Severn Trent Water

Draft Business Plan Evaluation

Final Quantitative Report

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Overall, respondents were positive in their value for money ratings both towards the current level of service and future service improvements. It is interesting to note that despite the small increases in bills, the ratings stay the same or marginally improve. The other thing to note is the stronger rating given by the sample who were told that there would be efficiency savings which would result in a maximum cap on their bill increase, making the increase less than that shown to the sample where efficiency savings were not shown.

There is a very good degree of support for each of the proposed water supply improvements. The results are very similar regardless of the sample size but this should not be surprising as the bill impact was the same across both samples ie an increase of £8.39.

Overall, the waste water improvements were better supported than the water supply improvements. There was more support for the 360 sample as this took into account the efficiency savings and, thereby, a reduction in the overall bill impact of the sewerage element of the draft business plan.

Respondents were also asked to indicate the extent to which they thought the improvements provided in the draft business plan were appropriate to customer needs. Between a half (55%) and two thirds (65%), depending on the sample size, said that the improvements were appropriate, with the 360 sample size saying they were more appropriate than the 140 sample.

For around two thirds of respondents the proposed level of improvements were sufficient whilst for just over a quarter of respondents (27%) there was a potential appetite for additional improvements though these would depend on the extent of any bill increases.

The vast majority of respondents, regardless of the sample size, indicated that no other service level improvements were required from Severn Trent Water's proposed water and sewerage service packages. A thorough analysis of possible further improvements are provided within the main report.

There was less support for the specific additional improvements respondents were asked about (ie further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents). However, although not as supportive as for the first set of improvements, respondents were still quite in favour of the additional improvements, with those from the sample shown the efficiency savings that would result in a cap in their increase being more positive than those from the sample that were not. This indicates that the currently proposed DBP falls within the financial 'comfort zone' applied by many customers.

Business Headlines

Overall, business customers were reasonably satisfied with the service they receive from STW, with just over two thirds (67%) saying they were fairly or very satisfied.

Business customers provided less positive value for money ratings for the current level of service than domestic customers. It is noticeable that value for money ratings improved in relation to the proposed water and sewerage improvements from 2010-2015.

Businesses supported some of the water supply improvements more than others. Leakage reduction was the most strongly supported improvement followed by interruptions to supply. Least supported was the reduction in taste and odour complaints.

Business customers were less supportive of waste water improvements than water supply improvements and were considerably less supportive than consumers about the package of investment for sewerage.

As with consumers, the vast majority of businesses indicated that no other service improvements were required from Severn Trent Water's proposed water and sewerage service packages.

Business customers were also asked whether they were in favour of any further improvements to the attributes already mentioned. The same four specific additional improvements were explored – further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents. A very similar pattern emerges to consumers where there is diminishing support for the additional improvements, to the extent that businesses were not in favour of some of them. This indicates that the DBP is probably pushing businesses to the limit of their preparedness to provide investment support over the regulatory five year period.

Stakeholder Headlines

Stakeholders hold mixed views about how satisfied they are with Severn Trent Water. The main reason for people saying that they were satisfied was the reliable service and the overall lack of any problems, especially interruptions to the water supply. The main reason for dissatisfaction amongst stakeholders was that the service was perceived as too expensive. Indeed, 10 of the 31 stakeholders thought that STW provided fairly or very good value for money, 15 were ambivalent in their views and six said that STW provided fairly poor value for money.

Overall, stakeholders felt that a £2.65 increase in customer bills for the improvements that would be made represented value for money. In total, 25 respondents said that it was fairly or very good value for money with only one person saying it was poor value for money.

On the whole stakeholders supported the water supply improvements being put forward by STW as part of its draft business plan. Reducing leakage and ensuring customer supplies were not at risk due to the effects of severe flooding gained the most support. The one area where support was weaker was the improvements to taste and smell as stakeholders thought that this was either not a particularly significant issue or that, because the problem did not affect their area, it was not that important.

As with business customers, stakeholders were slightly less favourable towards waste water improvements than the water supply ones. Stakeholders still supported the improvements, however, with strongest support being given to the reduction of pollution incidents and reducing the number of properties experiencing internal sewer flooding.

For the additional improvements beyond the DBP, there is a very similar pattern to consumers and business customers where there is diminishing support, although stakeholders were still in overall support of the additional improvements.

1. INTRODUCTION

1.1 Background and Objectives

Severn Trent Water has drawn up its draft business plan for the next quinquennium in which it is seeking to increase bills by around 1% between 2010 and 2015. STW's proposed plan takes into account a programme of improvements which it considers to be necessary and feels is supported by its customers.

The planned capital expenditure for AMP5 is primarily in the following areas:

- network resilience
- increased maintenance
- increased supply capacity
- meeting new sewage treatment standards
- reducing sewer flooding.

As part of the ongoing consultation process STW wished to undertake further research with the main objective of achieving stakeholder support for its proposed business plan, both in terms of its planned bill increases and the planned programme of improvements outlined above.

Following discussions with the client, Accent identified that Severn Trent Water required both qualitative and quantitative methodologies for domestic and business customers. For domestic customers we recommended focus groups and hall tests. This report relates to the quantitative element of the study, ie the hall tests.

2. METHODOLOGY

2.1 Introduction

Accent recommended carrying out a rigorous quantitative phase that was robust and able to stand up to external scrutiny from the various key third parties. For the residential component of this research Accent recommended conducting face-to-face consumer interviews in a hall test setting.

2.2 Consumer Hall Tests

Accent carried out 500 hall test interviews with domestic customers using computer aided personal interviewing (CAPI). This methodology had the following advantages:

- answers given earlier in the questionnaire (for example, bill size) could be fed into later questions
- routings were automatically followed, simplifying the interviewer's task and eliminating potential error
- as the need for a separate coding and data entry phase is eliminated, the timescale was reduced and the accuracy of the data is improved.

The final questionnaire was submitted to Severn Trent Water for approval prior to being used. The questionnaire was an average of 20 minutes in duration and was administered by PDA. All respondents were offered an incentive of £3 to thank them for their time. Allowance was also made for the inclusion of five open-ended questions in order to really tease out the opinions of residential customers.

The 500 hall test interviews were carried out throughout STW's area, which takes in 9 counties. At least one hall day was carried out in each county as shown in Table 1 below.

Table 1: The recommended and achieved number of interviews by county

Area	Location	Recommended number of interviews	Achieved number of interviews
Derbyshire	Derby	35	35
	Matlock	35	37
Leicestershire	Leicester	40	34
Nottinghamshire	Nottingham	35	40
	Newark	35	34
Shropshire	Shrewsbury	35	36
Staffordshire	Stoke	35	35
Warwickshire	Warwick	35	35
West Midlands (Met. County)	Birmingham	40	40
	Coventry	35	35
	Solihull	35	35
Worcestershire	Malvern	35	34
	Worcester	35	35
Gloucestershire	Gloucester	35	35
TOTAL		**500**	**500**

Quota Controls and Show Material

Accent was required to obtain a representative sample of Severn Trent Water customers across SEG, age and gender. Hence the following quotas were stipulated.

Table 2: The recommended and achieved quotas

Quota		Recommended % of interviews	Achieved % of interviews
Sex:	Male	49	47
	Female	51	53
Age:	18-29	18	16
	30-44	28	27
	45-59	27	26
	60+	27	31
SEG:	AB	20	21
	C1	27	30
	C2	17	17
	DE	36	32

Respondents were excluded from participating in this research if they:

- had family members who worked in market research, journalism, PR or the water industry
- received only water or sewage from Severn Trent Water or were unsure of which services they received from Severn Trent Water.

2.3 Fieldwork Dates

The dates of the main fieldwork were from 20 October to 5 November, 2008.

2.4 Pilot

As recommended by Accent, 30 interviews were conducted to pilot the questionnaire and test:

- the clarity and flow of the questionnaire
- the appropriateness of the language used
- the accuracy of all routings
- the interview duration
- the survey hit rate
- ease of use and understanding.

After the pilot Accent fed back the results to Severn Trent Water. These showed that the questionnaire was working well, that respondents understood what was required of them and that – with a couple of minor tweaks – the questionnaire could be utilised for the main stage.

2.5 Interviewer Assessment

All interviewers were asked to assess the level of comprehension demonstrated by the respondents when answering questions with respect to the following three areas:

- whether the respondent understood what he/she was being asked to do in the questions
- the amount of thought the respondent had put into responding
- the degree of fatigue shown by the respondent during the interview.

Each of these questions was rated on a five point scale.

It is clear from Table 3, 4 and 5 below that the vast majority of both residential and business respondents understood what was required of them in answering the questions and that they gave due consideration to the questions. It is also pleasing to note that over four fifths of respondents did not have any problems maintaining their concentration throughout the survey.

Table 3: Whether respondent understood was they were being asked in the questions by residential and business respondents

	Rating	Residential %	Business %
1	Did not understand at all	1	-
2	Did not understand very much	2	1
3	Understood a little	15	4
4	Understood a great deal	27	35
5	Understood completely	53	60
	Not stated	2	-
	Mean	**4.33**	**4.53**
	Total	**500**	**201**

Table 4: The level of thought that respondents put into responding to questions by residential and business respondents

	Rating	Residential %	Business %
1	Gave the questions no consideration	-	-
2	Gave the questions little consideration	4	5
3	Gave the questions some consideration	17	18
4	Gave the questions careful consideration	32	28
5	Gave the questions very careful consideration	45	47
	Not stated	2	-
	Mean	**4.20**	**4.16**
	Total	**500**	**201**

Table 5: The degree of fatigue shown by the respondent by residential and business respondents

	Rating	Residential %	Business %
1	Lost concentration in the later stages	-	-
2	Lessened concentration in the later stages	4	5
3	Maintained concentration with a deal of effort throughout the survey	8	11
4	Maintained concentration with some effort throughout the survey	20	19
5	Easily maintained concentration throughout the survey	66	65
	Not stated	2	-
	Mean	**4.52**	**4.42**
	Total	**500**	**201**

2.6 Data Presentation

Where relevant, the data has been presented split by two sample sizes: 140 sample and 360 sample.

The 140 sample represents those who were asked for their willingness to pay for improvements in service (based upon the cost of the improvements to Severn Trent Water) without being told the net effect that efficiency savings to the sewerage service would have on any bill increases; all of the 360 sample were asked to consider their willingness to pay for improvements (based upon the cost of the improvements to Severn Trent Water), but **were** told the net effect that efficiency savings on their sewerage service would have on any bill increases, resulting in the increases being capped at a much lower than those shown to the 140 sample size.

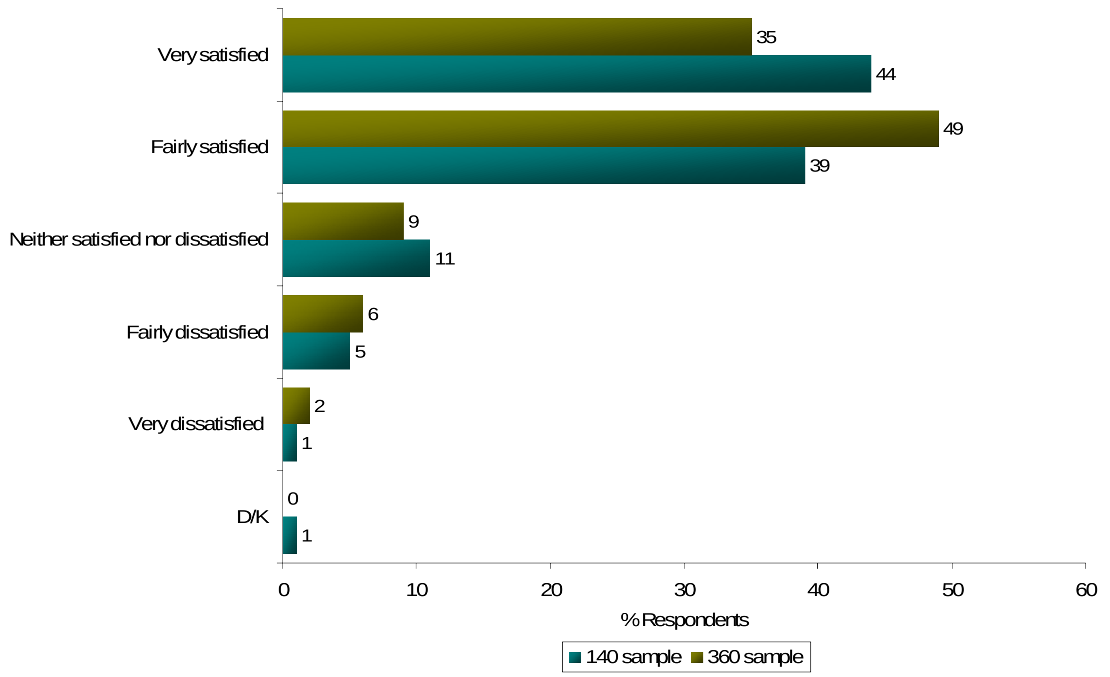
3. RESIDENTIAL FINDINGS

3.1 Satisfaction with Severn Trent Water

All residential respondents were asked to indicate on a scale from 1 to 5, where 1 meant 'very dissatisfied' and 5 meant 'very satisfied', whether or not they were satisfied or dissatisfied with the water and sewage service they received from Severn Trent Water.

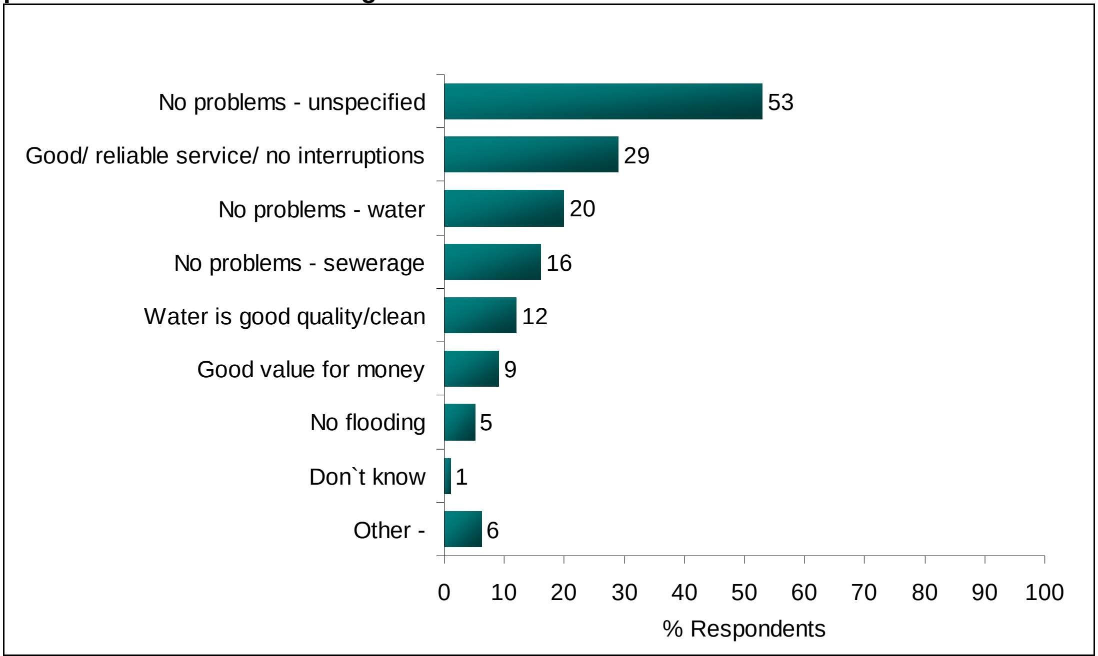
The vast majority of residential respondents, over four fifths in total, were satisfied with Severn Trent's provision of water and sewage service, as shown in Figure 1 below.

Figure 1: Satisfaction with Severn Trent Water



All residential respondents were asked to elucidate on why they were satisfied or dissatisfied with the service offered by Severn Trent Water, with respondents able to offer more than one explanation for this. Over half of the sample who were satisfied simply stated that they had not experienced any service problems (53%) and nearly three in ten respondents (29%) stated that they had a good, reliable service without interruptions. This is summarised in Figure 2 below.

Figure 2: Reasons for residential respondents' satisfaction with Severn Trent Water's provision of water and sewage services



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Only a minority of residential respondents (7%) were dissatisfied with Severn Trent Water's service, with the main mentions alluding to Severn Trent Water being perceived as expensive. The main reasons for dissatisfaction were:

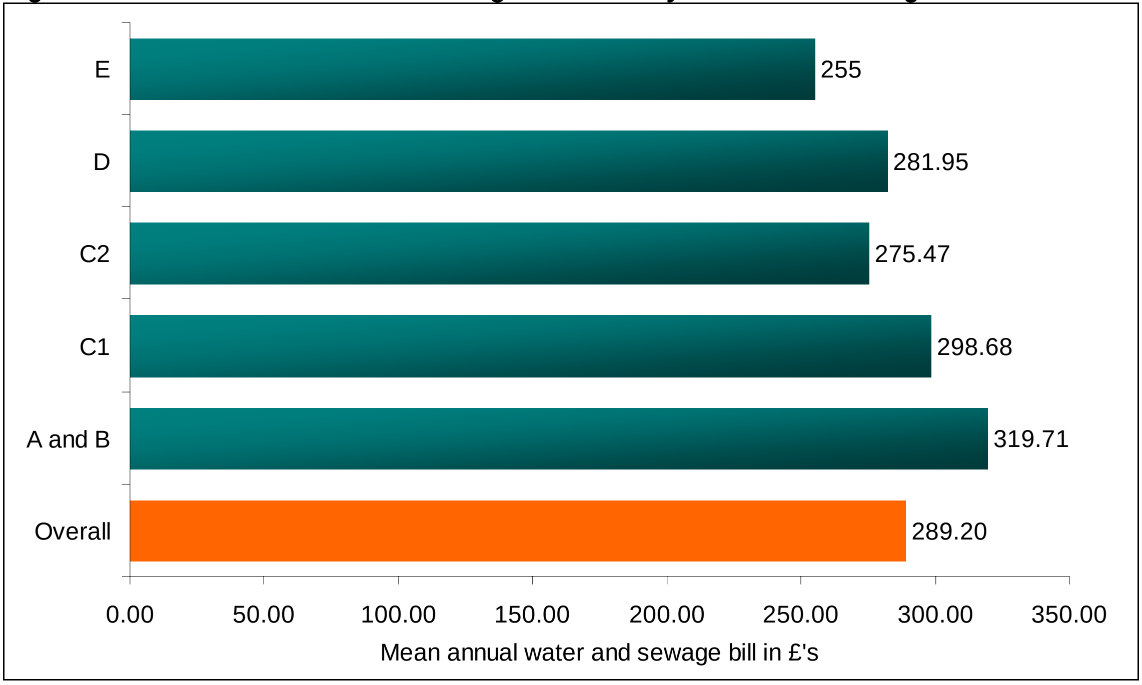
- too expensive : 16 respondents
- poor/unreliable water: 6 respondents
- prices always increasing: 4 respondents
- poor/unreliable sewage: 2 respondents
- don't know: 2 respondents
- 'other' varied comments: 12 respondents.

3.2 Level Of Annual Water and Sewerage Bill

All residential respondents were asked to indicate what their annual water and sewage bill was from Severn Trent Water.

The average residential annual water and sewage bill was nearly £290 (ie £289.20), with average bill sizes ranging from £255 for respondents from the lowest socio economic grade to £319.21 for those respondents from the highest socio economic grade, as shown in Figure 3 below.

Figure 3: Mean annual water and sewage bill in £'s by social economic grade

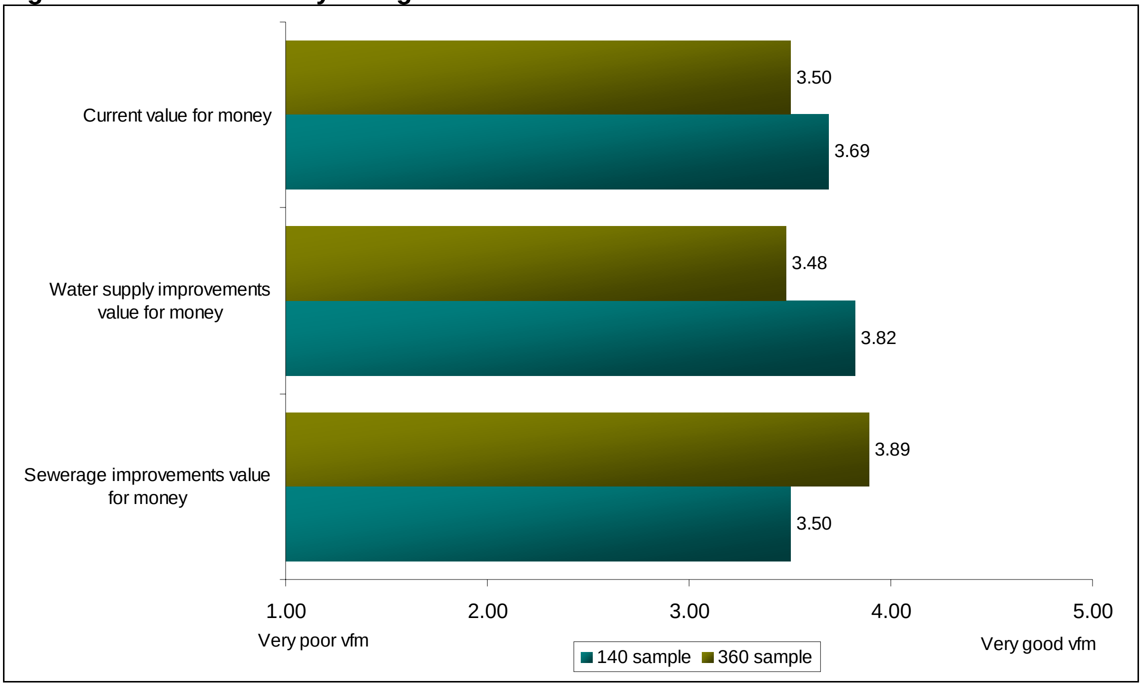


3.3 Whether Severn Trent Water Offered Value for Money

All residential respondents were asked to rate – on a scale from 1 to 5, where 1 meant 'very poor value for money' and 5 meant 'very good value for money' – their impression of the water and sewage service they received from Severn Trent Water.

Overall, respondents were quite positive in their value for money ratings, both towards the current level of service and future service improvements. It is interesting to note in Figure 4 that, despite the increase in bills (albeit small increases), the ratings stay the same or marginally improve. The other thing to note with the sewerage improvements is the stronger rating for the 360 sample size. This is as expected, as this is the sample that was shown the net effect that efficiency savings for sewerage would have on any bill increases, resulting in the increases being capped at a much lower than those shown to the 140 sample size.

Figure 4: Value for money ratings



3.4 Context For Assessment of Water Supply and Sewage Packages

As a precursor to the next series of questions, and as an aid to contextualisation, all respondents were read out the following message:

> *"Severn Trent Water is putting its final business plan together for the five years 2010-2015 and it wishes to assess what people think of the draft plan it has put to Ofwat (the water regulator). From 2010 Severn Trent Water will introduce new service levels which will help improve services in the following broad areas:*
>
> - *the continuous supply of quality water*
> - *deal effectively with waste water*
> - *respond to customers' needs*
> - *minimise the carbon footprint.*
>
> *I would now like to ask you about specific water supply improvements that STW is planning. Please look at Showcard A*
>
> *When providing your views it is important to think about the wider context. Other household bills, like gas and electricity, as well as other household goods, are likely to increase. It is also important to consider how your household income and expenses might change in that time, so please be mindful of your total financial situation when providing your views.*
>
> *Please note that there are 3.5 million households in the Severn Trent Water area."*

3.5 Attitudes Towards Water Supply Package

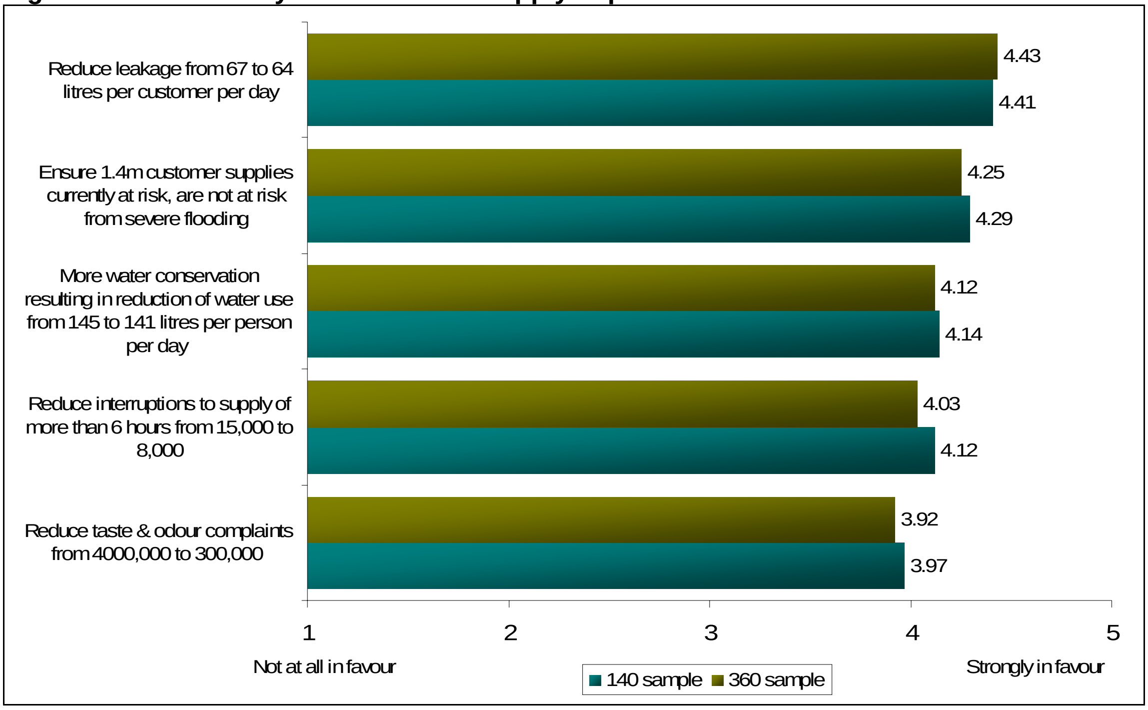
All residential respondents were asked to indicate – using a rating from 1 to 5, where 1 was 'not at all in favour of' and 5 was 'strongly in favour of' – their reactions to each of Severn Trent Water's five suggested improvements to the service levels, namely:

- reduce interruptions to supply of more than 6 hours
- reduce leakage
- encourage more water conservation by consumers
- reduce taste and odour complaints
- ensure customer supplies are not at risk from severe flooding.

Each of these water supply improvements and their accompanying bill impacts on households, can be found in Showcard A, in Appendix D.

There was a very good degree of support for each of the proposed water supply improvements, as shown in Figure 5 below. The results are very similar regardless of the sample size, but this should not be surprising as the bill impact was the same across both samples ie an increase of £8.39.

Figure 5: Favourability towards water supply improvements



The minority of residential respondents who indicated that they were not in favour of any of these service elements were asked to state why they were not in favour of them, with the consistent main belief being that Severn Trent Water should make the additional improvements without any additional charge to the customer.

For reducing interruptions to supply of more than 6 hours, 35 respondents (7%) were not in favour of this, citing the following as reasons:

- company should implement improvements without an additional charge: 10 respondents
- this does not affect me: 8 respondents
- additional charge is too expensive: 3 respondents
- company is inefficient/cannot be trusted to make improvements: 3 respondents
- don't mind interruptions/can cope with interruptions: 2 respondents
- money would be better spent elsewhere/not worth the cost: 2 respondents
- others: 4 respondents
- don't know: 3 respondents.

For the second element, namely reducing leakage, 23 respondents (5%) were not in favour of this, listing the following as their reasons why:

- company should implement improvements without an additional charge: 12 respondents
- additional charge is too expensive: 4 respondents
- this does not affect me: 3 respondents
- others: 3 respondents
- don't know: 1 respondent.

For encouraging more water conservation by consumers, 43 respondents (9%) stated that they were not in favour of this because:

- the company should implement improvements without an additional charge: 12 respondents
- the additional charge is too expensive: 5 respondents
- they are not concerned about/in favour of water conservation: 5 respondents
- this won't improve water conservation: 5 respondents
- the company should improve it's water conservation/reduce leakages: 3 respondents
- we need more information to judge potential improvement eg how would it work, costs, etc: 2 respondents
- people should conserve water anyway: 2 respondents
- people already aware of the need to conserve water: 2 respondents
- other: 7 respondents.

For reducing taste and odour complaints, 52 respondents (10%) were not in favour of this stating:

- this does not affect me: 30 respondents
- the company should implement improvements without an additional charge: 10 respondents
- the additional charge is too expensive: 4 respondents
- unnecessary - people can buy bottled water/filter tap water: 3 respondents
- other: 5 respondents.

Finally, for ensuring customer supplies are not at risk from severe flooding, 30 respondents (6%) said they were not in favour of this because:

- this does not affect me: 11 respondents
- the company should implement improvements without an additional charge : 10 respondents
- the additional charge is too expensive: 5 respondents
- this won't prevent flooding: 2 respondents
- other: 2 respondents.

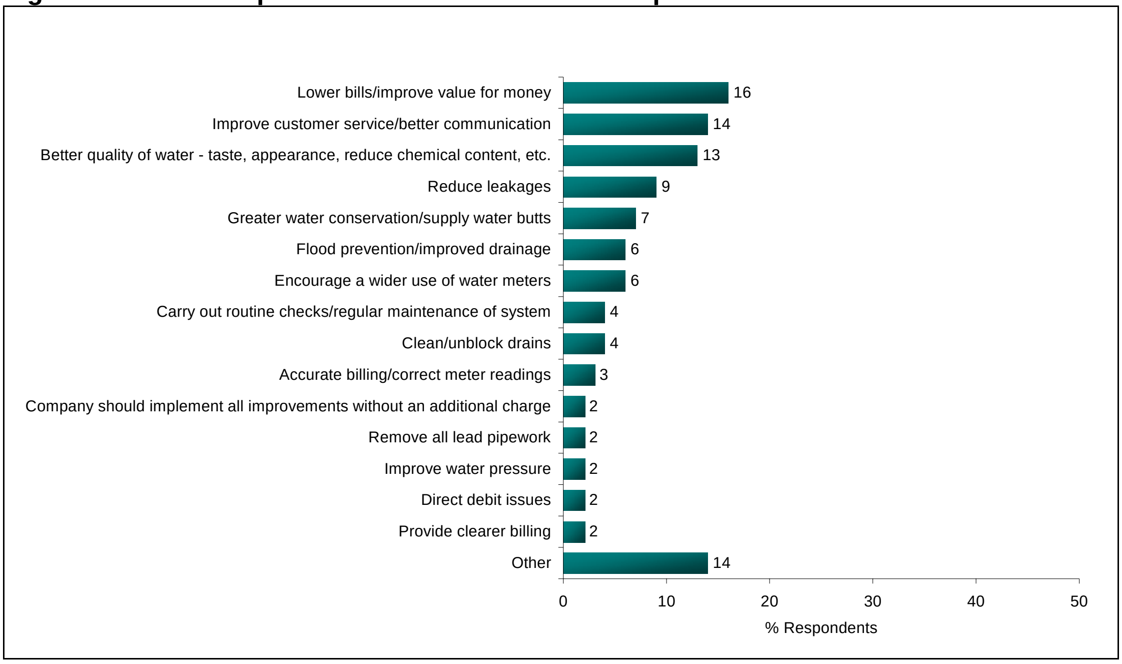
3.6 Water Supply Improvements Required

The vast majority of respondents (78%) indicated that there were not any other service level improvements excluded from Severn Trent Water's proposed water service package that they would like to see included.

All of those respondents who would like to include other service improvements to the Severn Trent Water's service package were asked to indicate what additional services they would like. They were further asked what they would be willing to pay by 2015 for these additional improvements.

Just over a fifth of residential respondents (22%) would like to see additional service improvements to the proposed water package. These improvements included lower bills/improved value for money (16%), improved customer service/better communication (14%) and better quality of water (13%), as shown in Figure 6 below.

Figure 6: Service improvements that residential respondents would like to see



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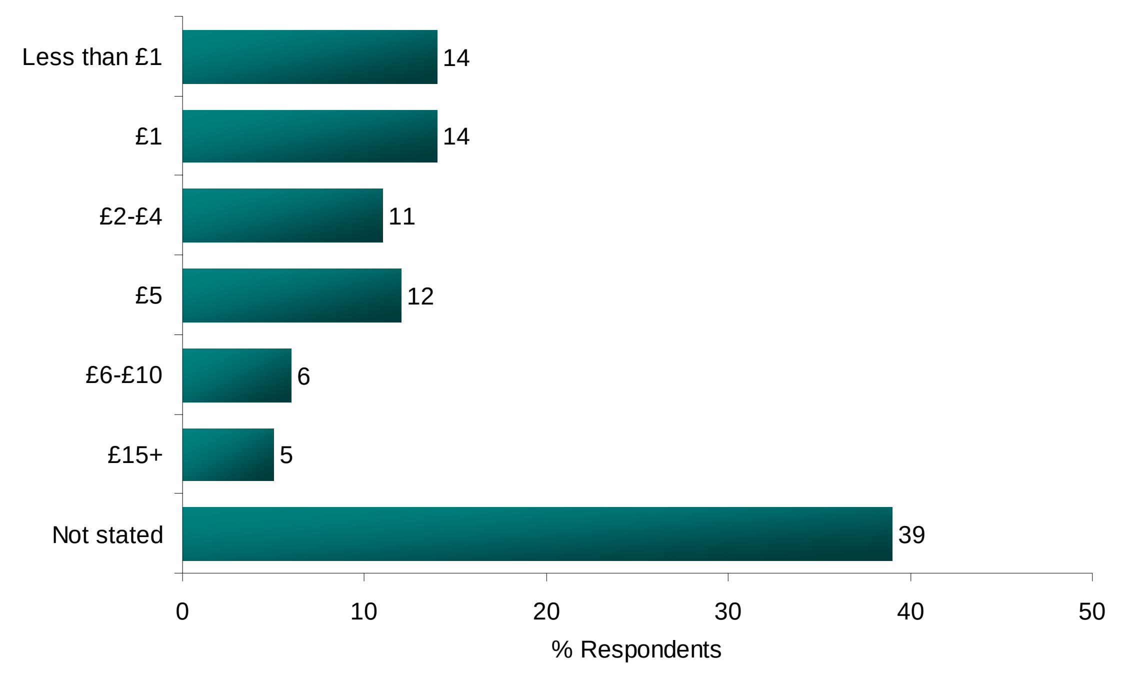
Nearly four in ten respondents did not provide an answer to how much they would be willing to pay for these additional service improvements. Of the remaining respondents, approximately half were willing to pay up to and including £5 for these additional improvements. This is summarised in Figure 7 below.

Figure 7: How much respondents would be willing to pay for further improvements



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3.7 Attitudes Towards Waste Water Package

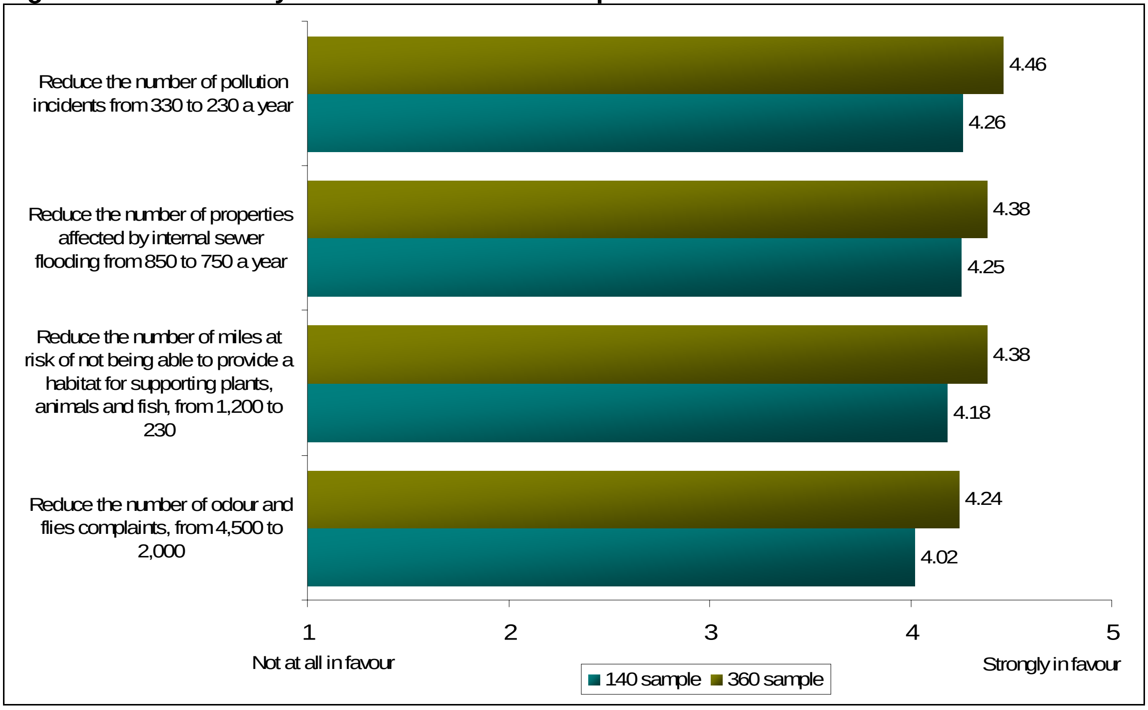
All respondents were asked to indicate – using a rating from 1 to 5, where 1 was 'not at all in favour of' and 5 was 'strongly in favour of' – their reactions to each of Severn Trent Water's four suggested improvements to their sewage service, namely:

- reduce the number of properties affected by internal sewer flooding
- reduce the number of pollution incidents by improving sewage treatment
- reduce the number of miles at risk of not being able to provide a habitat for supporting plants, animals and fish
- reduce the number of odour and flies complaints

Each of these water supply improvements and their accompanying bill impacts on households, can be seen in Showcard B, in Appendix E.

Overall, the waste water improvements were better supported than the water supply improvements, as can be seen in Figure 8. As expected, there was more support from the 360 sample, as they were told about the net effect of efficiency savings to their sewerage service which resulted in their overall bill increase being capped at a much lower level than the increases shown to the 140 sample.

Figure 8: Favourability towards waste water improvements



For the small minority of respondents who were not in favour of Severn Trent Water improving these elements, respondents typically felt that these improvements should already be included in their bill and hence should not require an additional cost. Thus, for example, for reducing the numbers of properties affected by internal sewer flooding the following responses were provided:

- should be included in cost — 8 respondents
- the improvements are not huge — 3 respondents
- not a problem locally — 2 respondents
- not stated — 5 respondents.

For reducing the numbers of pollution incidents by improving sewage treatment the following responses were provided by respondents:

- should be included in cost — 12 respondents
- the improvements are not huge — 1 respondents
- not a problem locally — 1 respondents.

For reducing the number of miles at risk of not being able to provide a better habitat for supporting plants, animals and fish respondents stated:

- the cost is expensive/should be included in price 11 respondents
- not affected — 3 respondents
- don’t know — 2 respondents
- enough done already — 1 respondents.

Finally, with regard to reducing the number of odour and flies, little altruism was shown, as respondents said:

- not affected by it and these people choose to live there 11 respondents
- cost too high/should be included 7 respondents
- don't know 3 respondents
- there are few complaints 1 respondent.

3.8 Waste Water Improvements Required

All residential respondents were asked whether there were any further service improvements not included in Severn Trent Water's proposed sewage service package that they would like to see. Again the vast majority of respondents (91%) stated that there were no further service improvements they would like to see included. This means that out of these residential respondents forty four respondents would like to see additional sewage services including:

- lower bills/improved value for money 5 respondents
- improved maintenance of sewage system 5 respondents
- that no property should be at risk of internal sewerage flooding 2 respondents
- reduced leakages 4 respondents
- replacement of all old pipework 3 respondents
- cleaned/unblocked drains 9 respondents
- reduced flooding/introduction of flood prevention provisions 5 respondents
- improved efficiency 2 respondents
- preventing environmental damage 2 respondents
- company implementing all improvements without additional charge 3 respondents
- other 6 respondents.

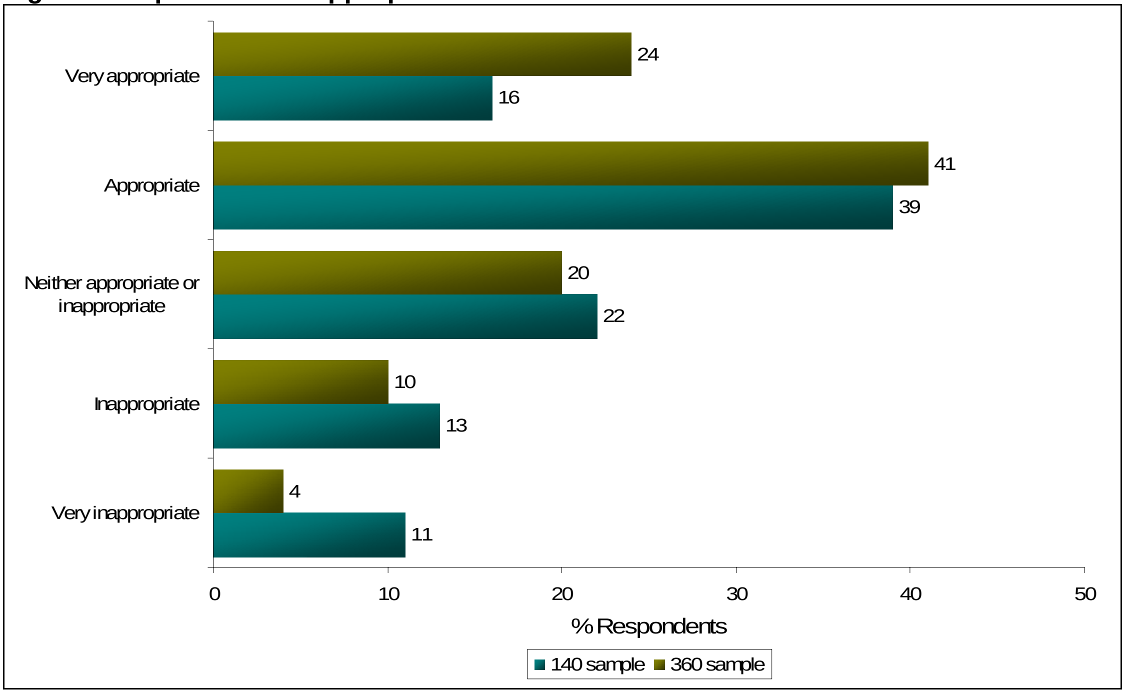
In terms of how much these respondents would be prepared to pay on top of their current bill by 2015 for these improvements, the average amount was £5.19, with amounts ranging from 5 pence to £20. However, 20 out of these 44 respondents did not provide an indication of how much they would be prepared to pay, as summarised below:

- 5 pence: 1 respondent
- 10 pence: 2 respondents
- 20 pence: 1 respondent
- 25 pence: 1 respondent
- 80 pence: 1 respondent
- £1: 3 respondents
- £2: 1 respondent
- £3: 1 respondent
- £5: 7 respondents
- £10: 4 respondents
- £20: 2 respondents
- not stated: 20respondents.

3.9 Appropriateness of DBP

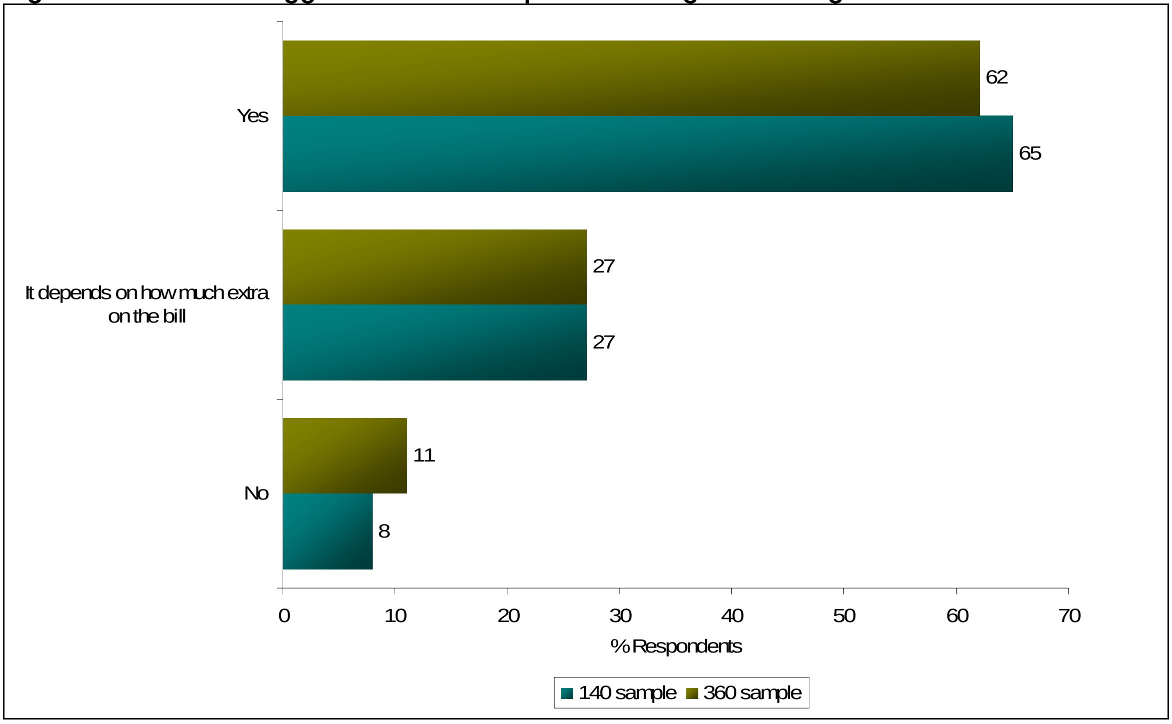
Respondents were also asked to indicate the extent to which they thought the improvements provided in the draft business plan were appropriate to customer needs. Between a half (55%) and two thirds (65%), depending on the sample, said that the improvements were appropriate, with the 360 sample size saying they were more appropriate than the 140 sample (again, no doubt due to them having been made aware of the net impact of the efficiency savings on their overall bill increase).

Figure 9: Improvements appropriate to customer needs



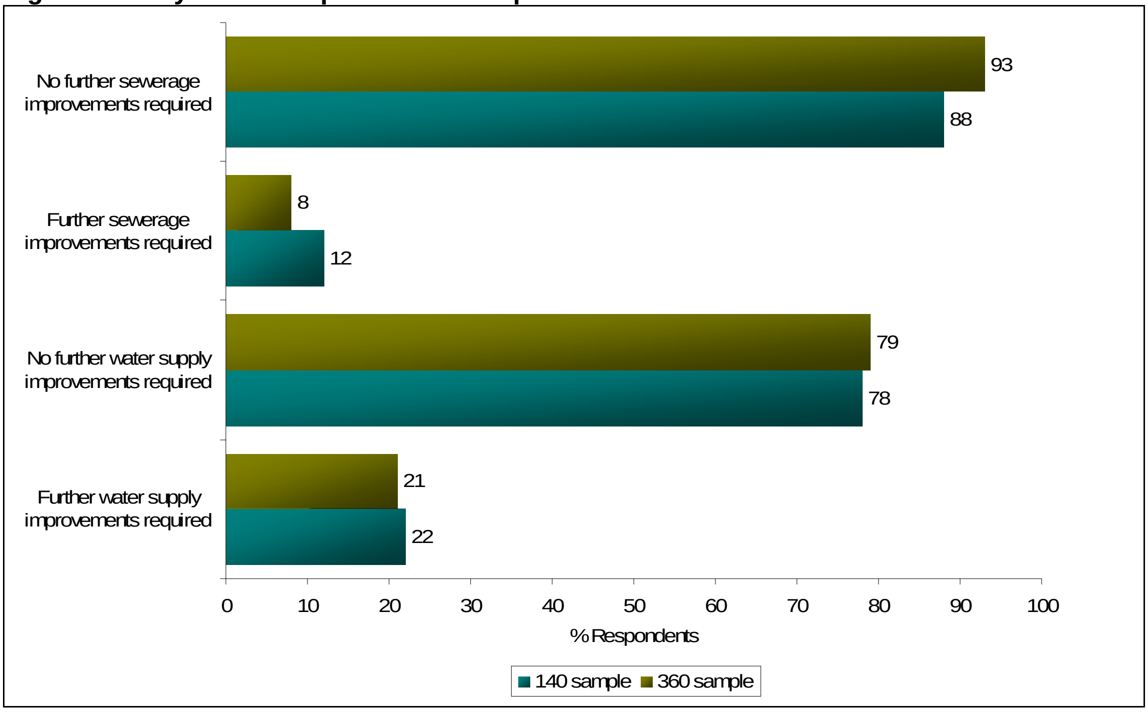
All respondents were asked whether these improvements went far enough, bearing in mind that any more improvements would be likely to result in further bill increases. For around two thirds of respondents the proposed level of improvements were sufficient, whilst for just over a quarter of respondents (27%) any additional improvements would depend on the extent of any bill increases, as shown in Figure 10.

Figure 10: Whether suggested service improvements go far enough



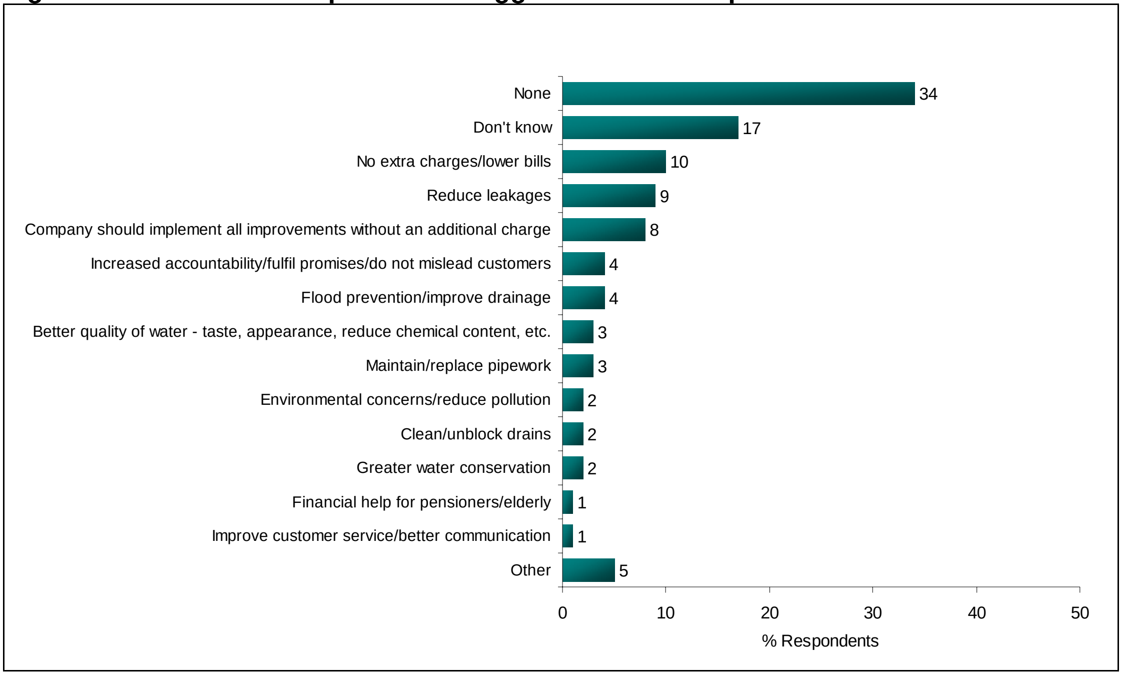
The vast majority of respondents, regardless of the sample, indicated that no other service level improvements were required to Severn Trent Water's proposed water and sewerage service packages, as shown in Figure 11.

Figure 11: Any further improvements required?



All respondents who wished to see further improvements were asked to indicate what further improvements they would like. A third of respondents said none, and a further sixth said don't know (17%). The main suggestions here were no extra charges/lower bills (10%), reduced leakages (9%) and the company should implement all improvements without an additional charge (8%), as shown in Figure 12 below.

Figure 12: Residential respondents' suggested further improvements

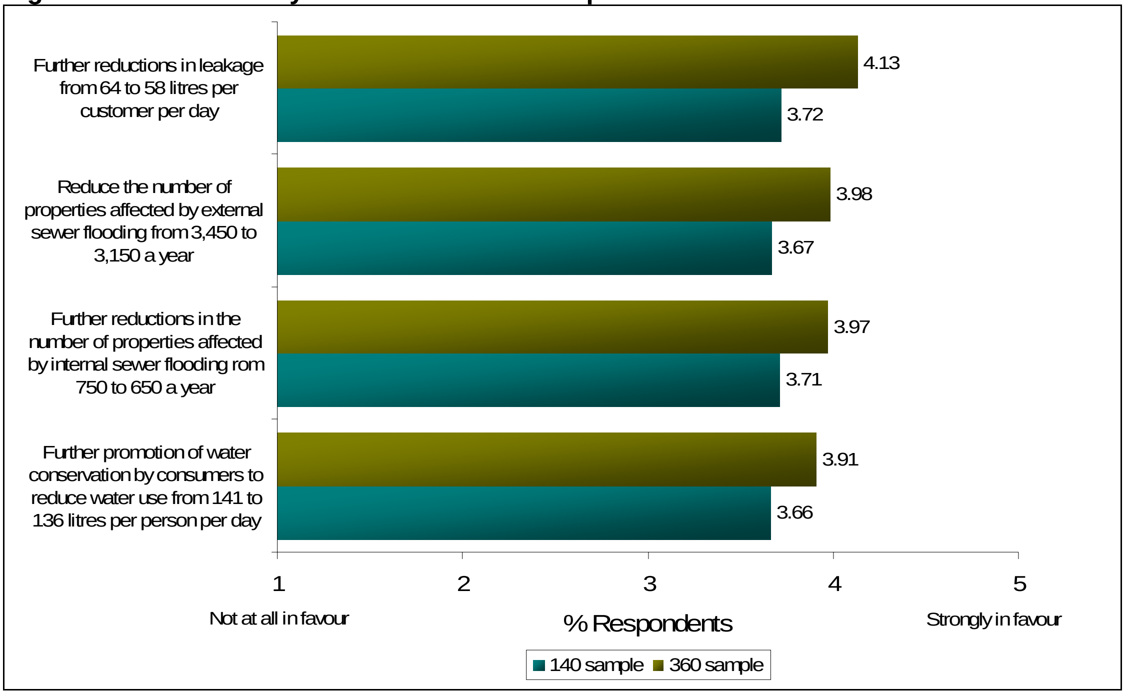


Subsequent questions were then asked to understand whether any further improvements could be made to some of the attributes already explored with respondents, which would result in just less than £4 extra a year on top of the £2.65 that had already been discussed with the 360 sample and the maximum of £12.74 that had been discussed with the 140 sample.

The specific additional improvements comprised further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents. Each of these water supply improvements and their accompanying bill impacts on households, can be found in Showcard C, in Appendix F.

Although not as supportive as for the first set of improvements, respondents were still quite in favour of the additional improvements, with those in the 360 sample being more positive than the 140 sample due to the aforementioned reasons. This suggests that the currently proposed DBP falls within the financial 'comfort zone' of most customers.

Figure 13: Favourability towards additional improvements



The reasons given by 33 respondents (7%) for not being in favour of further reductions in leakages were:

- the additional charge is too expensive: 18 respondents
- the company should implement improvements without an additional charge: 22 respondents
- further improvements are unnecessary/previous suggested improvements are sufficient: 3 respondents
- this does not affect me: 2 respondents
- the improvements are not cost effective: 2 respondents
- other: 8 respondents.

The reasons provided by 67 respondents (13%) for not being in favour of further promotion of water conservation by consumers were:

- the additional charge is too expensive: 15 respondents
- the company should implement improvements without an additional charge: 22 respondents
- unconvinced by its potential effectiveness: 7 respondents
- the conservation of water is not needed: 7 respondents
- further improvements are unnecessary/previous suggested improvements are sufficient: 6 respondents
- the conservation of water is a personal choice/responsibility: 3 respondents
- I'm already aware of conservation issues: 2 respondents
- the company should improve it's water conservation/reduce leakages: 3 respondents
- other: 2 respondents

For the further reduction in the number of properties affected by internal sewage flooding, 51 respondents (10%) were not in favour of this improvement citing the following as their reason:

- the company should implement improvements without an additional charge: 20 respondents
- the additional charge is too expensive: 13 respondents
- this does not affect me: 7 respondents
- the further improvements are unnecessary/previous suggested improvements are sufficient: 5 respondents
- the improvements are not cost effective: 2 respondents
- other: 4 respondents.

Finally, regarding the number of properties affected by external sewer flooding, 53 respondents (11%) were not in favour of this improvements stating:

- the additional charge is too expensive: 17 respondents
- the company should implement improvements without an additional charge: 19 respondents
- this does not affect me: 5 respondents
- further improvements are unnecessary/previous suggested improvements are sufficient: 2 respondents
- improvements are not cost effective: 6 respondents
- other: 4 respondents.

4. BUSINESS RESEARCH

4.1 Introduction

Accent also conducted 200 interviews with a representative sample of businesses across the Severn Trent Water region. It was recommended that these interviews be conducted by telephone for the following reasons.

- business respondents are busy people and a market research interview is unlikely to be a priority for them. If another meeting arises, for example, they are likely to cancel or abandon the interview at very short notice and this can increase costs

- appointments for a telephone interview are much more easily re-scheduled to be convenient for respondents, with very little impact on costs and on their schedule.

In addition, a telephone methodology has the following advantages:

- better response rates are achieved and there is less bias
- using the latest CATI technology enables a much shorter timescale for interviewing
- calls can be recorded for quality purposes, if required
- quota controls can be more effectively monitored.

The dates of the main fieldwork were from 3rd to 14th November, 2008.

4.2 Sample Characteristics

The breakdown of the sample is shown in Table 6. The average bill size of the business customers taking part in the research was £46,728.

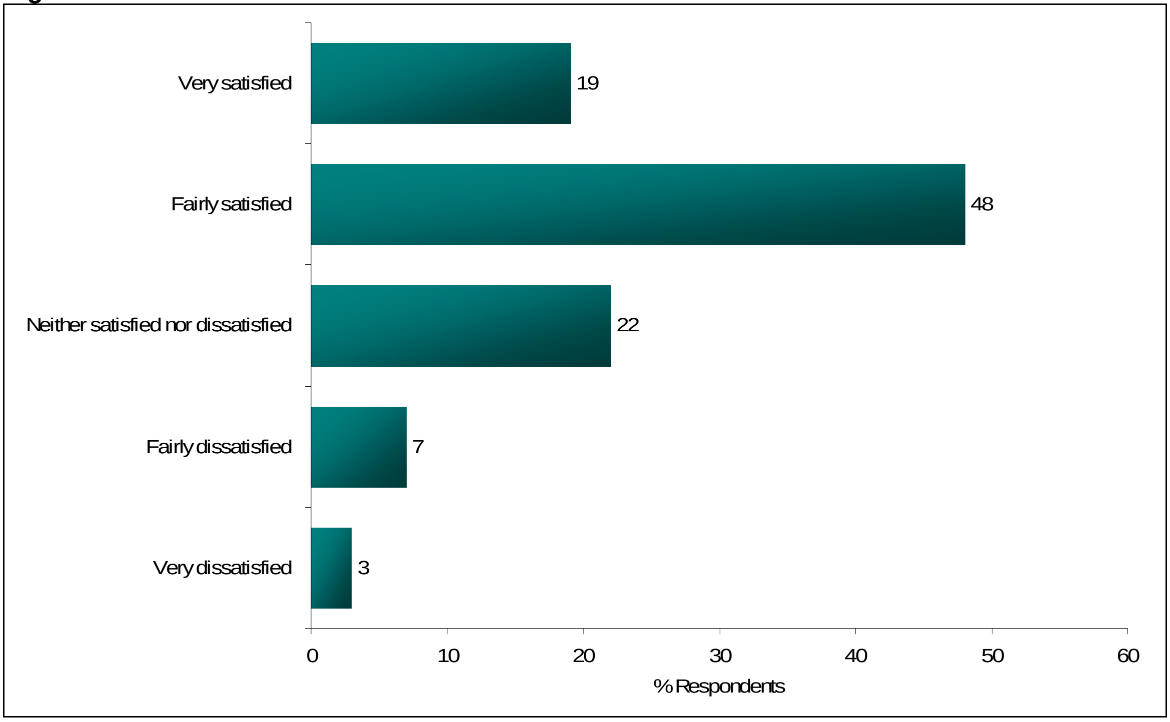
Table 6: Sample characteristics

Bill Size	%	n
Less than £2,000	30	60
£2,000 - £15,000	26	52
£15,000 - £65,000	24	49
Over £65,000	20	40
Business Sector		
Manufacturing	28	57
Public Services (health, education etc)	20	40
Food and drink	11	22
Retail	5	11
Agriculture	5	11
Wholesale	5	10
Other	25	50

4.3 Business Findings

Overall, business customers were reasonably satisfied with Severn Trent Water, with just over two thirds (67%) saying they were fairly or very satisfied, as shown in Figure 7. Businesses in the £2,000-15,000 bill size were less satisfied (3.50) than the mean (3.73) and those paying STW more than £65,000 tended to be more satisfied (4.00) than the mean, however these differences are not significant.

Figure 14: Satisfaction with STW



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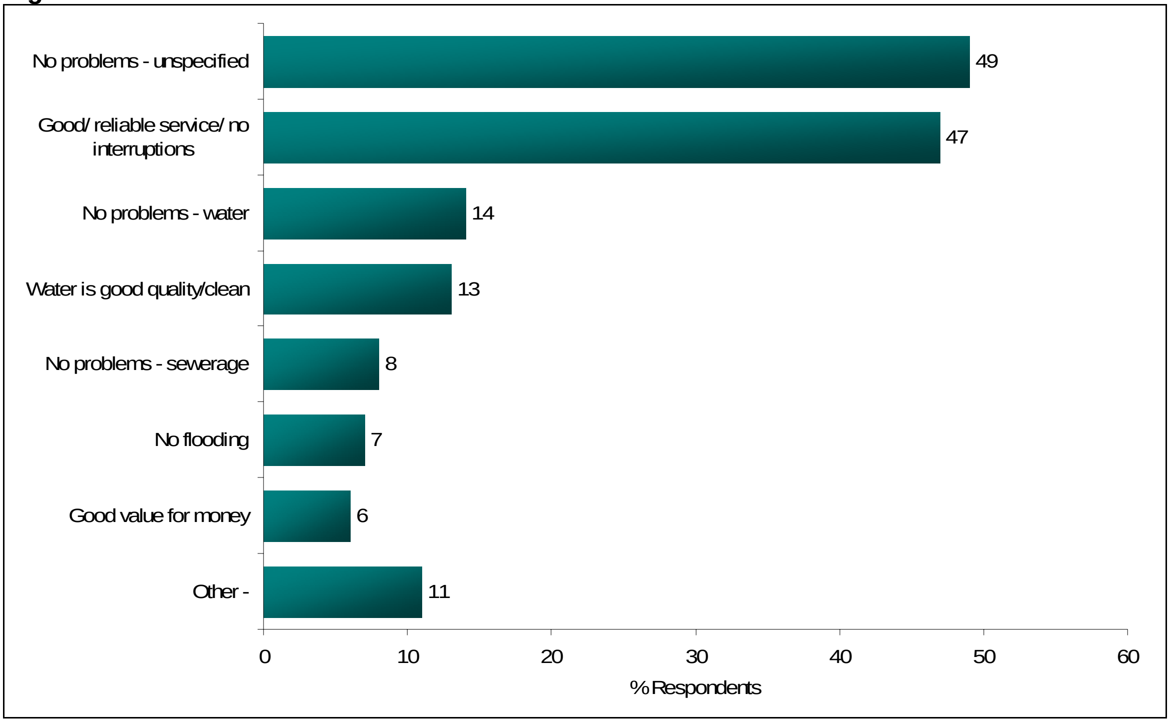
The main reasons for being satisfied with STW are shown in Figure 15. The findings show that because people do not have any problems with their water and sewerage services, and that they can rely on a good service with no interruptions, they are satisfied.

Figure 15: Reasons for satisfaction



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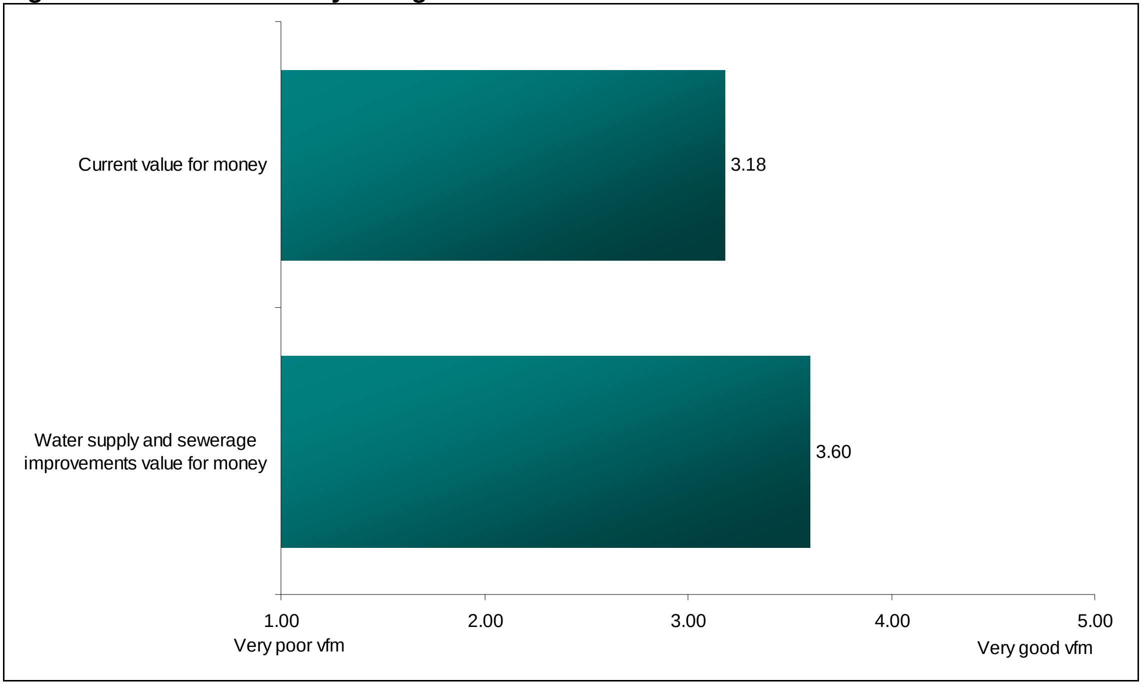
Of the 21 respondents who were dissatisfied with STW the following reasons were provided

- Too expensive 5 respondents
- Prices always increasing 5 respondents
- Generally unreliable 3 respondents
- Unreliable sewerage service 2 respondents
- Unreliable water service 1 respondents
- Other 13 respondents

Business customers provided less positive value for money ratings for the current level of service than domestic customers. It is noticeable that value for money ratings improved in relation to the proposed water and sewerage improvements from 2010-2015.

Figure 16: Value for money ratings



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4.4 Attitudes Towards Water Supply Package

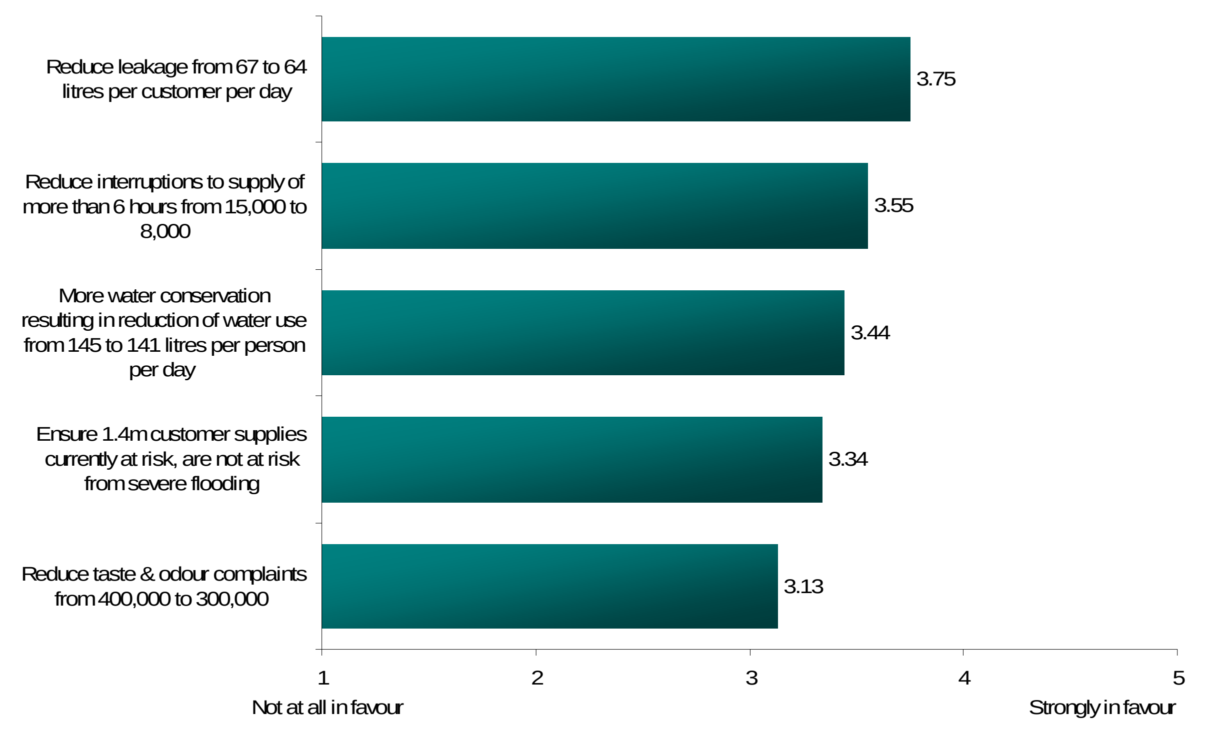
Business customers were also asked to indicate – using a rating from 1 to 5, where 1 was 'not at all in favour of' and 5 was 'strongly in favour of' – their reactions to each of Severn Trent Water's the same five suggested improvements for water supply, namely:

- reduce interruptions to supply of more than 6 hours
- reduce leakage
- encourage more water conservation by consumers
- reduce taste and odour complaints
- ensure customer supplies are not at risk from severe flooding.

Each of these water supply improvements and their accompanying bill impacts on businesses, can be found in Showcard D, in Appendix G.
Businesses supported some of the water supply improvements more than others, as shown in Figure 10. Leakage reduction was the most strongly supported improvement

followed by interruptions to supply. Least supported was the reduction in taste and odour complaints.

Figure 17: Favourability of water supply improvements



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Whilst businesses broadly supported the improvements, overall there were some variances as to which groups were more or less in favour of the improvements. Businesses paying STW less than £2,000 a year were favourable toward the improvements, while those paying STW £15,000 were less favourable. Similarly, those in the food and drink sector were more supportive of the water supply improvements, and manufacturing was less supportive.

The main reasons for businesses not supporting the proposed water supply improvements are shown in Table 7, which reveals a low level of altruism within businesses and a view that STW should be implementing these changes without passing the costs on to customers.

There were other reasons for not supporting these improvements which were specific to the actual improvement. For example, on doing more around water conservation, respondents stated that they were already conserving water and that sufficient water saving education and promotion already exists, while some were also sceptical about the potential positive effects of education and promotion of water conservation.

Similarly some businesses did not support the improvements for taste and odour because they had already taken preventative action by filtering their water.

Table 7: Reasons for not supporting water supply improvements

	Reduce leaks	Reduce interruption to supply	More water conser-vation	Ensure customer supplies are not at risk	Reduce taste & odour complaints
Company should implement improvements without additional charge %	51	22	11	8	17
This does not affect us - we do not think this is a problem %	23	49	19	62	55
Opposed to price increase - unable/unwilling to pay more %	11	10	17	13	2
Unnecessary - not a significant issue / an insignificant number are affected %	-	7	-	-	4
Company should improve its efficiency/infrastructure %	6	7	6	-	-
Bases (those not in favour)	35	41	47	53	53

Table 8 below shows the mean potential annual bill impacts of the water supply improvements across different bill size groups. Given that reducing leakage and reducing interruptions to supply have the least impact on customer bills, it is not surprising that these two improvements were the most strongly supported by business customers.

The qualitative element of the research found that businesses supported all of the improvements at a conceptual level when presented with the average percentage increase. In particular, anything to conserve water and protect customer supplies were seen as important improvements. The evidence from this phase of the study is that while reducing customer consumption and improving resilience of the water supply network are still supported by businesses, the extent of that support has been limited due to them seeing the potential bill impacts.

Table 8: Potential mean annual bill impacts of water supply improvements

	Mean	<2k	£2-15k	£15-65k	> £65k
Ensure 1.4m customer supplies currently at risk, are not at risk from severe flooding = 1.8% increase	£841	£16	£140	£671	£3,460
More water conservation resulting in reduction of water use from 145 to 141 litres per person per day = 0.4% increase	£187	£4	£31	£149	£769
Reduce taste & odour complaints from 400,000 to 300,000 = 0.3% increase	£140	£3	£23	£112	£577
Reduce interruptions to supply of more than 6 hours from 15,000 to 8,000 = 0.2% increase	£93	£2	£16	£75	£384
Reduce leakage from 67 to 64 litres per customer per day = 0.1% increase	£47	£1	£8	£37	£192
Bases	197	60	52	49	36

4.5 Attitudes Towards Waste Water Package

Businesses were asked to indicate – using a rating from 1 to 5, where 1 was 'not at all in favour of' and 5 was 'strongly in favour of' – their reactions to each of Severn Trent Water's four suggested improvements to their sewage service, namely:

- reduce the number of properties affected by internal sewer flooding
- reduce the number of pollution incidents by improving sewage treatment
- reduce the number of miles at risk of not being able to provide a habitat for supporting plants, animals and fish
- reduce the number of odour and flies complaints

Each of these water supply improvements and their accompanying bill impacts on businesses, can be found in Showcard E, in Appendix H

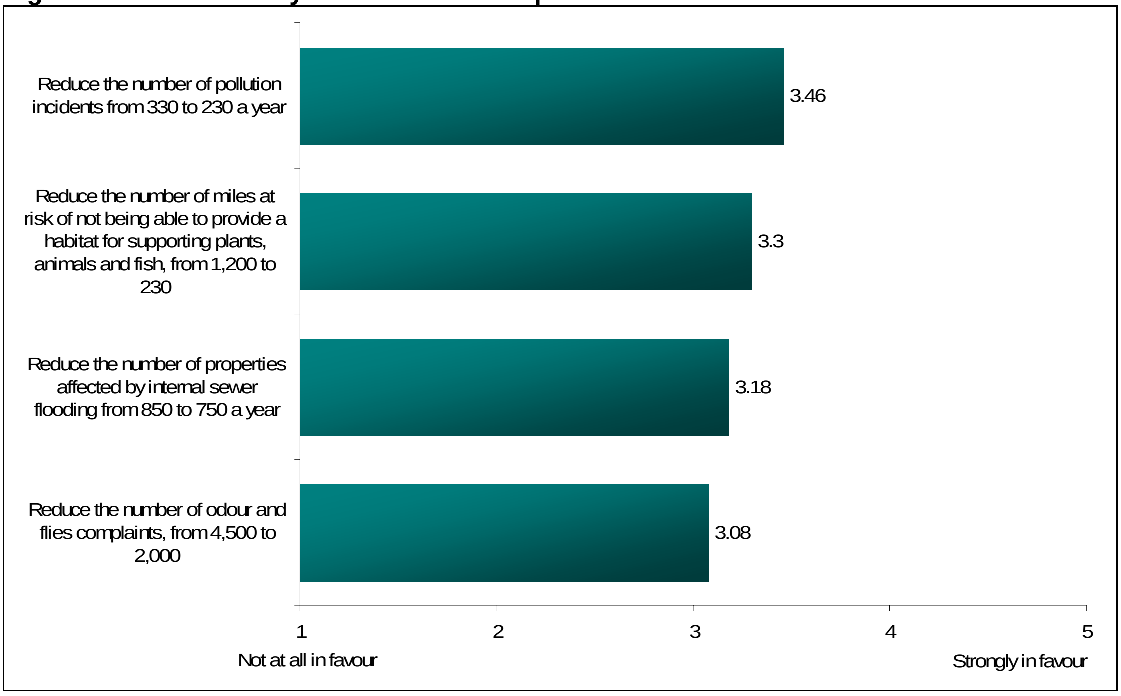
.

Business customers, as seen in Figure 18, were less supportive of waste water improvements than water supply improvements, and were considerably less supportive than consumers about the package of investment for sewerage. But the fact they were still supported to some degree by business customers backs up the earlier findings from the qualitative research.

As with the water supply improvements, the same findings emerged by bill size, with those paying less than £2,000 to STW being most supportive of the waster water improvements. It was really only the large business customers, paying more than £65,000 to STW, who were less supportive.

In terms of business sector, the position is slightly different, as it is the retail sector (cf food and drink for water supply) that was most supportive of the waste water improvements. However, the manufacturing industry is again least supportive of these improvements.

Figure 18: Favourability of waste water improvements



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As with the water supply improvements, the two main reasons (as shown in Table 9) why business respondents were not in favour of the waste water part of the DBP, were that they felt STW should implement improvements without additional charge and that the problems did not affect them.

Again, there were specific reasons for businesses not being in favour of certain attributes, for instance ‘those who pollute should be held responsible’ was one such reason for not supporting reducing pollution incidents, whilst on river water quality some said that they were ‘in favour of environmental improvement but that the additional charge is too expensive’.

Table 9: Reasons for not supporting waste water improvements

	Reduce pollution incidents	Improve river water quality	Reduce internal sewer flooding incidents	Reduce no. of odour & flies complaints
Company should implement improvements without additional charge %	52	19	16	22
This does not affect us - we do not think this is a problem %	18	12	53	55
Opposed to price increase - unable/unwilling to pay more %	9	10	7	7
Not cost effective - insignificant improvements when compared to cost %	9	2	15	2
Unnecessary - not a significant issue / an insignificant number are affected %	-	4	-	10
Bases (those not in favour)	44	52	55	58

Table 10 below shows the potential annual bill impact of the waste water improvements across different bill size groups. It is perhaps surprising given the cost, and the evidence from the qualitative work, where river ecology was the one aspect where customers were unsure of the value they would receive for what was seen as a disproportionate bill increase, that this attribute was as well supported as it was (see Figure 18 above).

On the evidence provided here, it may be a little surprising that odour and fly complaints was least favoured of the waste water improvements given that it had the lowest bill impact. This points to it not being an issue to them, which is supported in Table 9.

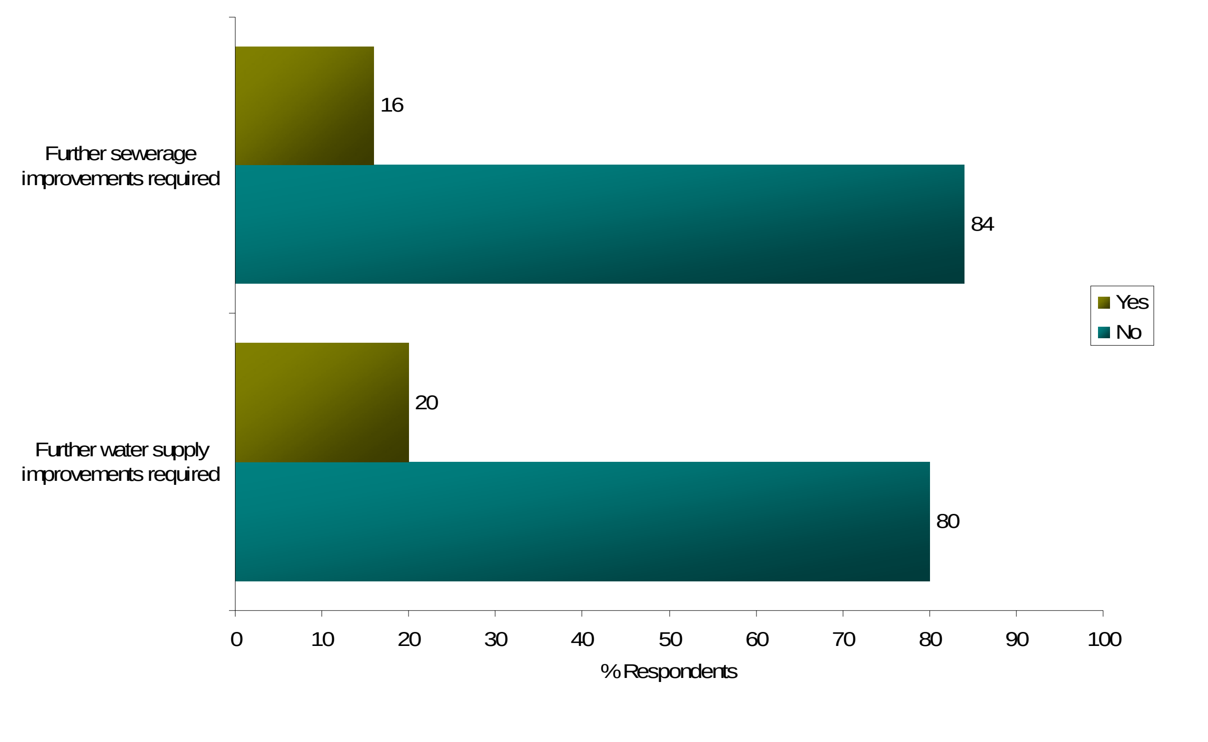
Table 10: Potential mean annual bill impacts of water supply improvements

	Mean	<2k	£2-15k	£15-65k	> £65k
Reduce the number of miles of river which are not able to provide a habitat - from 1,200 miles to 230 miles	£2,336	£46	£390	£1,863	£9,610
Reduce the number of properties experiencing internal sewer flooding from 850 to 750 properties per year	£280	£5	£47	£224	£1,153
Reduce the number of number of pollution incidents from sewers and/or sewage treatment works from 330 to 230 a year	£140	£3	£23	£112	£577
Reduce the number of complaints about odour and flies from sewage treatment works from 4,500 to 2,000	£93	£2	£16	£75	£384
Bases	197	60	52	49	36

4.6 Additional Improvements

As with consumers, the vast majority of businesses indicated that no other service improvements were required from Severn Trent Water's proposed water and sewerage service packages.

Figure 19: Any further improvements required?



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For those businesses who thought that STW could make further water supply improvements, suggestions included the following:

- Improved billing/administration 9 respondents
- More efficient customer service 7 respondents
- Better quality water (limescale, chemical content) 6 respondents
- Greater water conservation/recycling 5 respondents
- Reduce costs/charges 2 respondents

For those businesses who thought that STW could make further waste water improvements, suggestions included the following:

- Company should improve its efficiency/infrastructure 7 respondents
- Cost/provide value for money 4 respondents
- More accurate billing / improved billing procedure 4 respondents
- Reduce the risk of sewer flooding 3 respondents
- Increase the capacity of the sewerage system 2 respondents
- Rebates for those who improve their own sewerage system 2 respondents.

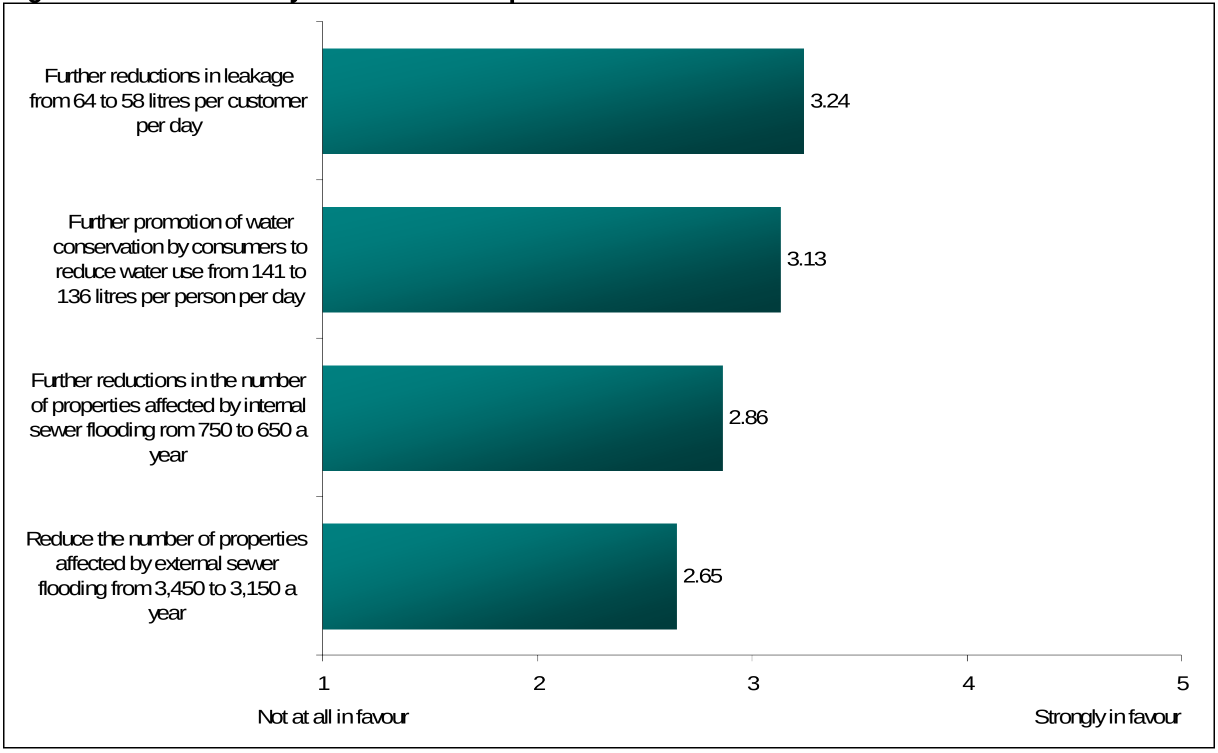
Business customers were also asked whether they were in favour of any further improvements to the attributes already mentioned. The same four specific additional improvements were explored – further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents. Each of these improvements along with their associated bill impacts for businesses can be found as part Showcard G in Appendix I.

A very similar pattern emerges to consumers, where there is diminishing support for the additional improvements, to the extent that businesses were not in favour of some of them, as indicated in Figure 20. This indicates that the DBP is probably pushing businesses to the limit of their preparedness to provide investment support over the regulatory five year period.

Within the above context it is worth noting which groups of customers were more or less in favour of these additional improvements. Once again it is those customers with a bill size of less than £2,000 that are more in favour, and the those with a bill size over £65,000 that are less in favour odf the improvements.

In terms of business sector, those in wholesale are not in favour of any of the additional improvements, while the agricultural sector lends the most support to the sewer flooding improvements.

Figure 20: Favourability of additional improvements



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5. STAKEHOLDERS

5.1 Introduction

In addition to residential and business customers being consulted on the DBP, there were also 31 stakeholders who were also consulted. These interviews were conducted by senior Accent telephone interviewers and the breakdown of the stakeholders who took part in the research is as follows:

- Local councillors 15
- Environmental groups 6
- MPs 4
- Government or consumer body 4
- Other 2

5.2 General Perceptions

Stakeholders hold mixed views about how satisfied they are with Severn Trent Water. This is evident by the spread of perceptions as follows:

- Fairly/very dissatisfied 7 respondents
- Neither satisfied or dissatisfied 5 respondents
- Fairly/very satisfied 16 respondents
- Don't know 2 respondents.

Of the seven stakeholders that were dissatisfied with STW, five were local councillors. The main reason for dissatisfaction amongst stakeholders was that the service was perceived as too expensive. Other reasons mentioned as a source of dissatisfaction were the amount of water wasted through leaks, sewer flooding and a perceived unwillingness to adopt unadopted sewers.

The main reason for stakeholders saying that they were satisfied, was the reliable service and the overall lack of any problems, especially interruptions to the water supply.

On a less positive note, only 10 of the 31 stakeholders thought that STW provided fairly or very good value for money, 15 were ambivalent in their views and six said that STW provided fairly poor value for money. Again it was local councillors who, in the main, held negative views here, with four of them (out of six in total) saying that STW provided poor value for money.

Overall, stakeholders felt that a £2.65 increase in customer bills for the improvements that would be made represented value for money. Indeed, 25 stakeholders said that it was fairly or very good value for money, with only one person saying it was poor value for money.

5.3 Attitudes Towards Water Supply Improvements

On the whole stakeholders supported the water supply improvements being put forward by STW as part of its draft business plan. Reducing leakage and ensuring customer supplies were not at risk due to the effects of severe flooding gained the most support. The one area where support was weaker, was the improvements to taste and smell, as stakeholders thought that this was either not a particularly significant issue, or that because the problem did not affect their area, it was not that important.

One group of stakeholders who were – for the most part – not in favour of the water supply improvements, were the local councillors. Of the 24 occasions where stakeholders were not in favour of the improvements, 20 of those were local councillors. It is worth noting as a general point, that the main reason put forward by stakeholders for not being in favour of any of the improvements was that ‘the company should implement the improvements without an additional charge’.

Table 11 – Favourability of water supply improvements

	Quite/Strongly in favour (n)	Not at all/Not really in favour (n)
1.4 million customers` water supplies NOT being at risk at risk from the effects of severe flooding	26	2
Reduce leakage from 67 to 64 litres per customer per day	26	4
Help reduce usage by customers by 4 litres per person per day from 145 to 141 litres per customer per day	23	4
Reduce number of customers experiencing a supply interruption from 15,000 to 8,000	21	5
Reduce the number of customers finding the taste & smell of their tap water unacceptable from 400,000 to 300,000	17	9

Of the 31 stakeholders, there were 19 who said that no further improvements were required as part of the investment in to water supply. The remaining 12, of whom five were local councillors, three were from government bodies, two were MPs and two were from environmental groups, said that further improvements were required as follows:

- Improved environmental awareness (reduce CO_2, wildlife protection etc) 4
- Improved maintenance/pipe work replacement 2
- More proactive on water meter introduction 2
- Reduce costs 2
- Other 2

When asked how much extra households might be willing to pay on an annual basis for these additions, the following amounts were mentioned:

- Zero 3 respondents
- £1 a year 4 respondents
- £2 a year 3 respondents
- £20 a year 1 respondents
- £50 a year 1 respondents.

There was no particular pattern to emerge from stakeholders as to the amount that customers might be willing to pay for the additional improvements.

5.4 Attitudes Towards Waste Water Improvements

As with business customers, stakeholders were slightly less favourable towards waste water improvements than water supply improvements. Stakeholders still supported the improvements however, with strongest support being given to the reduction of pollution incidents and reducing the number of properties experiencing internal sewer flooding.

Table 12 – Favourability of waste water improvements

	Quite/Strongly in favour (n)	Not at all/Not really in favour (n)
Reduce the number of pollution incidents from 330 to 230 a year	26	4
Reduce the number of properties experiencing internal sewer flooding from 850 to 750	24	5
Reduce the number of miles of river which are not able to provide a habitat for a good range of plants & animals nor support salmon and trout - from 1,200 miles to 230 miles	19	10
Reduce the number of complaints about odour and flies from sewage treatment works from 4,500 to 2,000	18	10

As with the water supply improvements, it is the local councillors who are least supportive of these improvements; of the 29 times where stakeholders were not in favour of the improvements, 25 of those were local councillors.

The main reason for not supporting the waste water improvements was similar to that on water supply, that is 'the company should implement the improvements without an additional charge'. Other reasons provided were that the improvements 'were not cost effective' ie insignificant improvements when compared to cost, and that they were unnecessary as the issue was not perceived to affect too many people.

In the case of improvements to river water quality, there were three stakeholders who supported the improvements in principle, but who thought the additional charge was too expensive or that Government should give more responsibility to protecting the environment.

When asked if any further improvements were required as part of the future sewerage investment, 21 stakeholders said nothing else was required. Of the ten stakeholders that said other improvements were required, of whom five were local councillors, two were MPs, two were from government bodies and one was an environmentalist, the following were mentioned:

- Increase the capacity of the sewerage system — 4 respondents
- Company should improve its efficiency/infrastructure — 2 respondents
- Reduce the risk of flooding, ie clear drains — 1 respondents
- Improve nature environment – rivers, habitats, etc — 1 respondents
- Other — 2 respondents

When asked how much extra households might be willing to pay on an annual basis for these additions, the following amounts were mentioned:

- Zero 3 respondents
- £1 a year 4 respondents
- £2 a year 1 respondents
- £10 a year 1 respondents.

5.5 Additional Improvements

As with residential and business customers, stakeholders were also asked whether they were in favour of the four additional improvements of further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents. Unsurprisingly there is a very similar pattern to consumers and business customers, where there is diminishing support for the additional improvements, although stakeholders were still in overall support of the additional improvements.

Table 13 – Favourability of further improvements

	Quite/Strongly in favour (n)	Not at all/Not really in favour (n)
Reduce leakage further by 6 litres per person per day from 64 to 58 litres per customer per day	18	6
Reduce the number of properties experiencing internal sewer flooding from 750 to 650	16	8
Reduce the number of gardens and/or outside areas experiencing external sewer flooding from 3,450 to 3,150 per year	16	10
Help reduce water use further by 5 litres per person per day, from 141 to 136 litres per day	15	6

6. CONCLUSIONS

Residential

Overall respondents were quite positive in their value for money ratings, both towards the current level of service and future service improvements. It is interesting to note that despite the small increases in bills, the ratings stay the same or marginally improve. The other key thing to note is the stronger ratings given by the sample who were told that there would be efficiency savings which would result in a maximum cap on their bill increase, making the increase less than that shown to the sample where efficiency savings were not shown.

There is a very good degree of support for each of the proposed water supply improvements. The results are very similar regardless of the sample size but this should not be surprising as the bill impact was the same across both samples ie an increase of £8.39.

Overall, the waste water improvements were better supported than the water supply improvements. There was more support for the 360 sample as this took into account the efficiency savings and, thereby a reduction in the overall bill impact of the sewerage element of the draft business plan.

The vast majority of respondents indicated that no other service level improvements were required from Severn Trent Water's proposed water and sewerage service packages.

There was less support for the specific additional improvements respondents were asked about (ie further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents). However, although not as supportive as for the first set of improvements, respondents were still quite in favour of the additional improvements, with those from the sample shown the efficiency savings that would result in a cap in their increase being more positive than those from the sample that were not. This indicates that the currently proposed DBP falls within the financial 'comfort zone' applied by many customers.

Businesses

Overall, business customers were reasonably satisfied with the service they receive from STW, with just over two thirds (67%) saying they were fairly or very satisfied.

Business customers provided less positive value for money ratings for the current level of service than domestic customers. It is noticeable that value for money ratings improved in relation to the proposed water and sewerage improvements from 2010-2015.

Businesses supported some of the water supply improvements more than others. Leakage reduction was the most strongly supported improvement followed by interruptions to supply. Least supported was the reduction in taste and odour complaints.

Business customers were less supportive of waste water improvements than water supply improvements and were considerably less supportive than consumers about the package of investment for sewerage.

As with consumers, the vast majority of businesses indicated that no other service improvements were required from Severn Trent Water's proposed water and sewerage service packages.

Business customers were also asked whether they were in favour of any further improvements to the attributes already mentioned. The same four specific additional improvements were explored – further reductions in internal sewer flooding, leakage and water conservation as well as reducing the number of external sewer flooding incidents. A very similar pattern emerges to consumers where there is diminishing support for the additional improvements, to the extent that businesses were not in favour of some of them. This indicates that the DBP is probably pushing businesses to the limit of their preparedness to provide investment support over the regulatory five year period.

Stakeholders

Stakeholders hold mixed views about how satisfied they are with Severn Trent Water. The main reason for people saying that they were satisfied was the reliable service and the overall lack of any problems, especially interruptions to the water supply. The main reason for dissatisfaction amongst stakeholders was that the service was perceived as too expensive. Indeed, 10 of the 31 stakeholders thought that STW provided fairly or very good value for money, 15 were ambivalent in their views and six said that STW provided fairly poor value for money.

Overall, stakeholders felt that a £2.65 increase in customer bills for the improvements that would be made represented value for money. In total, 25 respondents said that it was fairly or very good value for money with only one person saying it was poor value for money.

On the whole stakeholders supported the water supply improvements being put forward by STW as part of its draft business plan. Reducing leakage and ensuring customer supplies were not at risk due to the effects of severe flooding gained the most support. The one area where support was weaker was the improvements to taste and smell as stakeholders thought that this was either not a particularly significant issue or that because the problem did not affect their area, it was not that important.

As with business customers, stakeholders were slightly less favourable towards waste water improvements than the water supply ones. Stakeholders still supported the improvements however, with strongest support being given to the reduction of pollution incidents and reducing the number of properties experiencing internal sewer flooding.

For the additional improvements beyond the DBP, there is a very similar pattern to consumers and business customers where there is diminishing support, although stakeholders were still in overall support of the additional improvements.

APPENDIX A

Residential and Business Questionnaire