

Independent Assessment of Scottish Water's Customer Research

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Background

The Customer Forum (CF) has asked the Independent Assessor (IA) to evaluate the initial customer research undertaken by Scottish Water (SW) as part of the development of its Strategic Direction Statement and, ultimately, Business Plan for the period 2015 to 2020. In essence the CF is seeking to understand whether the methodology used for the research is valid and what inference should be drawn from it. More specifically the CF have asked whether:

- the methodology is robust
- the results allow SW to determine a robust prioritisation of investment options
- more or less weighting should be given to the stated preference work than to the deliberative research, or the on-line and focus group work.

In addition the CF wish to understand how the research compares to that undertaken by water companies and regulators in England and Wales.

With that in mind the IA has, with the help of an independent market research expert, reviewed the work undertaken by SW and its contractor Accent, the findings which were published on [Date]. This paper presents our initial views.

What have SW done?

Essentially SW has undertaken a 3 stage research exercise

- Stage 1 sought to determine what issues should be evaluated and how information and questions should be phrased. This was undertaken internally through analysis of customer feedback and via staff groups, and externally by deliberative research, in-depth interviews with LPs and business customers and on-line customer panels
- Stage 2 was a Quantitative phase using Stated Preference (SP) techniques to determine customer priorities for investment
- Stage 3 was a validation of the quantitative results via focus groups.

SW has stated that the primary purpose of the research programme was to understand customers' priorities for improvement and investment. As such, SW have not sought to directly understand what customers are willing to pay for water and sewerage services either now or in the future. Naturally, however, this subject did come up at various stages of the research programme, primarily during the more free flowing deliberative and focus group phases.

Our thoughts on the methodology

Our view is that, within the objectives set by SW, the current phase of the research programme is broadly sound from a "best practice" or "technical" perspective. We have some minor concerns over whether:

- The approach in the deliberative groups of separating water and sewerage issues allowed participants to view issues "in the round" and hence express a balanced view of what was important to them
- The issues presented to the participants overly reflected the views of "other stakeholders", including WICS and Scottish Water, rather than customers themselves

- The language used in the Stated Preference Questionnaire, and its depth, allowed participants to accurately express their priorities.

However, our largest concern is that by not discussing central question of what should happen to bills the results are rather abstract and participants may not be fully “committed” to the choices they made or to the associated quantum of investment that would be necessary.

We have debated this point at length with SW who, in response, say that in the Stated Preference work they did seek to make sure that customers understood the consequences of what they were choosing. Whilst we understand this, as the work was not placed in the context of the impact that all cost drivers may have we are not sure customers were able to see the picture in the round and may therefore not be expressing their ideal preferences.

Water and Sewerage companies in England and Wales would consider willingness to pay to be the primary output for a research programme leading to a price control. When we put this point to SW they responded that

Charging is a matter of Government policy and Ministers have stated that they do not wish to see bills rise by more than inflation in the future and in doing this they have set a financial envelope within which Scottish Water will have to operate. Therefore our research is aimed at understanding relative importance of different service improvements.

The role and views of Ministers and WICS in determining charges is fully understood and acknowledged. However we do not consider that this is a sufficient reason for SW not to directly and prominently consider the issue in its engagement with customers. We believe that if the negotiated settlement is to work the customer champion – CF – must to the best of its ability seek to get the right balance of prices and services for customers. This can be done directly with SW or by influencing the views of Ministers and WICS. But in order to be successful the CF must have an informed view on what customers are actually willing to pay when all influences on bills are in play. We do not believe the current research programme gives them this overview.

We believe SW understand these concerns and have told us that

Within our consultation on our Strategic Projections we will be setting out our long term view for bills and investment levels seeking customers’ feedback on these.

This is welcomed but SW probably needs to go further and directly address the issue of what should happen to bills in the short and the long term. When considering the short term, consideration should also be given to what should happen in nominal or cash terms, as well as what should happen in real terms.

Our thoughts on the results themselves

We are aware that the Customer Forum are concerned that the Stated Preference work may be given too much weight relative to the other elements of the programme when determining future priorities. We strongly believe that this would be inappropriate. The SP work should be one element used to inform judgements of SW and others .

We are pleased therefore that SW are not proposing to mechanically implement the outcome of the SP research. Indeed the priorities for investment contained in the Draft report – see table below - differ in a number of respects from the results of the SP research alone reflecting the balanced way in which SW have considered the evidence.

Attribute	Overall Priority
Leakage	High
Long Term Interruptions	High
Maintain Drinking Water Quality	High
Internal Flooding	High
External Flooding	High
Short term Interruptions	High
Pollution Incidents	Medium
Discoloration	Medium
Taste & odour	Medium
Bathing Water Quality	Medium
Carbon Emission	Medium
Sewers Maintained	Medium
Customer Service	Medium
Communication	Medium
Business Price issues	Medium
Iron Works / Covers	Low
River Water Quality	Low
Low Pressure	Low
Odour	Low

The table broadly reflects the results of the research programme as a whole and are similar to the findings of other water companies in England and Wales. Therefore, notwithstanding our concerns about the commitment that participants have to the quantum of investment, we consider the priorities identified by SW to be credible.

Conclusion

Within the objectives that SW has set itself the research programme is soundly based and produces reasonable plausible priorities for improvement. However, the absence of questions in respect of willingness to pay contrasts strongly to the approach taken south of the border. Willingness to pay is central to any price control and it is important to assess it directly. Without it, there are questions over the commitment that customers have to their choices and the associated quantum of investment that would be necessary. It is important that SW now consider prioritisation for improvements alongside willingness to pay having made participants aware of all of the cost drivers which may impact upon bills.