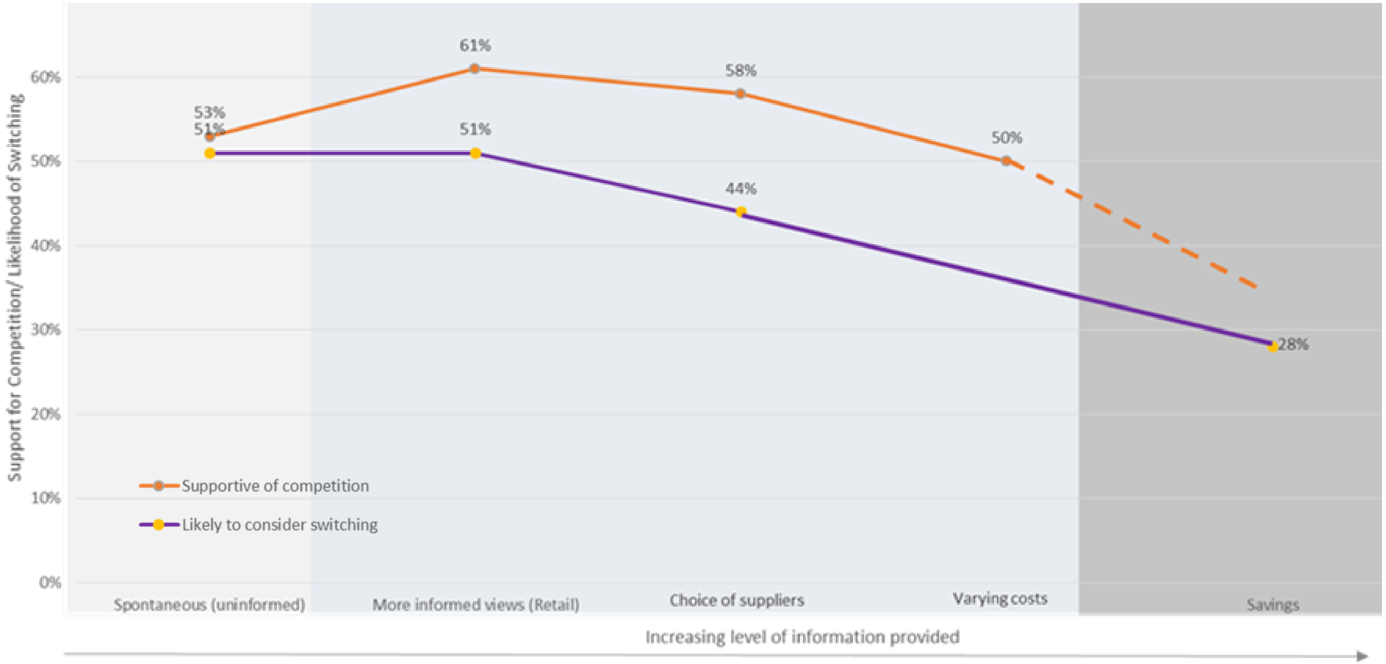
Executive Summary (I)

- **With limited information, just over half of customers in Wales (53%) are supportive of the principle of competition[1]**
  - A similar figure (51%) indicate they would consider switching water supplier
- **Once aware that this is retail competition only, which would not affect their water supply, customers are reassured that water quality will not change and support for competition increases to just under two thirds of customers (61%)**
  - Customers likely to consider switching remain static at 51%
- **Support for competition falls when wider factors are considered, such as some customers having more choice than others (58%), or ending up with higher bills (50%)**
  - Customer likelihood to consider switching also drops

[1] Base n=200, which gives a minimum confidence interval of +/-6.93 at 95% confidence level; more detail can be found in the appendix

Executive Summary (II)

- **Support for competition drops significantly when expected potential price savings are revealed**
  - Less than a third (28%) of customers believe they would switch for the saving on offer (between £4-£8 p.a.)
- **There is currently no strong push for retail competition in Wales**



SYSTRA

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Study Context and Methodology

Study Context

- **UK government considering possibility of introducing retail competition in the household water market in England only**
- **This study identified household customer appetite for water market reform in Wales**
- **Assessed motivating factors and barriers to engagement in a reformed water market**
- **Gauged views and opinions relating to wider market change considerations**
- **Provided Welsh Water customer perceptions and likely behaviours in respect of water market reforms as proposed for England**

Methodology

- **Telephone survey of 200 household water customers in Wales**
- **Interviews lasted approximately 20 minutes**
- **Survey structure:**
  - **Current water and sewerage providers**: awareness and perceived affordability
  - **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 tariffs , experience in other utilities
  - **Demographics**: internet use, household composition, accommodation type and working status
- **Focus group with Welsh Water customers in Wales held in Cardiff to explore views in more detail**
- **Weighting was applied in order to ensure national representation by these demographics. All tables show weighted data, with unweighted bases**

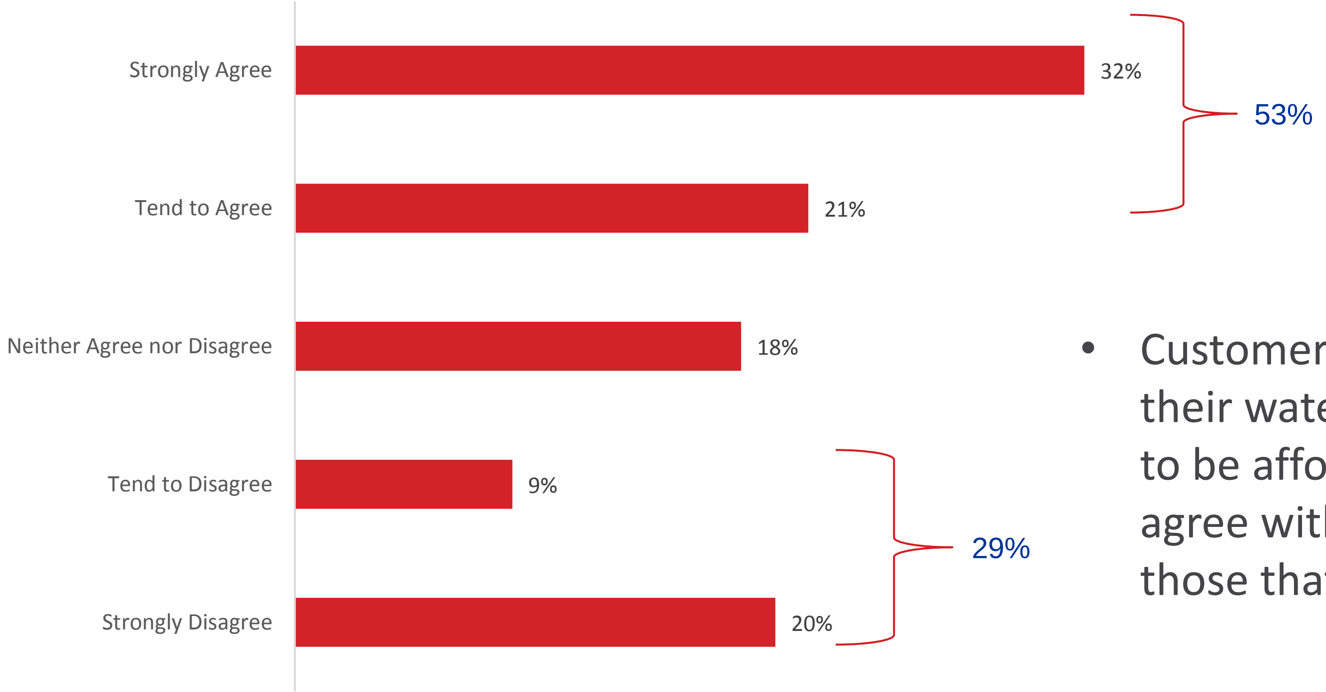
Comparisons between England and Wales are only made where statistically different; only statistically significant differences are represented by an arrow

Key Findings – Partially Informed Views

SYSTRA

When shown the statement below, over half of customers (53%) agree with the general principle of introducing competition in the water industry

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



Agree	65%	53%
Disagree	18%	29%

- Customers who do not consider their water and sewerage charges to be affordable are more likely to agree with competition (54%) than those that do (50%)

Q1. To what extent do you agree or disagree with the principle of introducing competition in the water and sewerage industry?
Base: All respondents, n=200

SYSTRA

Main reasons for agreeing, or disagreeing with the introduction of competition in the water and sewerage industry

Reasons for agreeing:	%
Competition is good	59%
Will lead to lower prices	55%
Will give customers choice	18%
Base	106

"We're charged X amount now, but if there was a couple of operators, they'd start playing off on one another and the price would obviously drop." (Male, 60+ years old)

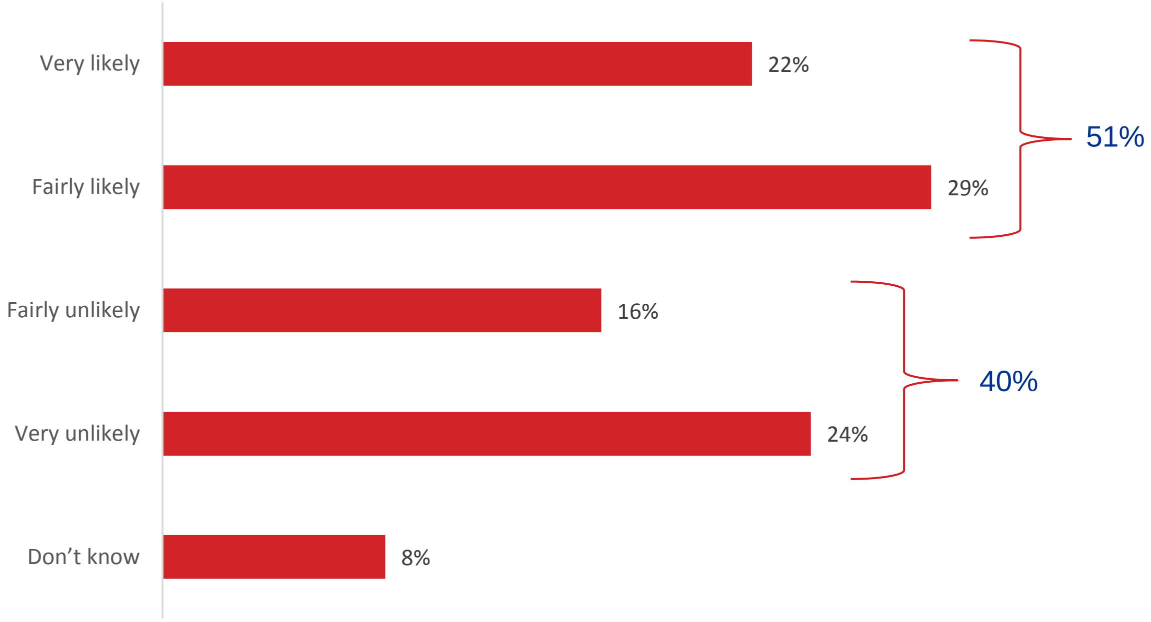
Reasons for disagreeing:	%
Happy with existing supplier	23%
Overcomplicating the market	16%
Hasn't worked well in other markets	12%
Can't see any advantages	11%
Would eventually price increase	11%
Base	57

"What's the point of trying to change something there's not really an issue with at the moment?" (Male, 36-59 years old)

Views expressed in the Welsh focus group were very much in line with those expressed across the groups in England, regarding basic attitudes to the principle of competition and changing attitudes and likely behaviour in light of more detailed explanations of retail competition and likely savings.

Half of customers (51%) would be likely to consider changing the company that supplies their water and sewerage retail services

- Customers that do not have problems paying their bills were more likely to consider switching (51%) than those who sometimes pay their bills late (39%)



		
Likely	56%	51%
Unlikely	34%	41%

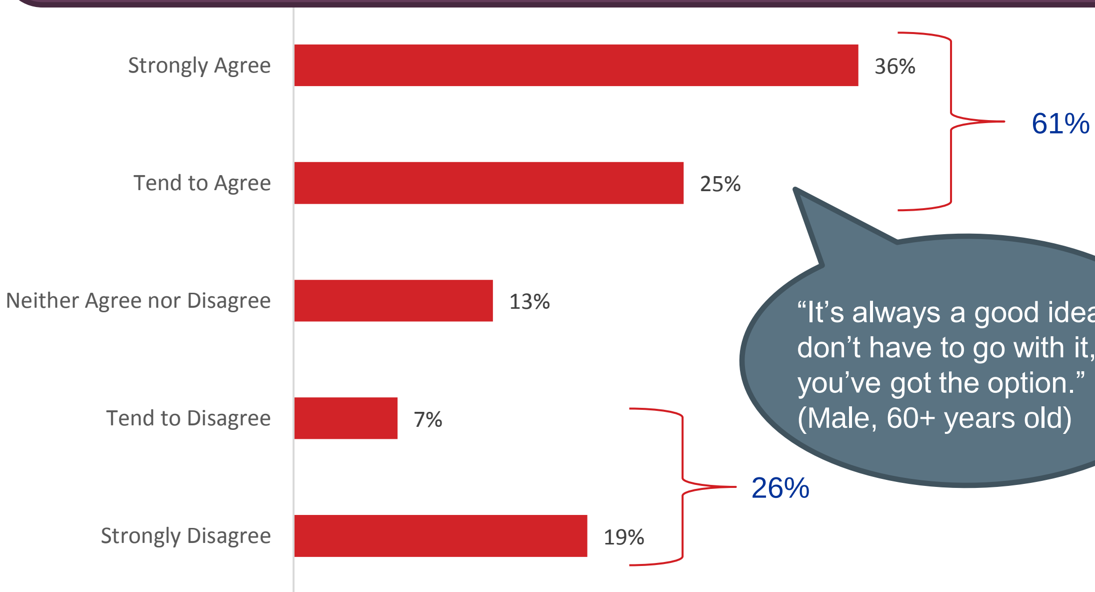
Q3. If you had a choice, how likely would you be to consider changing the company that charges you for your water and sewerage services?
Base: All respondents, n=200

Key Findings – Fully Informed Views

Once given more information, as below, considerably more than half (61%) agree with introducing competition in the water industry

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.

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.



"It's always a good idea, you don't have to go with it, but you've got the option." (Male, 60+ years old)

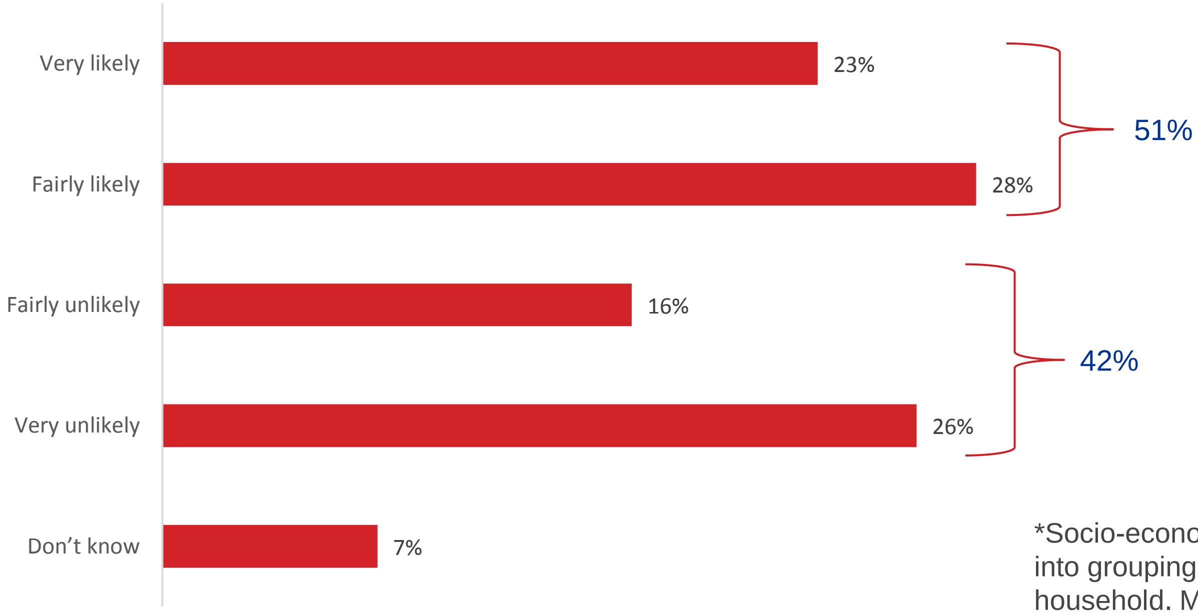
	England	Wales
Agree	67%	62%
Disagree	16%	26%

- Customers who have used the internet to decide their utility provider were more likely to support competition (66%) than those who have not (53%)

Q4. Now that you know that competition would mean you choose the company which provides your retail service, to what extent do you agree, or disagree, with introducing competition in the water and sewerage industry?
Base: All respondents, n=200

Half of customers (51%) would consider changing their retailer

- Customers who do not consider their water and sewerage charges as being affordable were more likely to consider changing water retailer (63%) than those who do (43%)
- Higher SEG* customers were more likely to consider switching (60%) than lower SEG customers (38%)



Likely	58%	51%
Unlikely	34%	42%

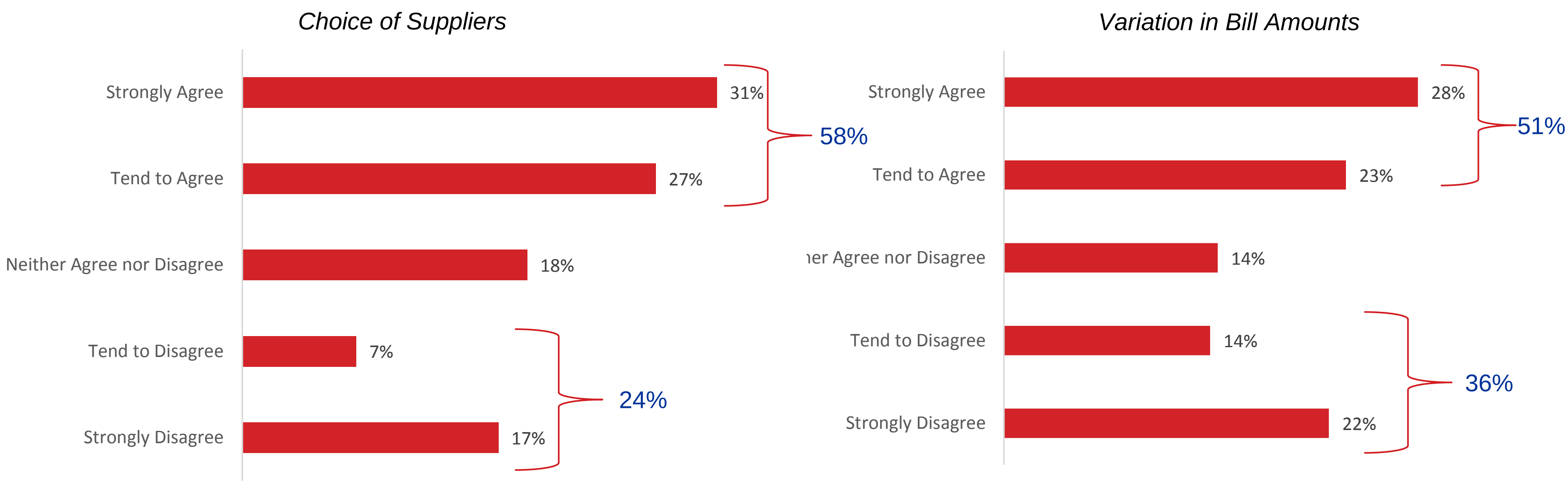
*Socio-economic groups (SEG) divide the population into groupings based on the occupation of the head of household. More details can be found in the appendix.

Q5. Now that you know that competition would mean you could choose the company which provides your retail service, how likely would you be to consider changing your retailer?
Base: All respondents, n=200

SYSTRA

Over half agree with introducing competition, even if some customers had more choice of suppliers than others (58%) or if some customers end up paying more (51%)

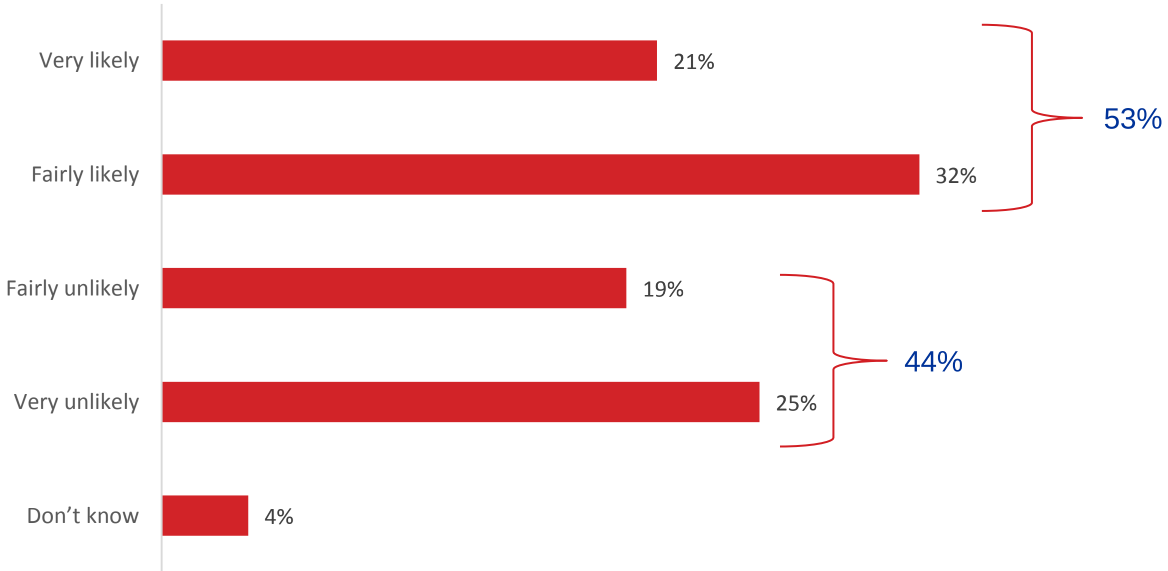
"Competition may give some customers more choice of suppliers and access to better deals than others. This is what has been found in other utilities where there is retail competition. For example customers who pay by direct debit or who manage their account on-line are cheaper to serve and so are more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



Q6a. If some customers had more choice of suppliers than others, to what extent do you agree, or disagree, with introducing competition in the water and sewerage industry
Q6b. With competition, whilst some customer would save money, others may end up paying more than before; to what extent do you agree, or disagree with introducing competition in the water and sewerage industry?
Base: All respondents, n=200

Over half of customers (53%) were likely to switch from their current water retailer <u>if</u> they were offered a better price

- Customers that pay bills by direct debit were more likely to switch (53%) than customer who do not (48%)
- Customers who have used the internet to decide a utility provider were more likely to switch (56%) than those who have not (49%)



		
Likely	58%	53%
Unlikely	35%	44%

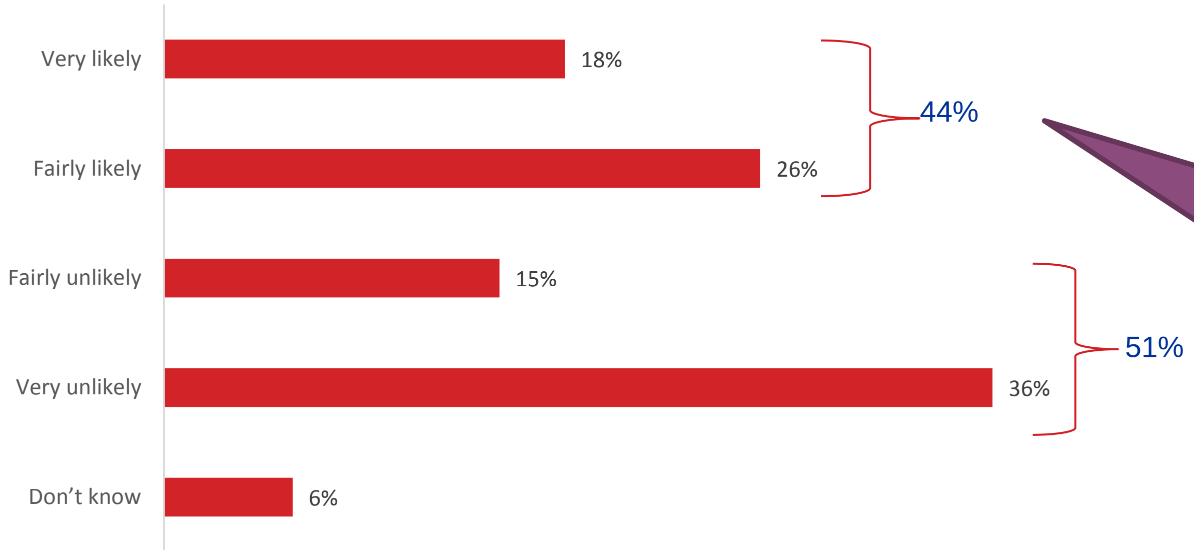
Q6c. If a new company offered you a better price, however small the saving was, how likely would you be to switch from your current water retailer?
Base: All respondents, n=200

SYSTRA

Under half of customers (44%) would be likely to switch to a company that already bills them for other services, such as energy and broadband

- Customers who do not consider their water and sewerage charges as being affordable were more likely to consider switching from their current supplier to a provider who already bills them for other services (51%) than those who find their charges affordable (38%)
- Customers who have used the internet to decide utility provider were more likely to switch from their current supplier to a provider who already bills them for other services (53%) than those who have not (29%)

		
Likely	51%	44%
Unlikely	39%	51%



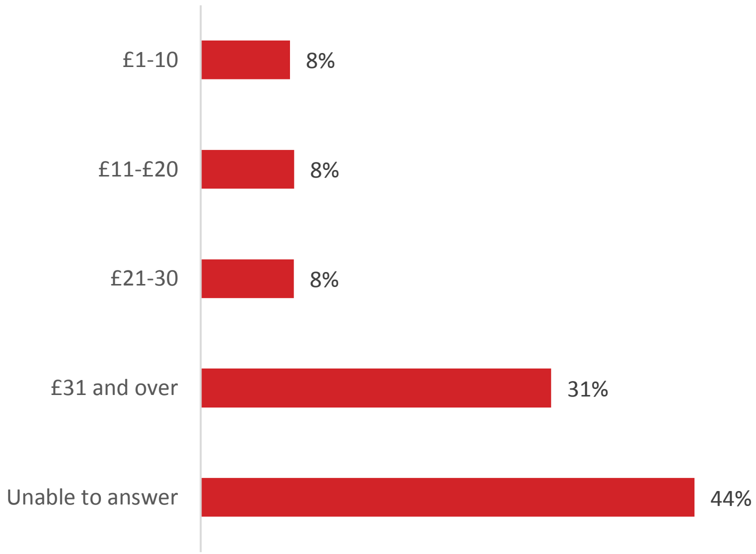
> "If you have your gas and electric together it's cheaper, and if you have your gas and electric and your water together it'll be even cheaper again." (Male, 36-59 years old)

Q6d. If a company that already bills you for other services, such as energy and broadband, offered to bill you for your water services, how likely would you be to switch from your current water retailer?
Base: All respondents, n=200

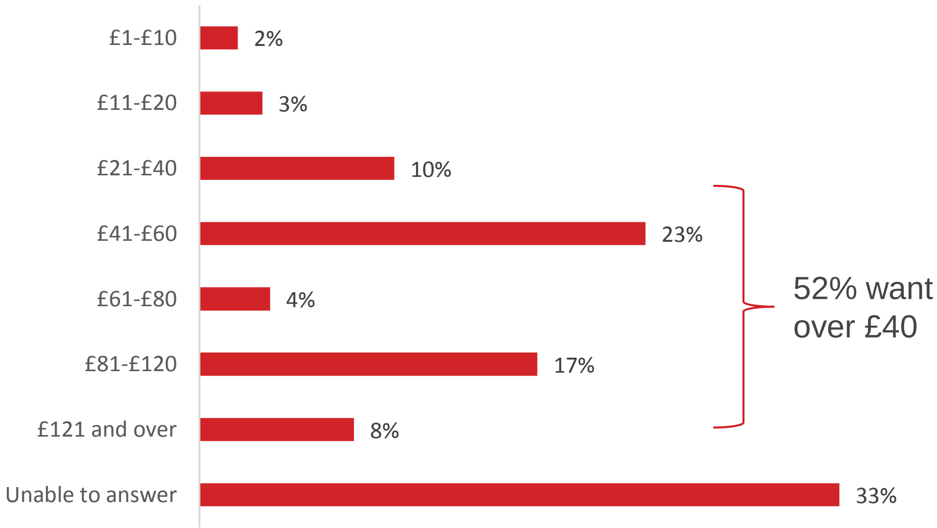
Vast majority of customers would like switching to reduce their bills by more than what is likely to be on offer

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 £438 a year. So, the retail service of 10% is about £44 a year. How much of this £44 would you expect to save if you decided to switch?

How much of this £44 would you expect to save…



How much would you need to save…

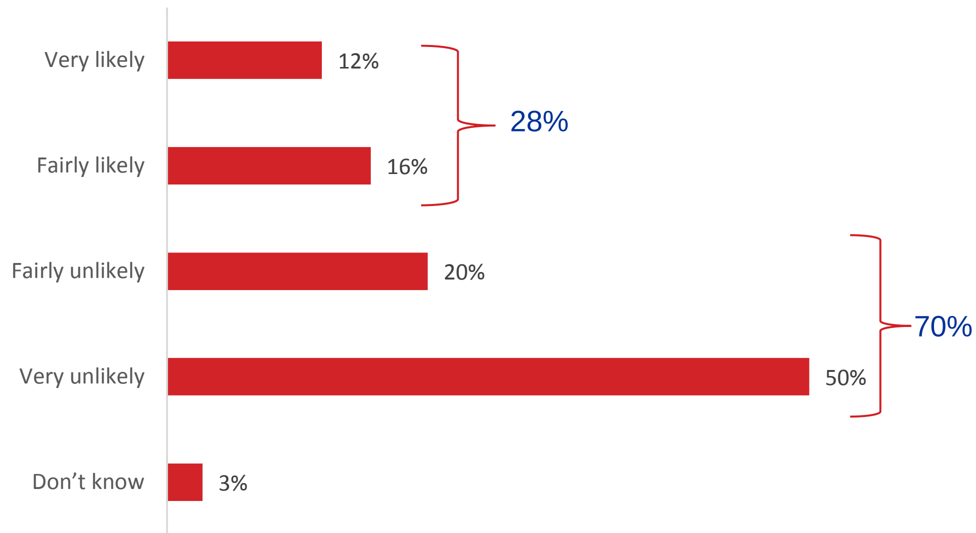


Q6e. How much of this £44 would you expect to save if you decided to switch?
Q6f. And thinking of your own water bill, how much money would you need to save a year to consider switching?
Base: All respondents, n=200

SYSTRA

Over two thirds (70%) would be UNLIKELY to switch for a saving of £4-£8 a year on their bill

- Customers who have used the internet to decide their utility provider were less likely to switch if they could save £4-£8 a year on their bill (69%) than those that do not use the internet to buy services (82%)



"It's not worth your time to go on the internet, or make the phone call, is it." (Male, 36-59 years old)

Likely	32%	28%
Unlikely	67%	70%

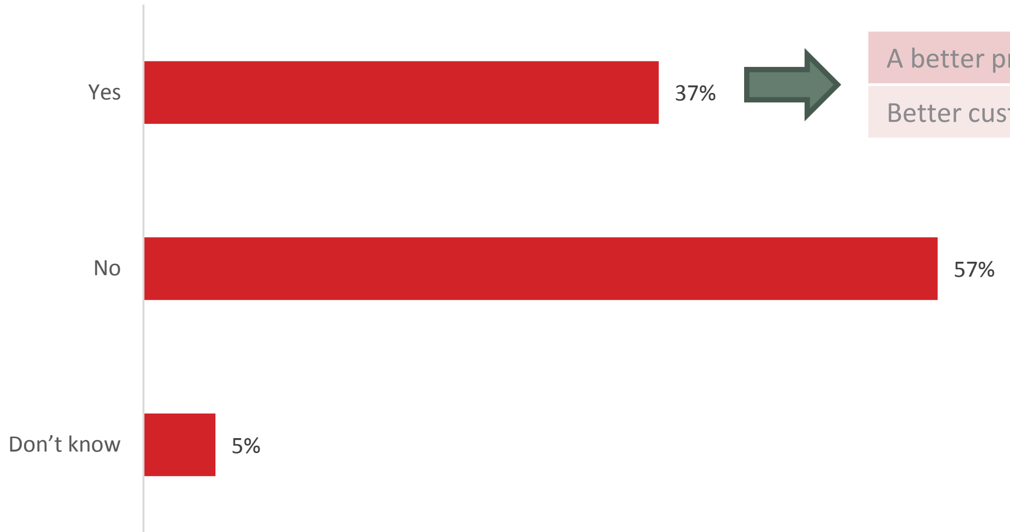
Q6e.i. How likely would you be to switch if you could save £4-£8 a year on a bill of £438?
Base: All respondents, n=200

SYSTRA

Over half (57%) would NOT consider switching if an alternative water supplier offered better customer service, billing and meter reading (retail) services

- Customers who do not consider their water and sewerage charges affordable would be more likely, in principle, to consider switching if an alternative water supplier offered better retail services (45%) than those that find their charges are affordable (31%)

- Customers who do not use the internet to buy insurance, TV license or utility provider would not consider switching to an alternative water supplier if they offered better retail services (71%) compared to those that do use the internet to buy services (50%)



A better price	48%
Better customer enquiry	16%

Wouldn't believe it would be better	52%
Not important	35%

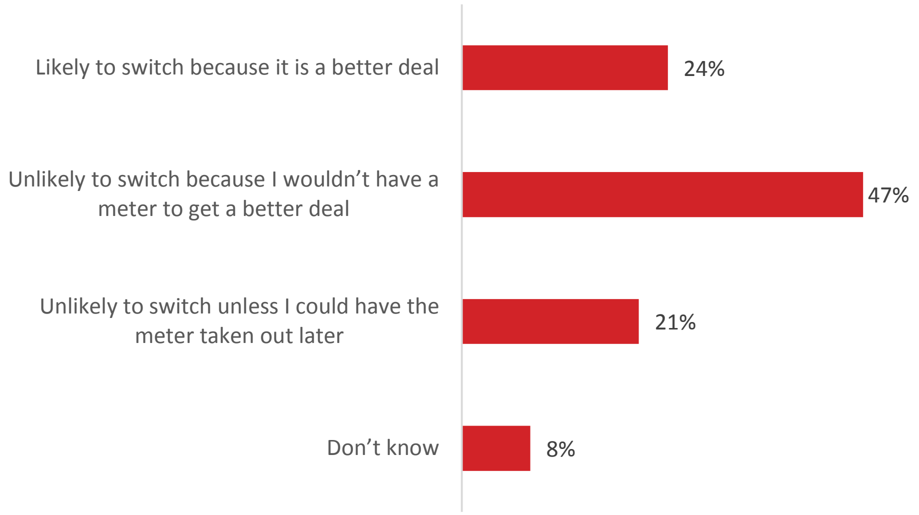
Q7d. In principle, would you consider switching if an alternative water supplier offered better retail services – that is meter readings (if you have one), billing, customer service and payment handling?
Base: All respondents, n=200

Key Findings – Wider Considerations

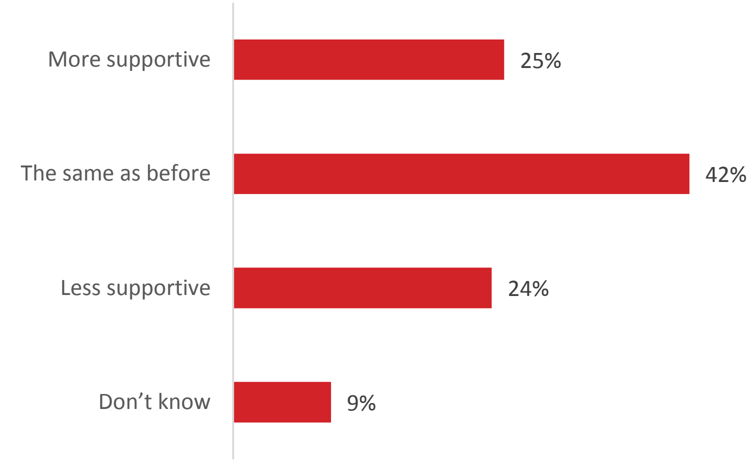
SYSTRA

More than two-thirds (71%) of unmetered customers would not switch supplier if it meant having a water meter. Attitudes to competition were relatively unaffected by the potential to reconsider disconnection policy

"If you're having good customer service now, then that wouldn't appeal to you to switch anyway." (Female, 18-35 years old)



If the policy on disconnections was reconsidered…

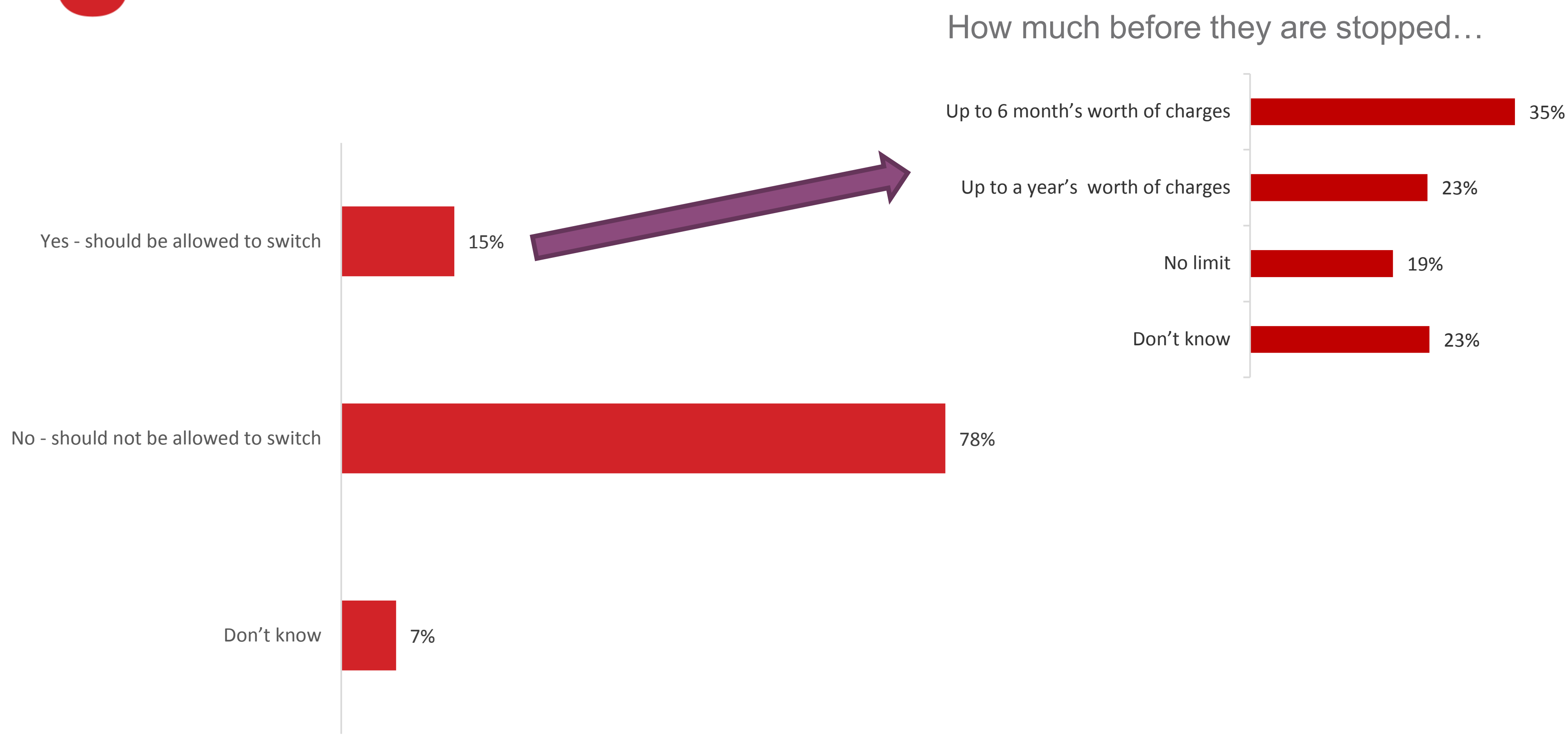


"It's a basic human right. You can cut off somebody's 42 inch TV but you can't cut off their fresh water." (Female, 18-35 years old)

Q8b. If a new supplier offered you a better deal than your current supplier, in terms of price and quality of retail services, but as part of this deal you had to go on a water meter, would you be likely, or unlikely to switch supplier?
Base: Unmetered customers, n=139
Q9a. If the policy on disconnections were reconsidered, would this make you more or less supportive about retail competition?
Base: all respondents, n=200

SYSTRA

The majority (78%) felt customers who owe money should not be allowed to switch

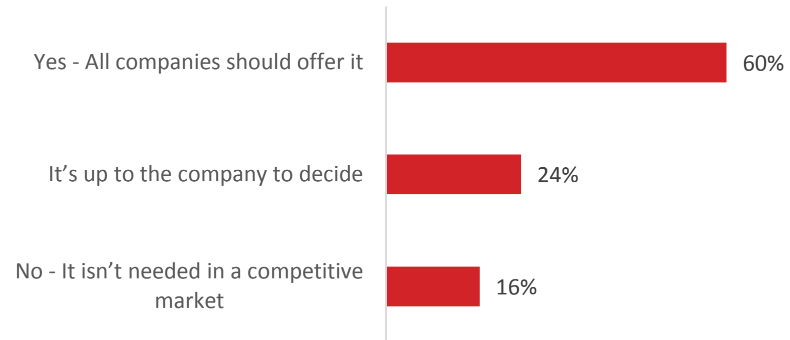


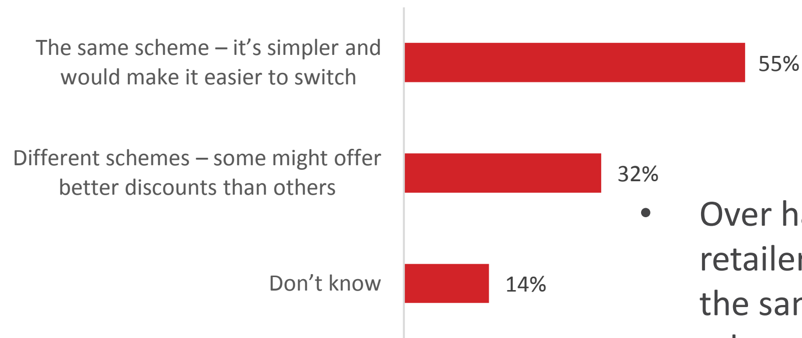
Q9b. Most customers pay on time, but some do not, which means some customers owe their water company money. Should customers who owe money to their water retailer be allowed to switch?
Base: All respondents, n=200
Q9c. How much would someone have to owe their water company before they are stopped from switching?
Base: Yes – should be allowed to switch, n=29

SYSTRA

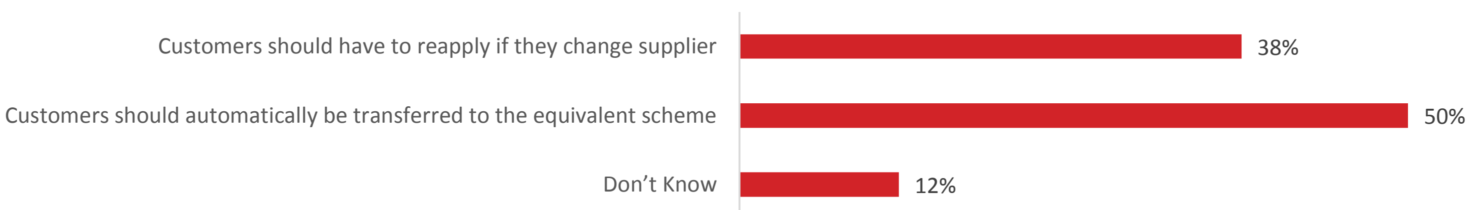
Nearly two thirds (60%) said any new companies coming into the market should offer a discounted bill for customers in genuine financial hardship

"All water companies currently offer a discounted bill for people in genuine financial hardship. The cost of this discount is paid for by other customers and typically adds less than £5 a year to the average bill."





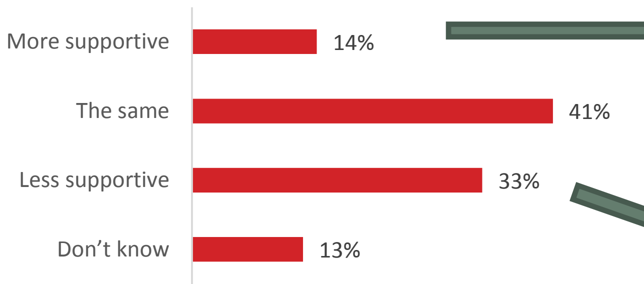
- Over half (55%) said retailers should all offer the same discounted scheme.
- Half (50%) said customers should automatically be transferred to an equivalent scheme if they change supplier



Q9d. If competition were to be introduced, should customers in genuine financial hardship still be able to apply for a discounted bill?
Q9e. Should retailers in England all offer the same discounted bill scheme, or should they all offer different ones?
Q9f. 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?
Bases: All respondents, n=200

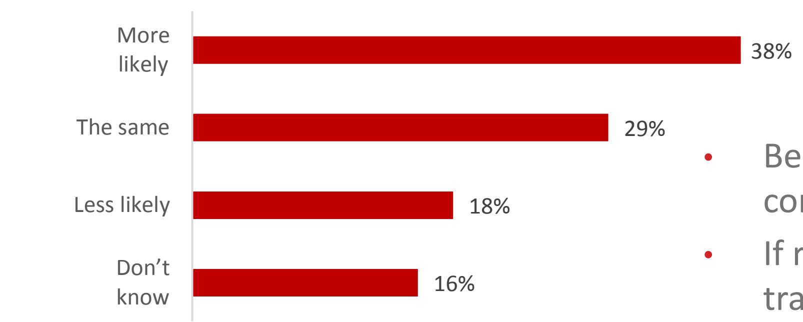
The possibility of retail exit, whereby a company decides to stop providing billing/retail services and transfers their customer accounts to another supplier, was not supported by customers

“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.”



Will lead to a better price	54%
Don’t know	21%
New company might offer better services	14%

Don’t want another company having my contact details	26%
Wrong not to be given a choice	23%
Don’t agree with competition and don’t want this to happen	15%
I want to stay with my current company	12%



- Being switched to a new company was not considered fair
- If retail exit was necessary, a transitioned approach was considered fairest

“Maybe they can fix it for a year, to give you a year - this new company, at this rate, and then you’ve got a year to sort yourself out.” (Male, 60+ years old)

Q10a. Does this may you more, the same, or less supportive of retail competition in the water industry?
Q10b. If you customer account was transferred to a new supplier, would this make you more, the same, or less likely to consider switching?
Base: All respondents, n=200

SYSTRA

Welsh Government Position

"The Welsh Government has retained the existing regulatory framework as the mechanism to ensure that customers receive first class, value for money, water and sewage services and to deliver its integrated water and sewage policies as set out in the Water Strategy for Wales.
Whereas the UK government is reviewing its position with regards to competition in the water industry."

- **Welsh customers accepted Welsh Government's position**
  - Majority are happy with the current service, so there are no 'push' factors
  - Savings are not considered high enough to be a 'pull' factor
- **Some customers suggested that if reform occurred and proved to be effective in England, Wales could (and should) adopt it**

"It's not like we're missing out on massive savings, are we." (Male, 36-59 years old)

"I'm happy with what I pay and what I'm getting for it." (Male, 36-59 years old)

"You would think that the Welsh Government would be savvy enough to think 'well we're happy with things as they are, but, keep an eye on what's happening there' and if it does roll out and it's a hell of a lot better there, they might turn around and say 'well actually, if it's good for them, why is not good for us.'" (Male, 36-59 years old)

SYSTRA

Conclusions

- **Customers in Wales are happy with current service and price of their water and sewerage provider**
- **With limited information, customers support the principle of competition**
  - Having choice is considered positive for consumers and competition leads to the expectation of lower bills
- **However, support and likelihood of switching supplier decreases with more information**
  - Both support, and likely market engagement, decrease significantly when expected price savings are revealed
- **Support for competition and likelihood of switching are generally lower in Wales, compared with England**
- **Customers in Wales are content with the Welsh Government's position, on the assumption that if competition works effectively for consumers in England, Wales should adopt the same market reform**

Appendix

Appendix: Sample Profile – Gender, Age & SEG

Age	%
18-35	15%
36-59	47%
60+	38%
Total	100%
Base	200

Socio-economic Group	%
AB	31%
C1C2	52%
DE	17%
Total	100%
Base	200

Gender	%
Male	49%
Female	51%
Total	100%
Base	200

SOCIO-ECONOMIC GROUP	
AB	Intermediate or higher managerial, administrative, professional e.g. Chief executive, civil servant, surgeon, teacher
C1C2	Supervisory, clerical, junior managerial, skilled manual workers e.g. shop floor supervisor, sales person, electrician
DE	Semi-skilled and unskilled manual workers, casual labourers, unemployed e.g. assembly line worker, pensioners (without private pensions), living on basic benefits

Appendix: Sample Profile – Payment Methods and History of Switching in other Utilities

Metered or Unmetered	%
Yes – chose to have a meter	21%
Yes – did not chose to have a meter	8%
No	70%
Don't know	1%
Total	100%
Base	200

Water bill payment	%
Always pay on time	94%
Sometimes pay on time	6%
Usually do not pay on time	0%
Total	100%
Base	200

Switched supplier in last 2 years	%
Yes	32%
No	69%
Total	100%
Base	200

Pay bills by direct debit	%
Yes	88%
No	12%
Total	100%
Base	200

SYSTRA

Appendix: Sample Profile – Area, Disability & Affordability

Limiting illness or disability in household	%
Yes	17%
No	74%
Would rather not say	10%
Total	100%
Base	200

Area where you live	%
Rural/village	37%
Edge of town/suburb	35%
Town/city	28%
Total	100%
Base	200

Water and sewerage bill affordable	%
Agree	59%
Neither agree nor disagree	21%
Disagree	20%
Total	100%
Base	200

SYSTRA

Technical Appendix

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.

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 the table below.

SAMPLE SIZE	10% OR 90% RESPONSE TO A QUESTION	30% OR 70% RESPONSE TO A QUESTION	50% RESPONSE TO A QUESTION
200	+/-4%	+/-6%	+/-7%

Data weighting has been applied to ensure representation by gender, age and socio-economic group in the few occurrences where they varied by more than 5%, outlined in the table below. Weighting was only required for socio-economic group. All other weighting factors applied were 1.

QUOTA CATEGORY	WEIGHTING FACTOR
AB	1.11
C1C2	1.07
DE	0.72

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