BACKGROUND AND PURPOSE OF PAPER

One of the ways Ofwat delivers its duties is to set the price, investment and service package that customers receive including controlling the prices companies can charge their customers. They undertake a review of price limits every five years and will consult on the way they set price controls for the period 2020 to 2025 in July 2017 and set final price limits in December 2019.

The purpose of this paper is to update the Water Forum on Northumbrian Water's approach to delivering a robust, well evidenced and assured plan that has clear customer support.

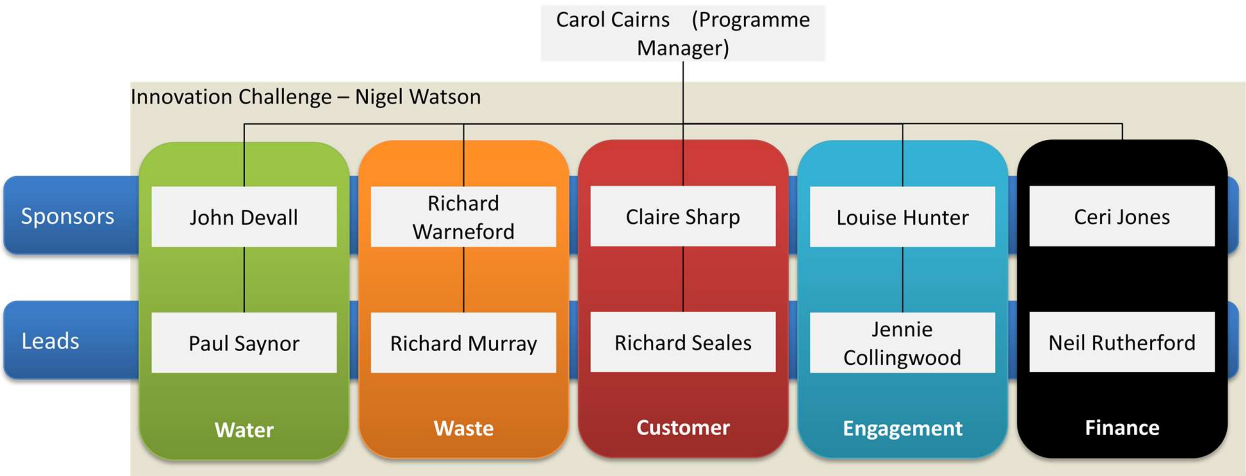
KEY PR19 MILESTONES

Ofwat continue to share with companies their proposed approach to the next price review and have set key milestone dates as detailed below:

The PR19 programme has been mobilised to ensure NWG are well placed to meet this timetable and a high level programme plan produced identifying key activities aligned with Water Forum activity.

PR19 PROGRAMME STRUCTURE

NWG has established a programme structure to manage delivery of the business plan submission as outlined below:



A central programme function led by our Programme Manager, Carol Cairns is responsible for overall coordination of the programme.

Five key workstreams have been established with Executive Sponsors and Senior Manager Leads to oversee and coordinate the production of specific business plan areas.

Sponsors and leads are confirmed and we are now in the process of mobilising the workstream teams and defining the scope of each area.

A Price Review Working Group has been formed led by the Programme Manager and comprising the workstream leads. This group has responsibility for ensuring the plan is produced and delivered in accordance with the strategic and tactical direction provided by the programme governance groups.

GOVERNANCE STRUCTURE

The governance structure as outlined below has been established to ensure delivery of a robust, well evidenced and assured business plan submission.

GROUP	PURPOSE
NWG Board	• Sets the business plan strategy • Approves the overall business plan • Authorises a PR19 Sub Group to deputise between Board meetings as required
Price Review Board Sub Group	• Provides strategic direction to the PRSG • Manages interactions with the Board • Membership includes Exec and Non-Exec Directors
Price Review Steering Group	• Acts as interface between the NWG Board and the business • Provides strategic direction and guidance to facilitate the plan development • Final point of programme escalation resolution
Price Review Programme Board	• Manages delivery and development of the business plan submission • Tactical business interface translating strategic direction from PRSG into the plan • Ensures risks and issues are resolved or escalated to the PRSG as appropriate

Terms of Reference and a forward look meeting calendar are now in place.

STRATEGIC PARTNER APPROACH

The use of key strategic partners to support the plan development is integral to the PR19 management structure. Our strategic partner structure covers three broad areas:

Strategic Advisor

We have appointed Andrew Beaver, a Director within KPMG's Infrastructure Advisory Group, as a 'strategic advisor' (sometimes taking on the role of critical friend) to the PR19 Steering Group. Andrew will provide insight and challenge at key points in the lifecycle of the business plan development working closely with the PR19 Steering Group.

Programme Assurance

PA Consulting have been appointed to provide a Programme Assurance role providing support during the lifecycle of the programme to assure the robustness of the process, the content of the plan and the presentation of assurance information to a range of audiences.

Assuring the robustness of the process will involve assuring the programme structure, governance arrangements, plan, resourcing and programme support. This assurance will seek to confirm that the process is well defined and documented, clearly understood, fully implemented and in line with the overall strategy.

Assuring the content of the plan will focus on whether the activities set out in the plan are well justified, linked clearly to express customer preferences and underpinned by a robust evidence base. This work will not comment on whether the activities are the 'right ones' but that the process to select the activities was robust.

Assuring presentation of the plan will involve ensuring it is presented in an optimal manner. This work will look to establish that the plan has a consistent compelling case with a 'golden thread' running throughout linked to outcomes and incentives. It will also look to establish that it is written in a way that meets the expectations of differing stakeholders and provides them with key information in an easily accessible form.

PA Consulting will provide reports to the PRSG and other oversight committees to provide assurance that the programme plan is on track or are subject to intervention where not.

Lead Author

The third area of external strategic support involves the engagement of a Lead Author, Claire Nichols, to support the drafting of the plan. The aim of this support will be to ensure the Business Plan is written in a way which conveys the key messages to all audiences.

We are please to welcome partners who understand our values and we believe we are forming a strong team which is appropriately structured to deliver an excellent business plan.

NEXT STEPS

As outlined above we have established a strong programme and governance structure and are now in the process of mobilising the teams and defining the outputs required to deliver the plan.

In the next quarter we will be reviewing and updating our long term strategies in the context of the next price review period, undertaking an extensive programme of customer engagement and formulating the structure of our plan.

We will provide updates on our progress and the outcome of these activities at future Water Forum meetings.

15 March 2017

BACKGROUND AND PURPOSE OF PAPER

This paper covers the specific customer research and engagement initiatives that we have carried out, since our last update, to develop policy or for business planning. It also provides an update on the procurement of a number of research partners for PR19 research and engagement.

We have involved Water Forum members with projects and have shared results after internal dissemination and when full reports are available. Reports available on SharePoint cover:

- Defining the Conversation
- River Water Quality
- Bathing Water Quality
- Vulnerable Customers (external and internal report)

Our vulnerability strategy was discussed with the Communities Network Group on 30 January 2017.

Bathing Water Quality and River Water Quality were discussed at the Environment Network Group meeting on 9 February 2017.

INITIATIVES CARRIED OUT (OCTOBER 2016 TO FEBRUARY 2017)

Social tariffs (waiting final report)

The aim of this research was to quantify household customers' support for a social tariff. Objectives included:

1. Review of approaches to social tariffs research. Other companies have support for a social tariff – how did they achieve this? What can we learn from their approaches?
2. Measure whether customers are willing to fund a social tariff through a cross-subsidy charge on their water [and sewerage] bill, and how much they would be willing to contribute
3. Understand reasons why customers are not willing to contribute towards the proposed scheme
4. Measure customers' acceptance of the proposed scheme
5. Understand reasons why customers do not accept the proposed scheme
6. Measure perceptions of the scheme with a series of statements.

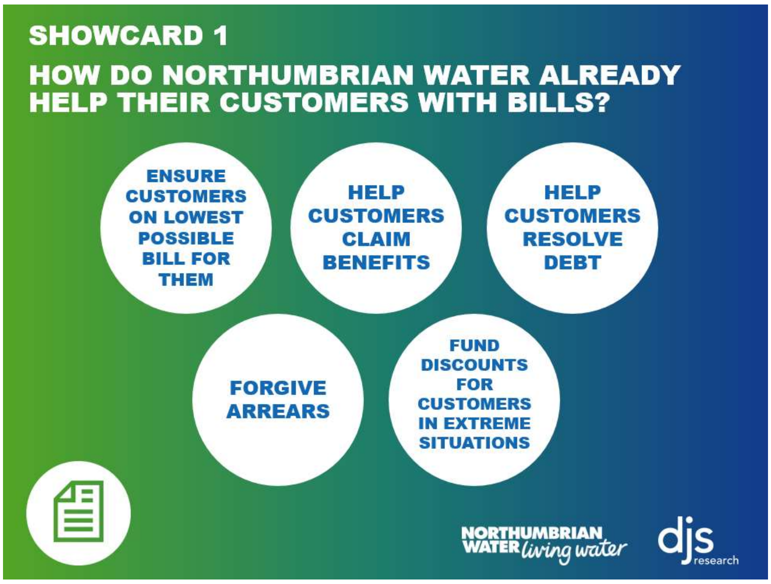
We appointed DJS Research to carry out this project. They had previously undertaken social tariffs research for Yorkshire Water and Southern Water.

Our last research with customers about social tariffs was done in 2014, when a majority of our customers did not accept the scheme that was proposed. We have since implemented a "self-funded" arrears support and discount scheme called SupportPLUS but the lack of cross subsidy limits the number of customers we can support financially.

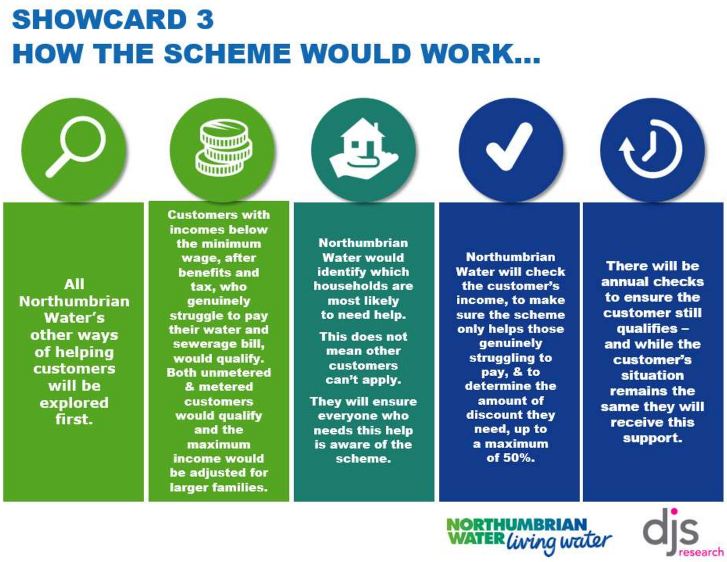
As NWG is the only WaSC that does not have approval for a social tariff, the project began with a conversation with representatives from CCWater and a desk top review of approaches to social tariffs research by other water companies. This was to develop question types and the information that customers need to see presented for the quantitative stage of research.

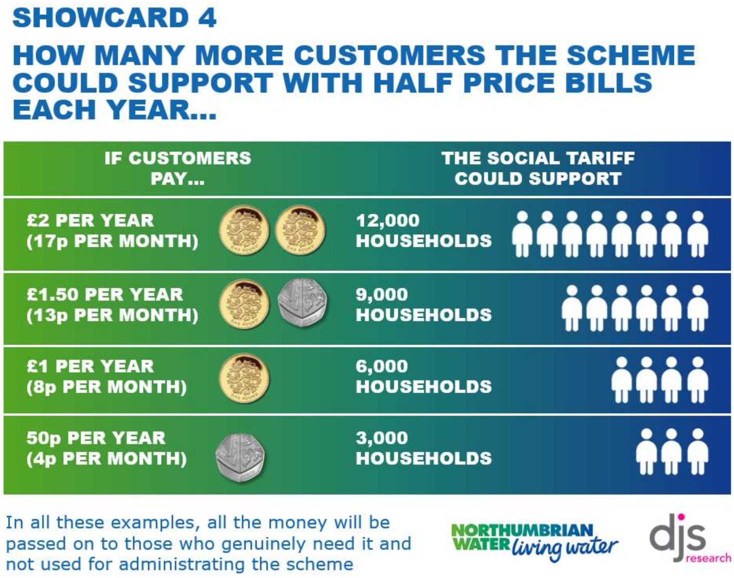
Research was completed with a representative sample of 1,948 bill payers and 127 future bill payers during December 2016 and January 2017, using a combination of hall tests and in home interviews.

The questionnaire was limited to six core (non-profiling) questions, with explanations of the scheme, and the following show cards were used.


SHOWCARD 1
HOW DO NORTHUMBRIAN WATER ALREADY HELP THEIR CUSTOMERS WITH BILLS?
ENSURE CUSTOMERS ON LOWEST POSSIBLE BILL FOR THEM
HELP CUSTOMERS CLAIM BENEFITS
HELP CUSTOMERS RESOLVE DEBT
FORGIVE ARREARS
FUND DISCOUNTS FOR CUSTOMERS IN EXTREME SITUATIONS
NORTHUMBRIAN WATER living water
djs research


SHOWCARD 2
EXAMPLE OF CUSTOMERS THE SCHEME MAY HELP...
Previously working couple in their 50s (their children have left home and have their own families).
One of the couple has had a stroke and the other has had to give up work to care for them.
Widow or widower with no savings, receiving the minimum state pension.
Young person living alone on a zero hours contract receiving the minimum wage and with no family support.
Couple with two pre-school children. One is in a low income job & the other stays at home as childcare would cost more than they could earn.
(No family live nearby to help with childcare.)
Single working parent whose children are at school.
No child support is received from their ex-partner.
NORTHUMBRIAN WATER living water
djs research


SHOWCARD 3
HOW THE SCHEME WOULD WORK...
All Northumbrian Water's other ways of helping customers will be explored first.
Customers with incomes below the minimum wage, after benefits and tax, who genuinely struggle to pay their water and sewerage bill, would qualify. Both unmetered & metered customers would qualify and the maximum income would be adjusted for larger families.
Northumbrian Water would identify which households are most likely to need help.
This does not mean other customers can't apply.
They will ensure everyone who needs this help is aware of the scheme.
Northumbrian Water will check the customer's income, to make sure the scheme only helps those genuinely struggling to pay, & to determine the amount of discount they need, up to a maximum of 50%.
There will be annual checks to ensure the customer still qualifies – and while the customer's situation remains the same they will receive this support.
NORTHUMBRIAN WATER living water
djs research



A bidding game approach was used (contingent valuation) using randomised starting points (50p, £1, £1.50 and £2), with increments of 25p a maximum of 4 times, until the maximum amount they were willing to contribute to the scheme was reached.

A five point acceptability question with a mid-point of “don’t mind” was also asked.

We have had a conversation with CCWater representatives to discuss initial results and reporting requirements, and the full report will be available in March. We have included the initial high level findings in this paper in advance of the full report being made available.

High level key findings:

1. The review of approaches showed that contingent valuation and an acceptability question with a mid-point of “don’t mind” were effective questions.
2. Support was higher when the company contributed towards the scheme and showed who would benefit with clear personas.
3. Approximately 60% of customers are willing to pay something towards the proposed scheme. The average WTP value is around £1.40, this amount is higher in ESW and lower in Hartlepool. Future bill payers have higher willingness to contribute.
4. The main reasons for unwillingness to contribute anything were that the customer objected to contributing in principle (29%), were on a low income or struggling already (18%), or thought the company or shareholders should fund it (18%).
5. Approximately 60% of customers find the scheme acceptable. This increases to 70% if we include the middle option of “don’t mind”. Approximately 6% said they don’t know. Future bill payers are more likely to find the scheme acceptable.
6. Reasons for not accepting the scheme were similar to the reasons that customers were not willing to contribute.
7. Most customers agree that the scheme shows NW/ESW is a responsible company stating: the scheme will help prevent customer debt; it’s good to know schemes like this exist if they get into difficulties; the scheme is good because it looks at individual circumstances; and that we need to find out more about customers before they qualify.
8. More than half stated that they aren’t sure that we will be able to identify genuinely struggling customers. However, most customers agreed with the types of customers we suggest will qualify for the support and only 30% object to paying anything to help other customers.

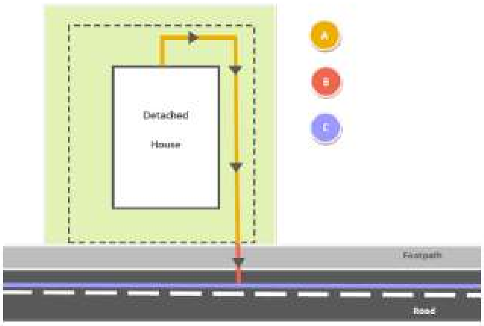
Sewer Ownership and Responsibilities

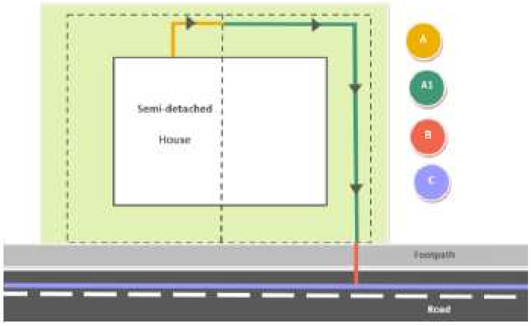
The aim of this project was to understand customers’ knowledge of sewer ownership and responsibilities. This will be used to help decide whether or not to carry out an awareness campaign. If such a campaign is undertaken, it will also help to shape that campaign. Explain Market Research were commissioned to carry out this research.

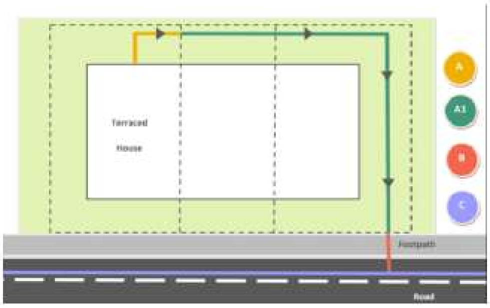
The research objectives were to:

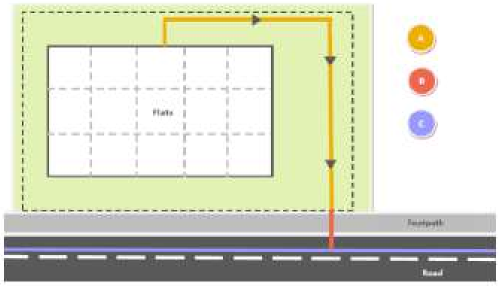
1. Quantify the number of customers who understand which parts of the sewerage system they are responsible for.
2. Quantify customers' understanding of responsibilities for the parts of the drainage network that they are not responsible for.
3. Quantify which part(s) of the sewerage system customers feel it is most important to maintain, i.e. public or TDS, and understand if customers believe we should treat both networks equally.
4. Understand if customers believe we should have a proactive or reactive approach to sewer network maintenance, and understand to what extent customers are conducting maintenance on the sewerage system.
5. Explore how customers would like us to communicate and educate them about sewer ownership.

On street surveys with a representative sample of 1,000 household customers and an online survey with 32 non household customers were carried out in October and November 2016. Household customers were shown the following images, which were appropriately adapted for business customers:









The results of this research will be shared internally in early April. The findings include:

1. Customers were unsure of the responsibilities for different parts of the sewer network near their property. 72% guessed their answer on ownership.

   Only 14% of customers were aware of the transfer of certain drains and sewers to NW ownership in 2011 - 70% of those remembered receiving information about it.

   Customers in circumstances that could make them vulnerable (health or financial difficulties), those who live in flats and those on lower incomes were less likely to be aware of sewer responsibilities. Home owners and businesses were slightly more likely to be aware.

   Section within the property boundary: those living in detached homes were most likely to correctly identify the section of sewer that was their own responsibility (83%), and this got worse depending on how interconnected their properties were, going down to 62% for semis, 53% for terraced, and 31% for those living in flats. Businesses all answered correctly.

Sections joining and passing through neighbouring properties (semi-detached and terraced): less than a third correctly identified NW as responsible for this section of sewer. Businesses were more likely to think their neighbour or the local authority was responsible.

Pavement section: less than half of household customers correctly identified NW as responsible for this section – the same proportion thought it was the responsibility of the local authority. A fifth thought the property owner was responsible. Businesses tended to have better awareness.

Sewer in road: this section was easiest for customers to get right – but still only slightly more than half correctly identified NW as responsible for it.

2. A majority (75%) of household and business customers want equal investment in TDS and the public network.

3. Less than 1 in 10 customers had done any maintenance on their drains and sewers in the last five years – 1 in 5 businesses had. 15% had had a problem (e.g. slow flow and smells) with drains on their land in the last five years – 80% of which had been caused by blockages.

   A third would contact NW if they had a problem with their own section, but an equal proportion would contact their local authority about problems with drains and sewers on their property. When a problem had occurred with the NW owned section, a third had contacted their local authority and half had contacted NW.

   A small proportion (17%) of households have insurance for the drains and sewers on their land and less than 10% of businesses did.

4. Most customers (80%) would like to receive information about which parts of the sewer network they are responsible for – preferably now, rather than when a problem occurs. They suggest we provide this information through leaflets and bills (~40%) or email/social media (~1 in 5). Businesses prefer electronic communication methods.

Lead Supply Pipes

The project aimed to identify improvements that can be made to our approaches to lead in drinking water. The objectives were to:

1. Measure customers' understanding of water supply pipe ownership and responsibilities, and the presence and impact of lead pipes in their property.
2. Understand the impact that making customers more aware of the dangers and presence of lead pipes has on their perceptions of the quality of drinking water and the knock on effects of this, e.g. our reputation, contacts, demands for more sampling and replacements.
3. Explore customers' likelihood to replace lead pipe work.
4. Understand customers' drivers and barriers to replacing or lining lead pipes (and which of these two options they would prefer), e.g. free first fix cost to spend on private contractor; making it part of the meter fitting process; subsidies; a long term loan scheme paid back gradually through their bill or payable when the house is sold; requiring it to be flagged on surveys.
5. Present a range of arguments/incentive schemes to customers in favour of lead pipe removal to gauge the appeal and persuasiveness of each, e.g. environmental, health, cost and efficiency, and legislation.
6. Understand the best way to communicate such messages/who the messenger should be (e.g. us or external body?)/where information could be placed, e.g. GP surgeries.

We commissioned Emotional Logic. The research method involved 157 telephone interviews with customers who have, or have had, lead pipes in their properties, including a good proportion of customers in vulnerable circumstances.

We then held two deliberative events with our employees and 20 customers who may have lead pipes – one in Gateshead and one in Southend, and 20 in depth telephone interviews with a range of businesses and organisations that serve drinking water. The survey took place in November 2016 and the workshops in January and February 2017. As part of the workshops, we gathered informed and uninformed views about the health impact of lead pipes, options for replacement and what NW and ESW currently do. Customers also created their own lead pipes awareness posters.

We are sharing the results of this project on 20 March. The findings include:

1. Many customers do not know who is responsible for supply pipes. Most customers had no awareness of the potential presence of lead pipes, nor the health risks associated with them. Customers (even when informed) don't see lead as a big threat when compared to other health risks that they live with daily such as eating unhealthily, air pollution or not doing enough exercise.

   Organisations who serve drinking water are likely to worry about the effect on their customers, once they are informed. Some customers think boiling water would remove lead (a misperception that we corrected in the workshops).

2. When introduced to the health risks, initial shock is followed by denial/scepticism, then some anger that no one has told them about it before. Then customers start to look for easier, cheaper options than replacing lead pipes.

   We tested Net Promoter Score (NPS) and satisfaction with Value for Money (VfM) of NW/ESW before and after the interviews/workshops and the results indicate that educating customers about this issue is unlikely to impact NPS or satisfaction scores.

3. Most customers are unlikely to replace their lead pipes. Tests or high results don't often lead to replacement. When informed, flushing, buying bottled water or using filters is a solution for some, but most would still drink water from lead pipes. Generally, customers said they need more information to be convinced to change their pipes.

Customers want to be told the health message, rather than messages around renovating their pipes for better leakage or flow – but renovation is most likely to happen. They want the health information to be able to make up their own mind.

4. Drivers to replacement include customers thinking that they were making a good value for money home investment and to keep their family safe and healthy.

   Barriers to replacement are lack of awareness, lack of control (they didn't choose the pipes), ability to mitigate (flushing and filters), unclear health impacts (we showed them World Health Organisation (WHO) statements), cost and inconvenience - digging trenches in gardens and drives.

5. Lining pipes is a lot less attractive to customers than replacement because of its shorter lifespan for only a 20% discount. Customers like the idea of "moleing" to help minimise disruption. They would like NW/ESW to provide a one stop shop project management service for lead pipe replacement (as long as we aren't seen as selling). Subsidies and long term payment plans could also encourage uptake.

Discolouration

The project aimed to identify improvements to our approach to discolouration, to inform the potential speeds of improvements we will test with customers for our Willingness To Pay research for our 2019 business plan.

The objectives were to find out about:

1. The appropriate pace of improvement towards our aspiration for zero discoloured water complaints (as stated in our PR14 business plan).

2. Consequences of discolouration on household and non-household customers.

3. The impact of having fewer discolouration incidents on customers' tolerance of discolouration events. When they were a more regular occurrence were people more accepting of them? Could this mean that discolouration will become a higher relative priority over time?

4. Customers' motivations for and against reporting discolouration, and their likelihood to do so.

5. How customers feel about our response to, and advice about, discolouration events.

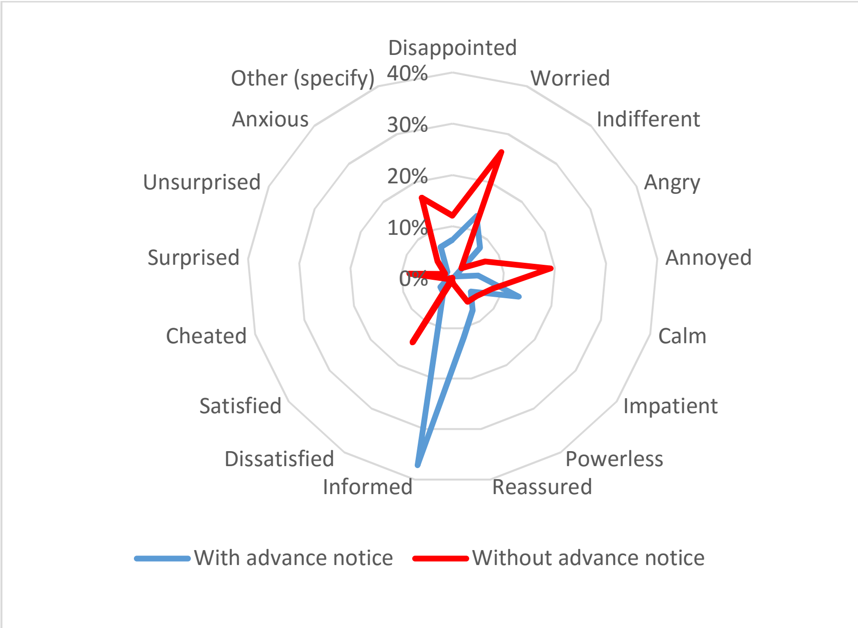
We commissioned Emotional Logic. The research method included re-contacting customers who had recently reported a discolouration issue (249 telephone interviews), an on street survey with a representative sample of 966 customers in areas where there has recently been discolouration, 15 in depth telephone interviews with a variety of non-household customers, and 10 in depth interviews with landlords, to understand how well informed these are and their information needs. Three quarters of the sample had experienced discoloured water (which was deliberate).

We achieved a good proportion of customers in different types of vulnerable circumstances (health/communication/financial) in order to understand how their views may differ to other customers'. Research took place during October and November 2016.

We are about to share these results internally, in summary:

1. Customers would like discoloured water to be eliminated but support to pay for improvements is limited. For non household customers, good customer service and fast resolution are more important to them than eliminating it. Most customers expect it would take less than 20 years to eliminate if we chose to invest in that, but a third did not understand the idea of a 20 year timescale to eliminate it and assumed that they would no longer get any discoloured water events as soon as they start paying.

Informing customers significantly reduces worry, anger & disappointment



2. Household customers are more emotional about discoloured water than NHH. Emotions - surprise, dissatisfaction, disappointment and worry are strong for household customers but less so for NHH customers. Only 29% of customers aren't worried by discoloured water. Those with children are more alarmed and stronger colours create more alarm. Customers' main worries are health and dirt rather than staining clothes. Very few customers believe discoloured water is safe to drink and only about half think it's safe to touch, but only a quarter think it's dangerous. Older (65+) customers are more likely to contact us about it.

3. Only a quarter of customers who had experienced discoloured water had reported it to NW/ESW. For most customers, discoloured water experience has no long term impact on confidence in tap water – but those who experience a severe impact may stop drinking it. Events have an impact on customers' satisfaction with value for money and our Net Promoter Score.

4. Top reasons for contacting NW/ESW are to ask for advice, to inform us and to find out what's happening - not to complain. Warnings reduce negativity and contact by 75%, and increase NPS, because they reduce the personal impact and negative emotions customers feel. Landlords also want more notifications. The discount for metered customers drives contact – is there an alternative way they could apply for this or to record this contact? High frequency occurrences also drive contact.

5. Most customers have a poor understanding of what causes discoloured water. The cause is the first thing they want to know, then how safe it is, then how they can cope and when it will go away. Those who don't know about running the tap nor see discoloured water as natural or inevitable are also more likely to call us about it. This indicates that education and awareness may decrease contacts.

6. Customers are nearly twice as likely to let the tap run until clear (35% did) than to contact us (19% did). They are almost as likely to talk to their neighbours as they are to talk to us (16%), do nothing (15%) or buy bottled water (14%). Very few used the website. However, most underestimate how long they need to let the tap run to clear it (more than half expect less than 10 minutes). More than half of customers expect discoloured water to be resolved within a few hours, and three quarters expect this to happen within a day.

7. Those customers who've previously reported or experienced discoloured water don't seem to be any better educated about it than others. Contacting us is a habit and they are eight times more likely to call us if it happens again.

Future of Combined Sewer Overflows (CSOs)

This project aimed to identify our customers' expectations of the performance and operation of CSOs.

The objectives were to:

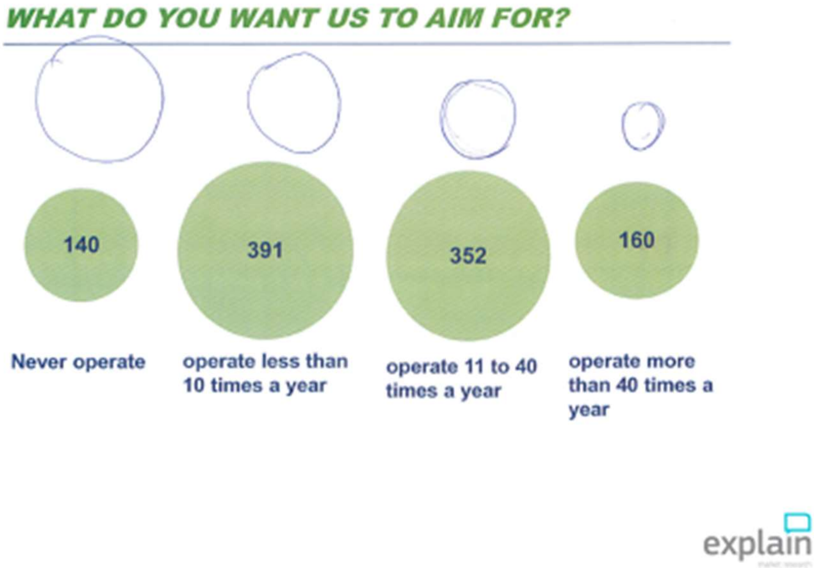
1. Explore customers' awareness and understanding of CSOs, with a focus on how their own behaviour in the home contributes to CSO spills, e.g. water efficiency and use of the wastewater network causing blockages, etc.
2. Explore customers' tolerance of CSOs – specifically the trade-off between protecting homes and businesses from flooding, against the potential consequence of harm to the environment caused by spills.
3. Understand customers' aspirations for our future use of CSOs in relation to the economics of reducing spills towards zero. Do customers expect us to reach our aspiration of zero spills, or do they see the cost of achieving this as unacceptable?

We commissioned Explain Market Research. The methodology involved two deliberative customer workshops in the North with our employees and 25 customers at each, and 15 in depth interviews with NHH customers. The research took place in November 2016.

WHAT CAN IMPACT ON OUR ABILITY TO PROVIDE AN EFFECTIVE WASTE WATER SERVICE?

We are sharing the results of this project internally in early April. The findings include:

1. Customers expect us to take a proactive, preventative approach to making sure we provide an effective sewerage service by continuously investing to reduce and minimise disruption and educating customers about how to use sewers correctly. However, they also recognise the need for reactive measures.
2. Most customers have never heard of CSOs. When told about them, they are not generally against them in principle, but this could be because they are not aware of any alternatives. They prioritised preventing flooding of homes and business over the environment with regard to CSOs – due to the financial and emotional impacts of flooding.
3. Customers see CSOs as an acceptable solution to high rainfall but don't want them used routinely (only during really heavy rainfall as a last resort). For example, they think that CSOs that are operating more than once a month show there is an issue with system capacity. The following diagram is an example of how we presented the frequency of our CSO operations and how customers expressed how they would like this to change:



Customers are pleased about our (leading) CSO monitoring approach. They trust us to only operate CSOs under the "right" circumstances and expect regulation to be tight. They also expect us to continue to explore other methods. We mentioned the high costs involved in reducing CSO operation to customers, and they therefore did not expect zero CSO operation in their feedback.

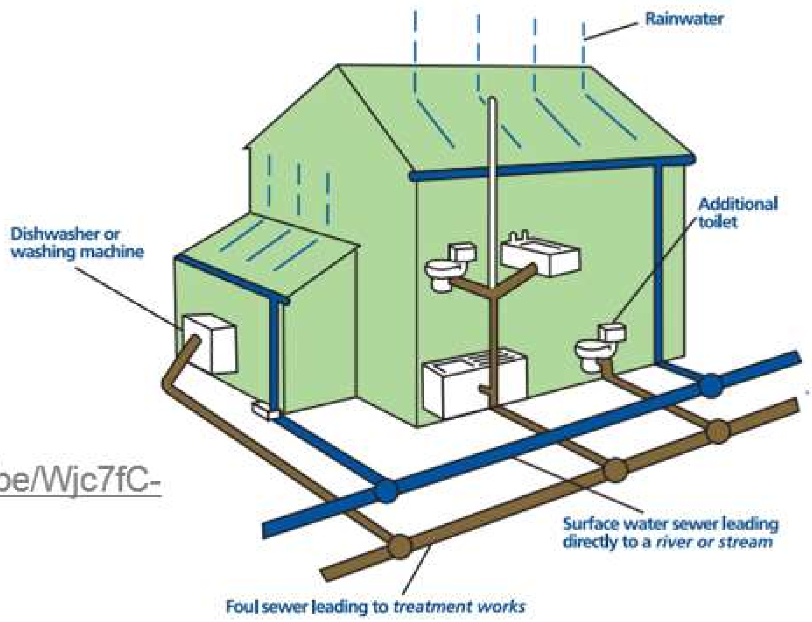
Flood Risk Responses

The aim of this project was to understand customers' expectations of us when working in their community, and their valuation of the secondary benefits from work we carry out to reduce flood risk. The research objectives were to:

1. Explore any additional benefits customers perceive from our work to reduce the risk of sewer flooding, and how they perceive traditional vs sustainable approaches.
2. Explore any extra additional benefits customers perceive from our partnership work to reduce the risk of sewer (and other) flooding.
3. Explore whether customers value our proactive approach to reducing the risk of sewer flooding.

We commissioned Explain Market Research to carry out two focus groups with 16 household customers in November 2016 in areas where we were undertaking partnership projects (Gosforth and Killingworth). They also carried out six semi-structured interviews with a variety of NHH customers near these areas. Customers were gradually informed so that where possible we could gather uninformed opinions.

HOW THE WASTE WATER SYSTEM WORKS



https://youtube/Wjc7fC-kfwk

The results will be shared internally in early April. The results are indicative as it is a small sample size, but the main findings were:

1. Customers had low awareness of our role in sewerage and the work that we do to reduce sewer flooding – despite us working in the areas we held the focus groups in. As we had to inform them about their local projects, they were not able to spontaneously identify any additional benefits.

   Customers were generally not aware of sustainable drainage options. When informed about them, there was support for both traditional and sustainable approaches. Customers preferred sustainable approaches instinctively but were unsure whether they were always possible or effective. Future customers (see methodology below) in particular didn't think that sustainable approaches would be able to cope with severe flooding from extreme weather. Customers expect sustainable approaches to be cheaper than traditional ones. They value the additional benefits of sustainable schemes, such as supporting wildlife and recreation.

2. Customers had unprompted expectations of us partnership working, and household customers preferred this over us working alone. Customers expect efficiencies from partnership working but longer timescales. Non household customers and future customers saw working alone as necessary sometimes.

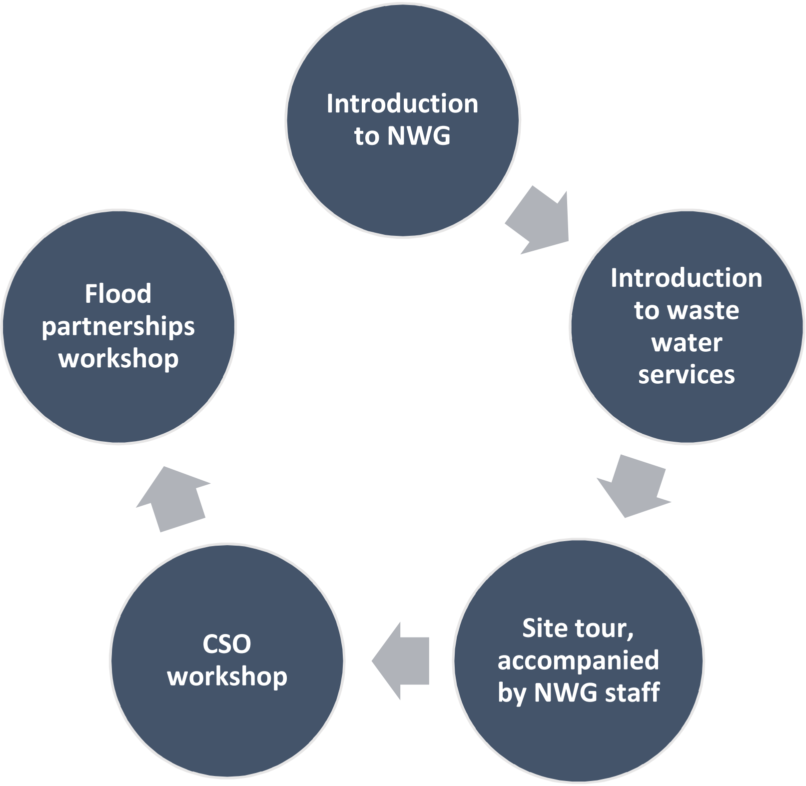
3. Customers were comfortable with us taking a reactive approach – they could not think of any unprompted alternatives, but expect no repeat flooding and for us to prevent flooding when we know it is likely. When informed, some customers would prefer us to take a proactive approach, but not at the expense of reactive projects, as they perceive such high emotional and financial impacts from flooding. They would like a balance of funds for both approaches. Future customers were a little more likely to support the proactive approach.

In summary, customers value the additional benefits of these new approaches to flood prevention that NW is taking, but not at the expense of how much flooding is reduced, or making projects take significantly longer to deliver. They expect cost efficiencies from many of these approaches.

Future Customers Sewerage Day

We decided to try an innovative approach for two of our sewerage research projects with future customers. We held an activity day with Explain Market Research at Howdon Sewage Treatment Works in North Tyneside in early December with 15 Chemistry A-level students from Gateshead College, covering the future of CSOs and approaches to flood risk.

The day was structured as follows:



Explain has compared the results from the future customers day with the results from household customers for these two projects, and have highlighted the main differences to us – these are included in the previous results sections.

Taste & Odour (T&O)

Working with Explain Market Research, we conducted 624 telephone interviews with customers to understand their satisfaction with the taste and odour of their water supplied by Northumbrian Water or Essex & Suffolk Water. Respondents were categorised into those who had reported T&O issues and those who had not.

Key findings:

1. The survey suggests that we continue to have a group of customers who do not report T&O issues to us and are unsatisfied with the quality of the water they receive. This is seen in the proportion of non-reporting respondents scoring their satisfaction of T&O between one and six out of ten.
2. Factors for a good glass of tap water remain the same as in 2015, with the top five being clear, no smell, cold / cool, no taste and fresh.
3. The survey suggests that there is a group of customers who report T&O issues but are unsatisfied with the T&O of their water. Despite operational activity carried out by Northumbrian Water or Essex & Suffolk Water the respondent still scored their satisfaction between one and six out of ten. However, we are unable to quantify if the low score is related to the quality of the water, the service provided or both.
4. Those who did report the issue to us often indicated that after action was undertaken, either via our samples or advice, the issue remained. Respondents were also not satisfied with being told to run their water or place it in a container in the fridge, as they believed it was wastage and they should not have to modify their water.
5. There was a shift to respondents' mainly consuming spring or mineral (bottled) water by those who had reported a T&O issue to us. 43% of respondents who reported an issue indicated they mainly drank spring / mineral (bottled) water compared to 12% in non-reporters.

Outcomes – Review of Language and Presentation (in progress)
The concept of Outcomes, Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) was introduced at PR14. Outcome statements express the high level objectives that our actions are intended to deliver. They represent what customers and society value, in the long term and our Outcomes statements were tested and approved by customers and stakeholders at the last price review.

In 2016 we carried out a piece of research called 'Defining the Conversation' and asked customers which Outcomes they wanted to talk to us about and have an influence on how we deliver them. During this research project it became clear that the language used in our Outcome statements wasn't as clear to customers as originally thought, because there was some confusion around the intended meaning of the Outcome statements. This was despite these statements receiving support from 88% of customers asked at PR14.

The objectives of this project are to:

1. Review language and presentation of our existing set of Outcome statements.
2. Draft a revised set of Outcomes in a customer friendly language by May 2017.
3. Provide recommendations to present Outcomes in a customer friendly way.

We will begin by conducting desk-based research on existing findings from the 'Defining the conversation' phase one, with particular focus on Outcome wording, presentation, and customer understanding.

We will then conduct focus groups, with specific focus on the customer Outcomes and language used to existing levels of understanding, and incorporate an element of co-creation to help shape and inform the development of these Outcomes for the future. This will take place during our next phase of the 'Defining the Conversation'. In addition we will be using Flo, our customer engagement vehicle, to survey customers across our operating areas, as well as engaging and surveying employees, business customers and stakeholders.

Digital Ambition (in progress)

As part of the Digital Ambition project we recently engaged in a customer research piece. The research included a customer survey that was sent to all customers for which we hold email addresses on. The output of this was used to inform the current scope of the Blueprint in which we will determine channels that customers wish to engage and prioritised journeys.

Moving forward our approach is to use our Customer Engagement Vehicle (Flo) to get out and talk to our customers to understand their digital habits and what they find useful. We have two days in March where we will be in the south at both Essex and Suffolk sites and two days in March at sites across the North. We also have three days in the North in April where we will be taking out some mock up technology to get feedback from our customers.

*The scope of this Blueprint is a Target Operating Model (TOM), that will determine our vision and set our strategic direction for engagement with external customers and stakeholders via digital channels. It will include a roadmap for transformation, with the detailed focus on delivery outputs for **household customers,** with the scalability to support commercial customers and stakeholders. This will involve consideration of all types of engagement; primarily billing and operational, all digital channels; primarily web, apps and social media, and all of the business capabilities needed to support this.*

PR19 RESEARCH AND ENGAGEMENT FRAMEWORK

A tender process for research and engagement partners took place in 2016. Final interviews were completed in November. Three companies - QA Research, Explain Market Research and DJS were successful and added to our PR19 research and engagement framework. A Water Forum member was involved in the appointment process and participated on the interview panel.

Initial framework meetings have taken place with all the research partners outlining our expectations and providing an opportunity for any questions. We have worked with our partners to develop a PR19 research and engagement timeline and projects have been identified to meet our needs and inform our business plan. This list is not exhaustive and we will add additional projects where business needs or customer insights tell us that we should. We also shared our plan with key Water Forum members and views were fed into our forward plan.

Our research partners provided a high level methodology and segmentation plan for each of our identified projects that they would like to be involved with. More detailed specifications for each project are now being designed and inception meetings scheduled.

A draft list of our projects is outlined below:

1. Defining the Conversation (part two): to quantify the results from Defining the Conversation part one.
2. Service measures vs perception measures: To seek our customers' views about operational and perception measures as performance indicators.
3. Service priorities (Measures of Success): What do our customers' believe is important within the services they receive and what they believe should be prioritised for improvement.
   3b. Measures of Success acceptability: a quantification of the service priorities project.
4. Relative priorities within the bill: understanding how customers' value individual services within a fixed bill value.
5. Willingness to pay: a conventional WTP study with an improved methodology and the inclusion of comparative information.
6. Trust and value: what do the terms trust and value mean to our customers?
7. Understanding and communicating risk: The co-creation of how we articulate risk including resilience and long term asset health.
8. Metering and the Water Resources Management Plan: Research required to inform the Water Resources Management plan and our metering policy.
9. Innovative methods: How does the relative happiness / life satisfaction of our customers' affect their willingness to pay for services?
10. Incentives regime: Understanding where customers' believe we should place incentives. Detail will be worked up following the receipt of Ofwat's draft methodology.
11. Acceptability of our plan: Do customers' accept the plan we have created? This will include a public consultation.
12. Outcomes review, language and presentation: Do our customers understand our current company Outcomes and could they be better articulated? This is combined with project one, Defining the Conversation.

TRIANGULATION

We have been developing our approach to triangulation of research and other customer insights/evidence. We have shared this with an expert Water Forum member. We are now refining this further before we share with the wider Water Forum for discussion and development.

NEXT STEPS

As demonstrated in this paper we have carried out a wide breadth of customer research and engagement since our last update to Water Forum members in October 2016. In line with our programme of research and engagement for PR19, we will be launching a number of new projects in March 2017. We will invite Water Forum members to research and engagement events associated with these whenever practical.

We have two internal dissemination events scheduled:

- Discolouration and lead supply pipes – 20 March
- Sewer ownership and responsibilities, flood risk responses and the future of CSOs – 5 April

Water Forum members have been invited to these events. The full reports for these research and engagement projects will be made available to Water Forum members, via SharePoint, after the dissemination events.

We will receive the full report for social tariffs research in March. An internal dissemination meeting will be arranged to discuss the results and decide next steps. A meeting will be arranged with Water Forum members to discuss social tariffs.

An event with Water Forum members will be arranged to discuss our approach to the triangulation of research and other customer insights/evidence.

15 March 2017

1. BACKGROUND AND PURPOSE OF PAPER

In November 2016 our consultation on strengths, risks and weaknesses and our draft Assurance Plan for 2017/18 was published on our corporate websites. Improving on our 2015 consultation, we also published a customer friendly summary on our www.welivewater.co.uk websites.

This paper provides an update on the consultation feedback from our customers and stakeholders, and summarises amendments we have made to our final Assurance Plan as a result. We will email Water Forum members a link to our Final Assurance Plan following publication on or before 31 March 2017.

2. CONSULTATION ON STRENGTHS, RISKS AND WEAKENESS AND DRAFT ASSURANCE PLAN

Our Consultation on Strengths, Risks and Weaknesses and Draft Assurance Plan was published on our websites (www.nwl.co.uk, www.esw.co.uk and www.welivewater.co.uk) in November 2016. We also published a customer friendly summary on www.welivewater.co.uk and actively sought feedback from customers and stakeholders.

Customer Consultation and Feedback

Following publication of these documents, we issued an email to over 161,000 customers, inviting them to HaveYourSay and comment on our consultation in return for being entered into a prize draw to win an iPad.

Over 63,000 of these emails (39.24%) were opened and almost 4,000 individual customers then opened our customer friendly summary. This is a fantastic response rate. For comparison, the average email open rate for Utilities is 21.10% according to Average Email Metrics 2015.

514 customers took the time to provide us with feedback. The tone of our customers' responses were generally positive, and included a number of helpful comments that we can use to strengthen our Assurance Plan.

In some instances customers used the opportunity to raise individual queries. Their details were passed to our Customer Care Team and almost 100 customers were then proactively contacted for a variety of reasons; for example to ensure historic issues had been resolved satisfactorily, to answer specific queries or to tell customers about our Support Plus offerings.

We reviewed all of the comments that our customers made about areas that they thought we should include in our Final Assurance Plan and gave careful consideration to them. Two areas that we will now include in our Final Assurance Plan following customers' comments are data protection and security, and leakage including water conservation.

A small number of customers also made comment that we should make performance information more transparent. We will make sign posting to our Annual Performance Report and the strategic dashboard, discoverwater.co.uk clearer within our Final Assurance Plan.

We also received a number of comments from customers around meters including suggestions around meter location, frequency of meter reading and smart metering. All of these comments will be fed into an upcoming review of our metering policy.

Stakeholder Consultation and Feedback

All stakeholder feedback that has been received is positive with stakeholders being 'happy' with our plan.

We are awaiting feedback from our Water Forums.

Other Considerations

In December 2016, Ofwat published "A consultation on the outcomes framework for PR19". This consultation covered four themes:

1. How companies' performance commitments can be made more stretching to deliver higher service levels to customers
2. How ODIs can be strengthened to encourage companies to deliver on their performance commitments to customers
3. How we can better reflect resilience in outcomes to ensure the interests of future customers are taken into account
4. How performance commitments can be made more transparent to make it easier for customers to hold companies to account

In relation to the resilience theme, in our consultation response we suggested that trust and confidence could be strengthened by including resilience as a specific area in company assurance plans.

Next Steps

Our final assurance plan will reflect the customer and stakeholder feedback received. This will be published on our websites by 31 March 2017.

In particular, this will now include assurance in relation to:

- Leakage performance / water conservation
- Data protection and information security
- Resilience

We will also sign-post customers to our Annual Performance report and the strategic dashboard.

15 March 2017