



SCOTTISH WATER

SR21 LICENSED PROVIDER PERCEPTIONS OF CUSTOMER PRIORITIES

REPORT NOVEMBER 2017



“To identify customer priorities and measures of success”

Full colour thinking from Turquoise for Scottish Water

Contents

SCOTTISH WATER	0
1. PROJECT BACKGROUND	2
2. PROJECT OBJECTIVES.....	3
3. HOW WE MET THE OBJECTIVES	4
Methodology	4
The overall approach and discussion flow	5
.....	6
.....	6
4. BACKGROUND TO INDIVIDUALS.....	7
5. OVERALL PERCEPTIONS OF SW.....	8
6. LP PERCEPTIONS OF SR21 CUSTOMER PRIORITIES.....	10
Overall Perceptions	10
High Priorities:	12
Medium Priorities:.....	16
Low Priorities:.....	21
LP’s Priorities for Non-Household Customers	23
LP’s Revised Priorities for Non-Household Customers.....	29
7. SUPPORTING LP’s.....	30
8. SW AS A THOUGHT LEADER.....	32
9. THE PRINCIPLES OF CHARGING	34
10. CONCLUSIONS	35
11. RECOMMENDATIONS	38
12. APPENDIX.....	39
Scottish Water – SR21 Phase 1 Customer Engagement.....	40
LP Depth Topic Guide October 2017 V1c	40
Section 1 - Introduction.....	40
Section 2 – Background to the individual.....	40
Section 3 – SR21 Priorities for customers	41
Section 4 – Supporting the LP’s	43
Section 5 – SW as a provider/thought leader	44
Section 6 – Summary	46

1. PROJECT BACKGROUND

Scottish Water (SW) are currently in the midst of their programme of research in support of the ‘Strategic Review of Charges’ for the period of 2021 to 2027, called SR21.

So far, within Phase 1 of the programme (Engage 21), SW have completed both qualitative and quantitative research with household and business customers. This element of the research has developed a ranking of high, medium and low priorities which will inform future investment decisions.



The Engage 21 programme seeks to garner the views of all SW customers and given that Licensed Providers (LP’s) have a direct relationship with business customers, charging them for their water and waste water services, it is important for SW to understand whether these priorities meet the needs of the LP’s, in support of their own future plans.

Consequently, SW now wish to evaluate the Licensed Provider view of the list of the priorities identified by household and business customers and determine if these are correct for the LP’s. The core business need is for SW to understand the LP’s future needs and expectations and whether SW can support those needs within their SR21 planning (or before).

The following report details the findings of this most recent phase of research for SR21, namely LP views on customer priorities.

2. PROJECT OBJECTIVES

The core business objective is:

'To determine if the customer priorities identified by SW resonate with LP's'

The key research objectives were as follows: -

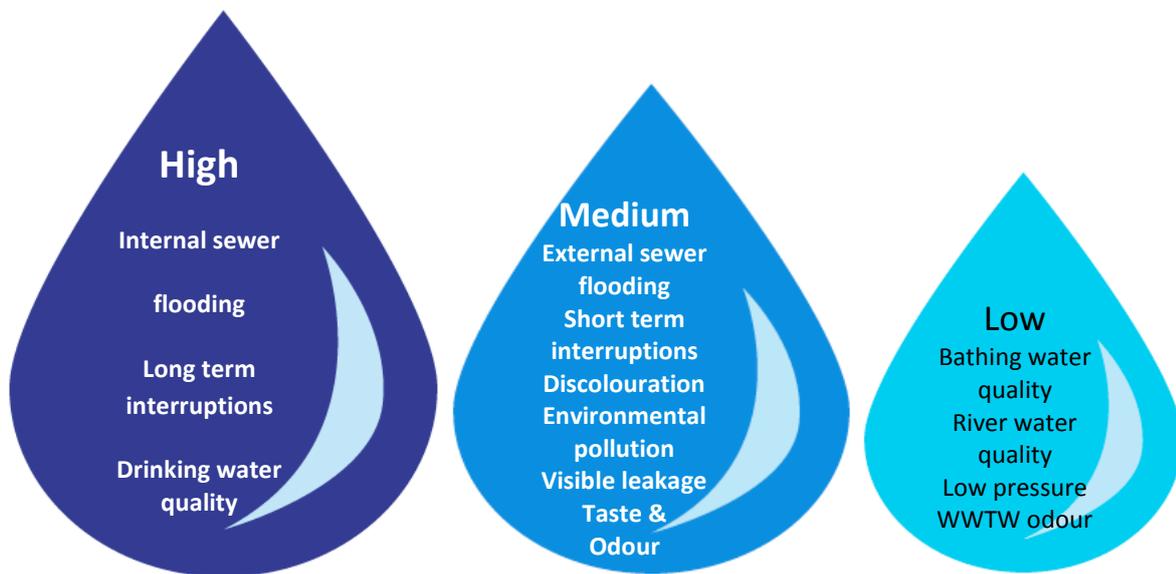
- Share the findings from the phase 1 priorities research with LP's, to understand more about why service issues have been placed in their order they have. Do the high/medium/low areas of investment feel right to them? Can they provide reasons/examples as to why?
- Understand what LP's future business plans look like (if possible/available), and how they expect/would like SW to support these plans.
- Understand LP's needs and expectations in terms of the level of service SW provide to them in SR21.
- Understand the LP's needs and expectations for the service experience SW provides to business end user customers in SR21 (this could be related to things like site visits, when SW visit business end user customers for an operational reason). Does this differ for different business end user customer types (e.g. large/small/sole trader business, different business sectors)?
- More generally speaking, to understand what LP's want and expect from the market in the future (e.g. Central Market Agency/market changes).
- With the English market having opened this year, SW would be keen to understand how the wholesale service provided by SW compares to English wholesalers. Is there anything we can learn from this, and take into the SR21 period?

3. HOW WE MET THE OBJECTIVES

Methodology

In order to establish LP views on SW’s derived customer priorities, a qualitative phase of research was implemented. This comprised of in depth telephone interviews. All 23 LP’s were contacted and invited to take part. Initially SW notified LP’s of the forthcoming research, and then Turquoise followed up contact.

All LP’s were sent a copy of the SR21 customer priorities prior to the research and this was used as a basis for the discussion:



A total of twelve LP’s partook in the research as follows:

Anglian Water Business Ltd (also spoke on behalf of Northumbrian Water)
Blue Business Water Ltd
Brightwater Services Ltd
Castle Water Ltd
Clear Business Water Ltd
Commercial Water Solutions Ltd
Earls Gate Water Ltd

Everflow Ltd
Regent Water Ltd
Scottish Water Business Stream Ltd
Veolia Water Projects
Water Plus Ltd & Water Plus Select Ltd

Interviews were approximately 45-60 minutes duration and were conducted at a time to suit the License Provider. Each interview was conducted by a Turquoise qualitative moderator.

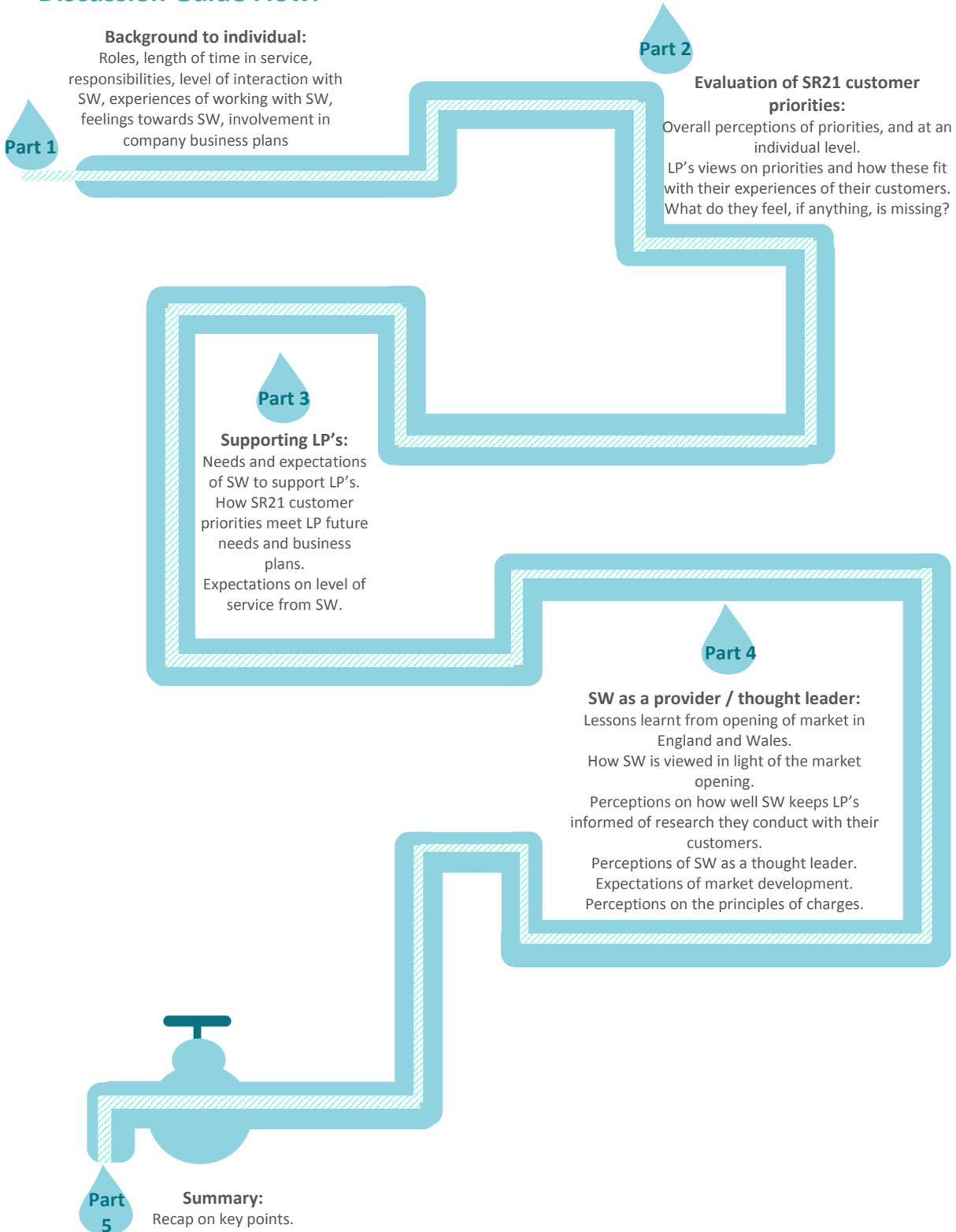
All fieldwork took part across October and November 2017.

The overall approach and discussion flow

- Background to individual and level of interaction with SW.
- Upfront discussion of the overall perceptions of SW.
- Establishment of their own company's future business plans (if they were happy to discuss).
- Perceptions of the SR21 customer priorities – at an overall level and then taking each in turn
- Establishment of how the priorities may differ by business type.
- Overall perceptions of needs and expectations from SW to support LP's.
- How the customer priorities support LP's future aspirations.
- Perceptions of the opening of the English / Welsh markets – lessons learnt, perceptions of SW in view of the market opening up.
- Overall view of SW as a thought leader for other wholesalers.
- Expectations of what LP's in terms of market development.
- Perceptions of the view of charges.

The discussion guide is summarised in the diagram on the next page.

Discussion Guide Flow:



4. BACKGROUND TO INDIVIDUALS

Overall, a broad range of LP's were spoken to within the research, with individuals varying on a number of aspects:

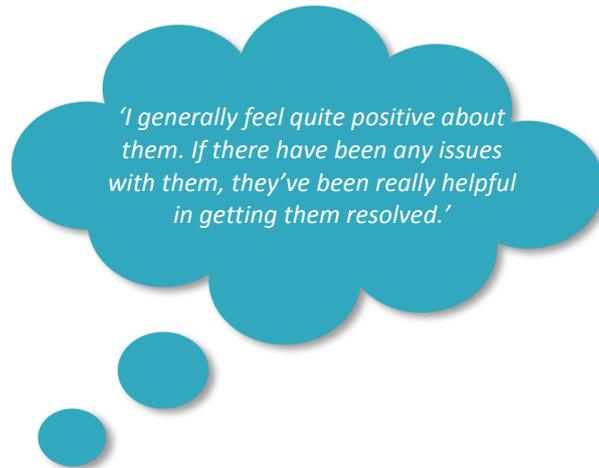
- How long they had been operating as an LP in the SW region. Some had been there since the opening of the market nine years ago e.g. Anglian Water Business, whilst others were relatively new to the market having been in operation for only 18 months or so e.g. Brightwater Services.
- The type of retail customers. A mix was noted for those who deal mostly with larger commercial businesses (e.g. Veolia Water Projects) and those who have more focus on SME customers (e.g. Clear Business Water).
- Level of contact with SW. Some individuals spoken to were only really involved with their Account Manager but were aware of their business's views on other departments within SW, whereas others had a more overall level of interaction.

More or less everyone spoken to stated they had some level of involvement in their own company's future business strategy, although many were either not keen to divulge plans or had not yet considered that far in advance. Business plans were discussed at a more general level.

5. OVERALL PERCEPTIONS OF SW

Overall, LP views of SW are on the whole positive. This tends to be particularly true of those LP's and individuals who have now had experience of the English and Welsh markets.

There is recognition that in most cases, the staff at SW that LP's deal with on a regular basis are generally helpful and keen to resolve issues.



Words such as 'reliable', 'consistent', 'friendly', 'competent' and having 'a willingness to learn' are often used to describe SW.



However, there is also a feeling that SW, as an organisation, are 'slow' often 'bureaucratic' and 'risk adverse'. In being like this, LP's often believe that in some instances, SW can sometimes lose sight of customer service and focus.

'I think a lot of what they do is around protecting their reputation. Because they put the LP between themselves and the end customer, they avoid the risks for themselves.'

'SW is a big bureaucratic company, so it takes a considerable amount of time to do a simple task. We pride ourselves on responsiveness and as soon as SW get involved, it falls down. They are hampered by process'.

'The people at SW are nice to deal with. I think where you struggle is where the systems and rules in place prevent people doing stuff. Some people are very rule bound.'

'They are process focussed rather than customer focussed.'

6. LP PERCEPTIONS OF SR21 CUSTOMER PRIORITIES

Overall Perceptions

Broadly speaking, whilst LP's generally agree with the derived SR21 customer priorities, there was perhaps unsurprisingly, widespread criticism that the priorities seemed to focus solely on product related issues and appeared more focused on what household customers might desire rather than non household.

Drinking water quality, as a high priority, caused polarisation amongst some LP's, as although it is important, it is believed that this is a hygiene factor of SW operating as a water company. In addition, their belief is that the current standard of drinking water quality is exceptionally high already and so isn't an issue for their customers and therefore not a high priority for investment. There are other aspects that they feel are more pressing.

A number of LP's got quite animated about where the priorities had come from and what sample base SW had used to derive them.

'My first impression is that these look worn out. They look like what customers have been saying for years and years and are typical of what you would expect, but I don't think they reflect what SW should be focussing on at the moment for the business user.'

'I would say that they are very much domestic priorities. I don't really see a lot of what a business customer would want. What about delivering growth or new connections. What about tariffs, they aren't always cost effective.'

'They look like SW priorities and they are solely looking at the product. There is nothing there on the service side. They are solely looking at "I have this product, how can I make it better?", not how can I provide it better or how can I serve you better with this product.'

'They seem very much in line with what customers are saying, not just in Scotland, but all over the UK.'

'They seem very generic. Look more like priorities from a wholesaler point of view as opposed to a retailer or customer point of view. When was this done?'

'These look like they have said "we have these priorities, now put them in order" as opposed to what are you concerned about?'

'When I looked at these, I thought what is the scope of this? It doesn't feel to me to be all-encompassing. It's focussed on a specific area which is around the water product itself. There is not one that's based on service'

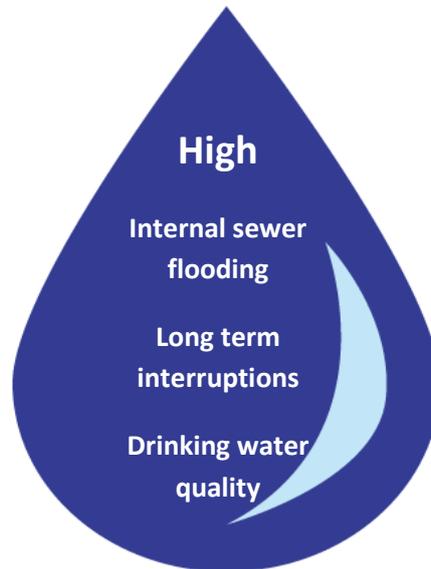
Whilst there were a minority who generally agreed with the priorities, for most LP's, there was no reference to service elements such as growth / infrastructure and service related to that, water efficiency, speed of response, metering (shared assets / drainage and smart metering) or tariffs / charging.

Although covered later in the report, overall observations were that depending upon customer base, some priority rankings would change. Low pressure was one that was most typically mentioned, with many LP's stating they felt this would be higher ranked amongst business customers (see later). Equally short term interruptions would have greater priority amongst sensitive customers such as hospitals (NHS), prison, schools etc. Having said this, the definition of the timeframe for short term interruptions was varied amongst LP's. For most large water dependent companies, or public sector customers, short term generally meant less than 4 hours.

Overall the key business differentials that affect prioritisation are: level of perceived impact, frequency of occurrence, type of business (sector etc), location, water dependency and volume usage.

High Priorities:

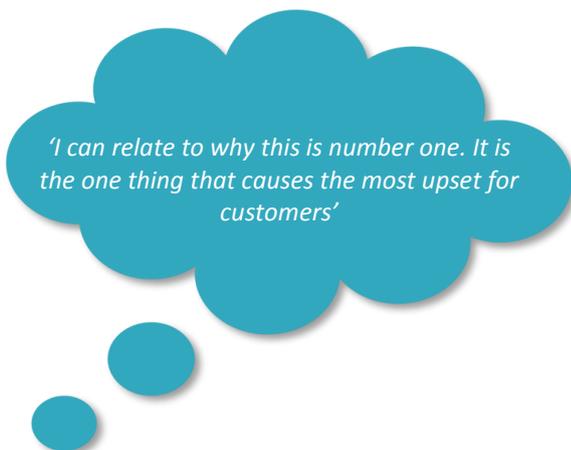
Fig 1 – SR21 High Level Customer Priorities:

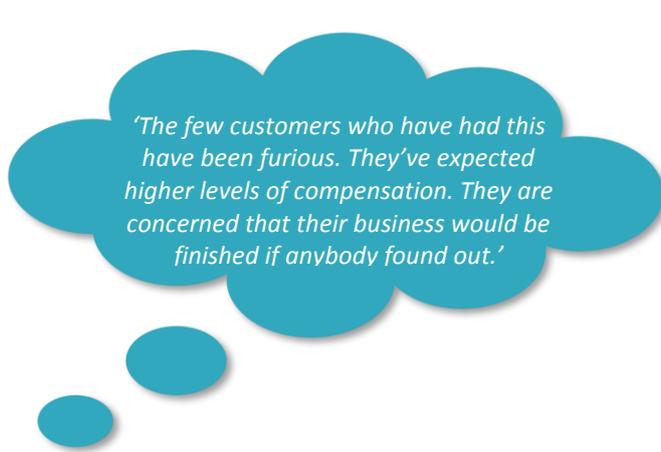


Internal Sewer Flooding

There was general consistency from LP's that from their point of view they could understand why customers, and particularly business customers, placed internal sewer flooding as a high priority. The impact on trade is the key aspect here. However, some did question its ranking position because they don't believe it affects many customers. Hence whilst it might cause great distress and have a large impact on trade if it happens, the incidence is generally felt to be low. Its not something they hear a lot about from customers – although arguably they agree they wouldn't necessarily be the first contact point if this did happen.

The type of businesses that would feel the impact more, if it were to happen, were SMEs where a loss of trade for just one day is a big deal, and those who sell any type of consumables including restaurants etc.





Long term interruptions

There was widespread agreement that system resilience and continuous supply is key for business customers. Therefore, there was unanimous agreement that this should fit in the high priority category. Whilst this is felt to be key for all business customers, in particular this was essential for large manufacturing / chemical processing retailers, public sector customers such as hospitals, prisons and schools, airports, and any business (large or small) that has a high dependency upon water.

As mentioned earlier, LP's definition of the timeframe involved in interruptions, short or long, differs quite significantly. This appeared to be more of a reflection of their customer base. For those dealing with large, or public sector, or heavily water dependent businesses, long term was defined as anything over 4 hours. For those largely dealing with SMEs, it was anything from over 48 hours to a week or more.

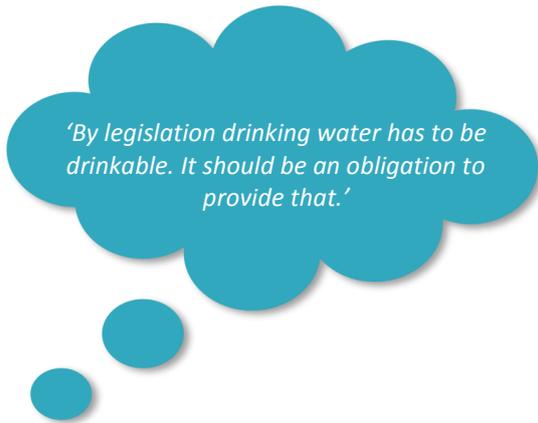




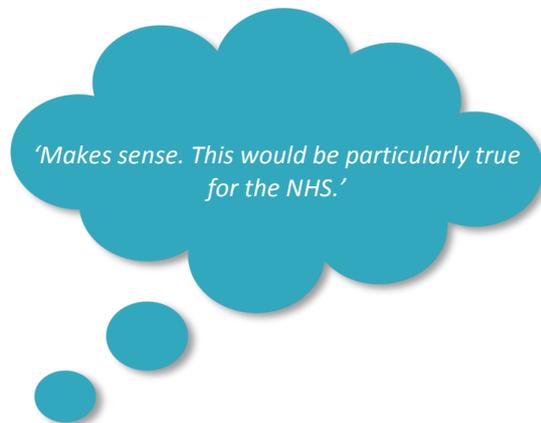
Drinking Water Quality

Drinking water quality causes some polarisation of views amongst LP's in terms of whether it should be in the high priority ranking or not.

For a few individuals it is felt that the quality of the drinking water is a hygiene factor – a given for an organisation operating as a water company. Equally for a number of LP's, the water quality is deemed very good currently, and they don't experience many issues from their customers about it, and therefore don't believe it should be considered a high priority.



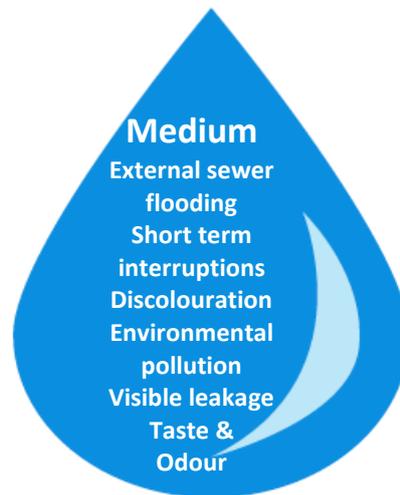
However, for many others it is logical that drinking water quality (i.e. translated to safety) is a high priority especially for some cases, such as 'sensitive customers' e.g. hospitals, schools, care homes etc.



One area that several LP's did discuss around drinking water quality, was that this term was believed to be quite encompassing and they questioned customers understanding of it. The belief is that discolouration, taste and odour also come into quality of drinking water.

Medium Priorities:

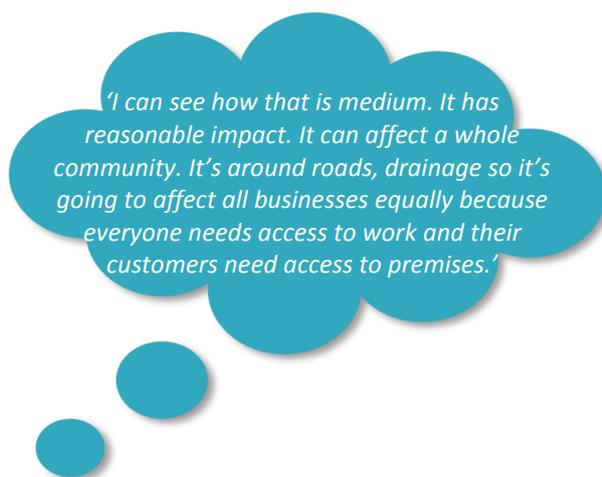
Fig 2 – SR21 Medium Level Customer Priorities:



External Sewer Flooding:

Generally, most LP's were in agreement that this aspect would have a lower priority than internal sewer flooding, and that a medium priority seemed logical. There would still be an impact to business customers as a result of external sewer flooding from an access point of view.

Whilst deemed fairly universal in its impact on the different types of businesses, it was felt that for schools and public amenities, this would be more of an issue. However, on balance the ranking seemed appropriate from LP's experiences.



Short Term Interruptions:

Similarly to long term interruptions, LP's appreciate that any interruption to supply is an interruption to trading and potential loss of business and hence can see the need for it being a medium priority ranking. The key to whether this is medium or potentially high depends upon on the timeframe and frequency of events. Ultimately for it to be classed as a short term interruption, it would need to fulfil the criteria of being less than 4 hours. If it's a frequent event, then it is deemed it would have higher priority for those businesses being affected.

Overall it was felt that hospitals, schools and companies that were highly dependent on water (e.g. manufacturing / chemical processing and hospitality) would see short term interruptions having a higher priority ranking etc.

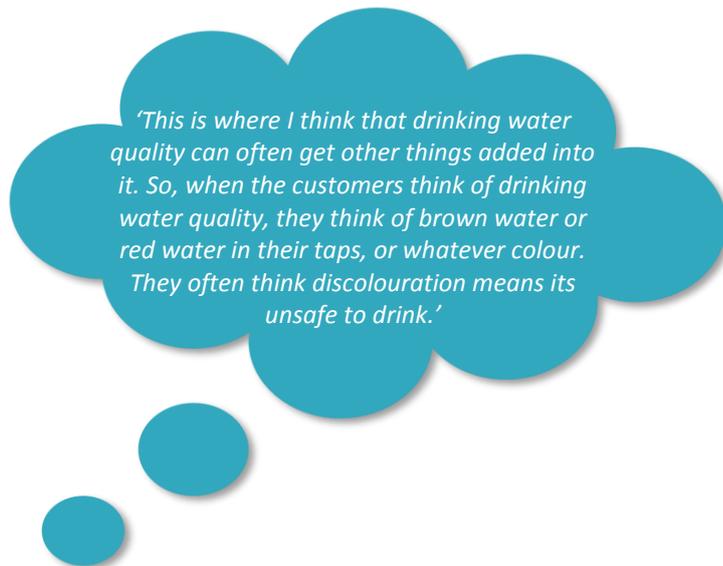
'Yes, I think it's a medium priority, but obviously becomes an emergency if it affects the sensitive customer ...so someone who uses water for kidney dialysis, schools etc.'

'Yes, I think I understand why that's a medium priority. It makes sense. The longer ones are high impact and the shorter ones are medium.'

'Never really had any customers complaining about this, but it's mainly around how the water company manages it. If there is sufficient communication, there's not too much impact. However, it does also depend how often it's happening.'

Discolouration and Taste & Odour (Water Aesthetics)

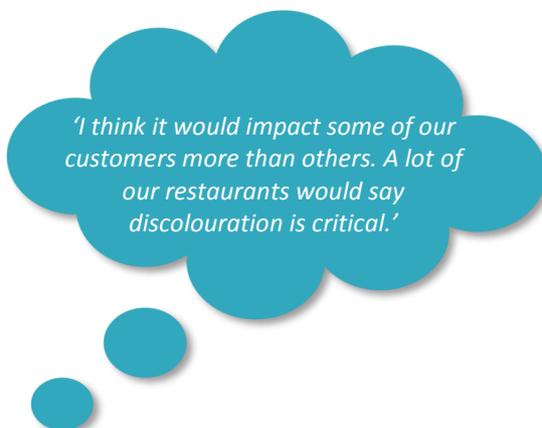
Generally, LP's tend to talk about discolouration and taste and odour in conjunction with one another, under the banner of water quality. They also feel that customers would think about water quality as more encompassing than just safe water to include these aspects.



The factors affecting the ranking of water aesthetics are: frequency / length of time of the problem, LP's own experience of customers talking about this, and business customer profile.

It is perceived to be quite a regional problem and hence whilst most recognise the potential health and safety risks that their customers would be concerned about, and therefore agree with the medium priority level, there were a minority who 'downgraded' its ranking given the low level of their experience of their customers complaining about this.

However, there was a consensus on the type of businesses that would be more impacted by this aspect, such as the hospitality sector, any heavily dependent water businesses such as chemical processing / manufacturing and also NHS / sensitive customers etc.



On balance, LP's generally agreed with the overall ranking of this water quality aspect.

Environmental Pollution

For many LP's, the term environmental pollution causes some confusion as it is often associated with river and bathing water quality and hence there is a lack of clarity as to why this has been isolated.

Most believe this aspect would be around discharge, and depending upon the LP's customer base, there was a general feeling this would be less of a priority to business customers than domestic, and should perhaps move into a low priority ranking alongside river and bathing water quality.



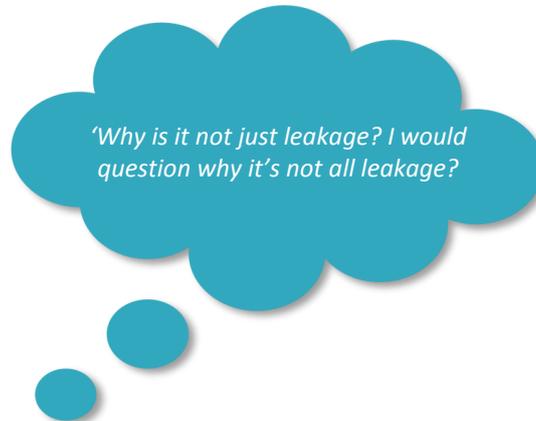
Again, there was consensus around the types of businesses whereby potential impact was higher, namely the leisure sector, hospitality along rivers / coast, and those in the fishing industry. A couple of LP's either elevated its priority or agreed with the medium positioning based on this.

For the few that associated it more as a result of chemical spills etc, priority ranking was felt to be dependent upon the scale of the incident.

In general, incidents were believed to be a rarity.

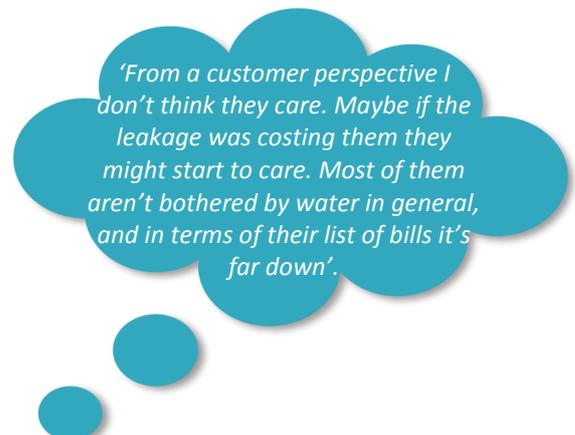
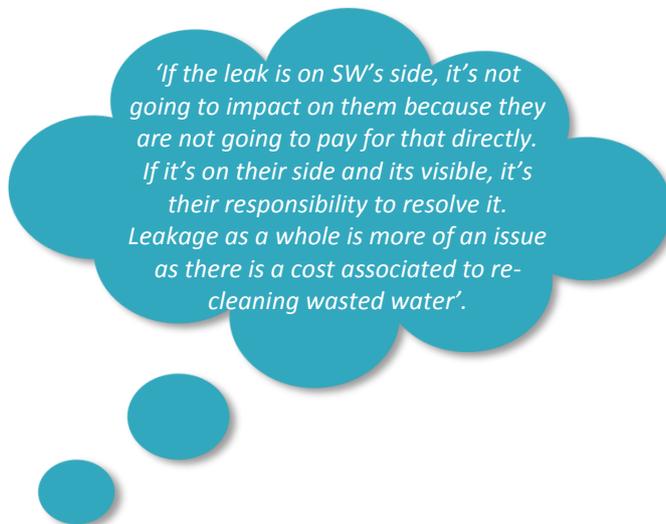
Visible Leakage

Many LP's were confused as to why only 'visible' leakage is mentioned. Most believe it should simply be leakage.

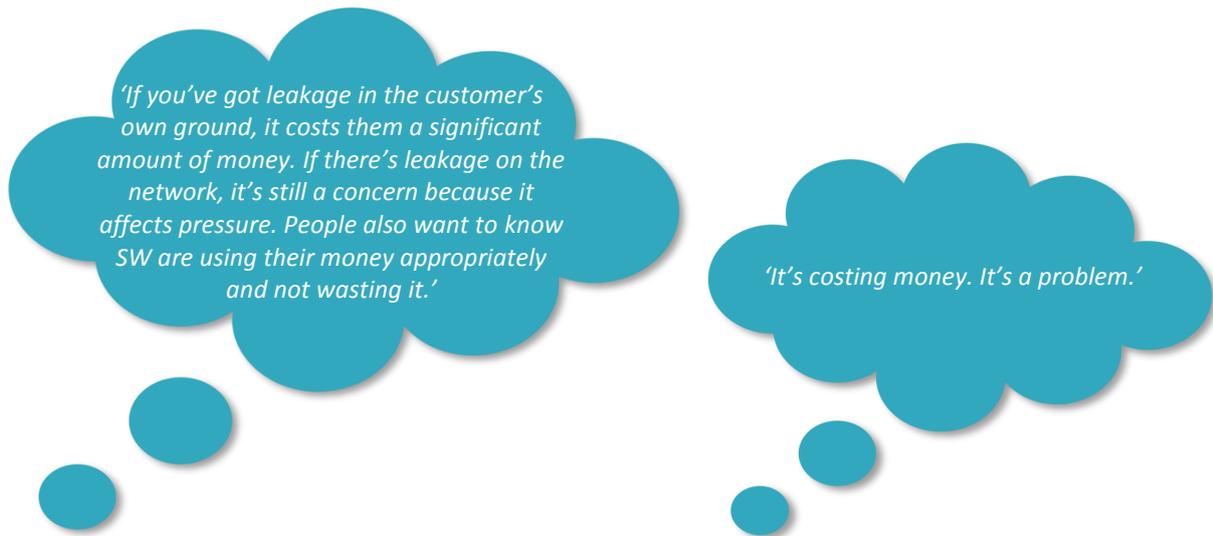


There was disparity between LP's as to which 'side' visible leakage falls into: the network (SW's responsibility) or the end user. This then impacted upon how important some LP's believed this issue to be for customers.

For a few, if they believed it referred to the network, there was a feeling that customers wouldn't really care as they weren't overtly paying for it. Equally, for one or two, the cost of the water bill in relation to other customer bills was felt to be minimal (larger organisations / less water dependent).

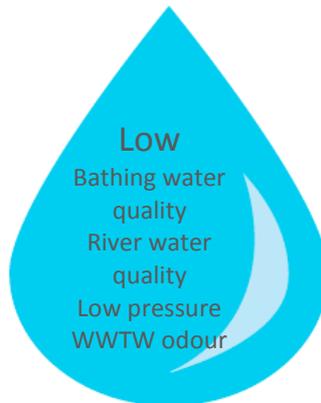


However, for the majority of the remaining LP's, leakage was important and a medium ranking seemed appropriate and logical, whether it referred to leaks on the customer's pipework (a direct cost to the customer's bill) or if it referred to the network which affects water pressure.



Low Priorities:

Fig 3 – SR21 Low Level Customer Priorities:



Bathing and River Water Quality

The majority of LP's were confused by the language of 'bathing water'. Most did not immediately translate this to 'swimming bathing water' / 'coastal bathing water', but instead mistook the term to have a more literal meaning i.e. water from the bath. Whilst this is obviously an industry term, this output suggests that even LP's do not necessarily understand the language used and that perhaps more explicit terminology would be better e.g. 'coastal bathing water.'

Once prompted to the real meaning, bathing and river water quality tended to be discussed together, and as discussed previously, most believed they fall under environmental pollution.

As with environmental pollution, river and bathing water quality are felt to less of an issue or concern for the majority of business customers and so a low priority ranking seemed a logical output. This is also related to the fact that there is not felt to be an issue currently.

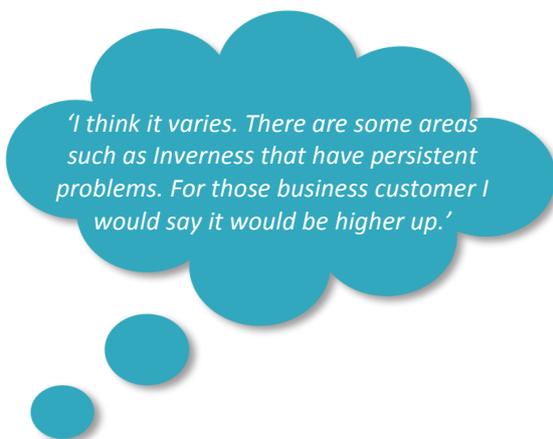


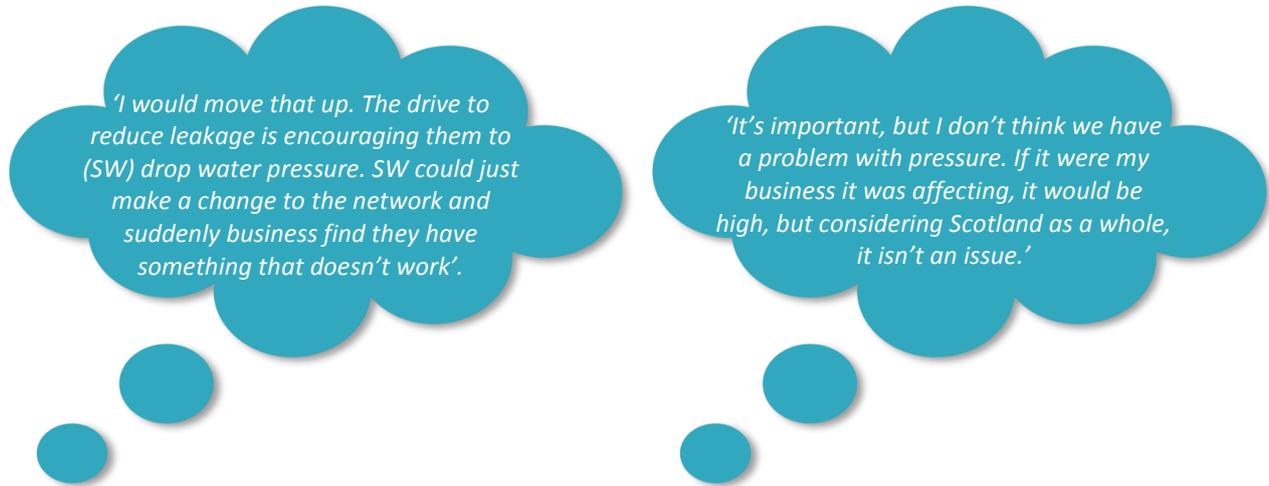
Whilst there is recognition that this may impact more on businesses that are situated alongside rivers or the coastline e.g. hotels, leisure businesses etc, and also those who rely on the coastal water e.g. fisherman, on balance given the current quality and lack of any perceived issues around this area, a low ranking was still deemed logical.

Water Pressure

This area created some polarisation amongst LP's and was an area that many LP's (not all) believed priority ranking may have been influenced by the domestic customer.

Perceptions of ranking were dependent upon the location and type of businesses and how low pressure would affect them. There was widespread recognition that overall there isn't too much of a problem, although there are pockets of issues. There is also awareness that currently SW are providing above the legal requirement (1 bar) but if that was lowered, businesses who are highly dependent upon water would be impacted upon. For this reason, many would put low pressure higher up into medium ranking.





Waste Water Treatment Odour

For the majority of LP's, it seemed logical that customers had ranked this low.

Overall, whilst it is felt that those businesses near a treatment works would be impacted more, the impact is less of a direct issue on trade (unless they are in the leisure or hospitality business). Equally the number of treatments works are 'few and far' between and hence the number of businesses potentially affected is limited.

LP's Priorities for Non-Household Customers

Overall, as discussed, LP's were broadly in agreement with the product related customer priorities, with perhaps the exception of moving water pressure into medium and environmental pollution to low ranking positions.

The key for LP's is that there is a glaring omission within the current SR21 customer priorities of anything service related, which is what they believe they have most contact with business customers about, and that which generates the greatest number of issues for their customers. These would include:

- growth / infrastructure and the service related to this
- water efficiency
- speed of response
- smart metering and metering generally (shared assets and drainage)

- tariffs / charging.

Many of these aspects, perhaps not surprisingly, also relate to how SW can support LP's in the future to fulfil their own company business plans.

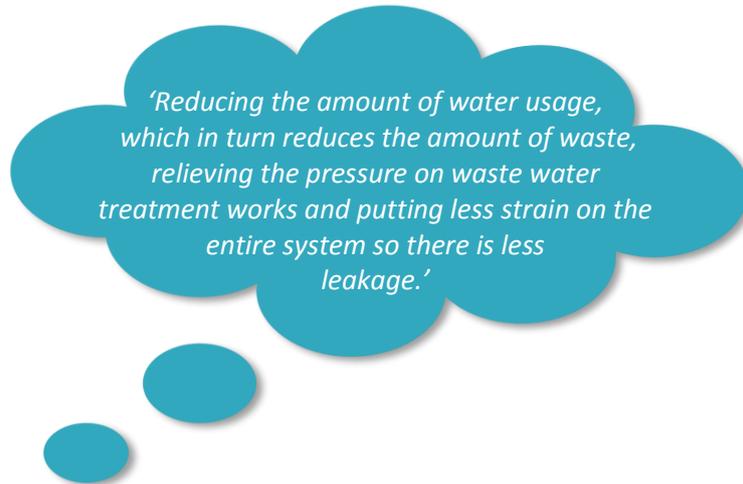
Growth and Infrastructure:

This predominantly relates to new connections and the capability and processes for handling these. Currently these are deemed far too long winded and surrounded by red tape. For one LP, it actually prevents them taking on a new customer who needs a new connection, as it is simply viewed as too much hassle.



Water Efficiency:

For quite a number of LP's, water efficiency would be a key priority; improving efficiency and efficiency awareness.



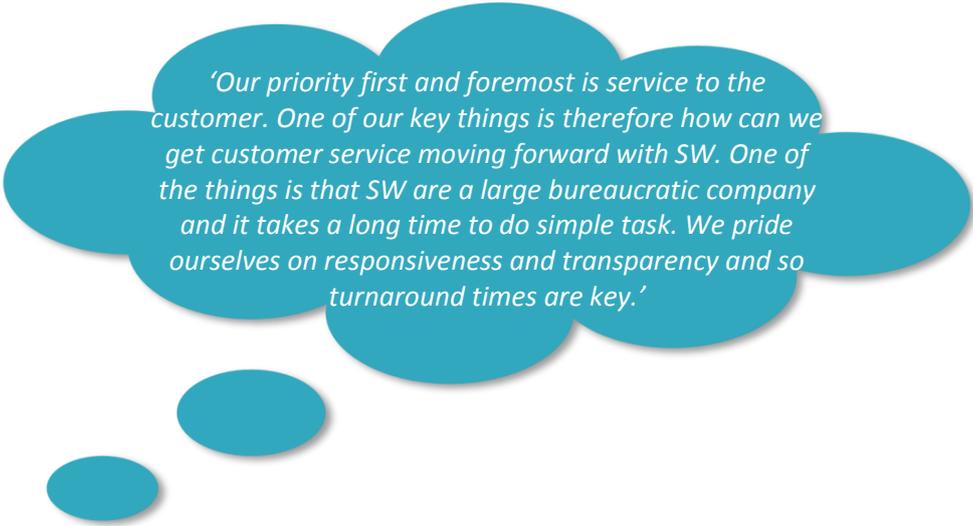
This area is believed to be a desire of retail customers i.e. offering new competitive services, and an area that could have far reaching implications, not only for the customer, but also for SW.

Much of the support and initiatives around water efficiency that SW are perceived to be able to help LP's with are around awareness of water usage via smart metering and incentivising via the tariff structure.

Currently smart meters are being used more widely in other utilities, but not within the water industry. Equally, the current tariff structure is felt to have a very small variable element and therefore customers are not incentivised to monitor their water usage as there is no real perceived benefit.

Speed of Response

This aspect is relevant and widespread across all LP's. Whilst speed of response across departments of SW has already been discussed within the previous LP Annual Surveys, it is mentioned as being relevant within SR21 customer priorities because many of the customer complaints received by LP's from business customers relate to this area, and it is therefore deemed a service priority.



A number of LP's discuss how the opening up of the market in England and Wales has reinforced how important speed of response is, given some business customers have sites in England, Wales and Scotland and thus see differences in the responsiveness between wholesalers in this new market and Scotland, the latter often slower.

Metering (including smart metering / shared supply)

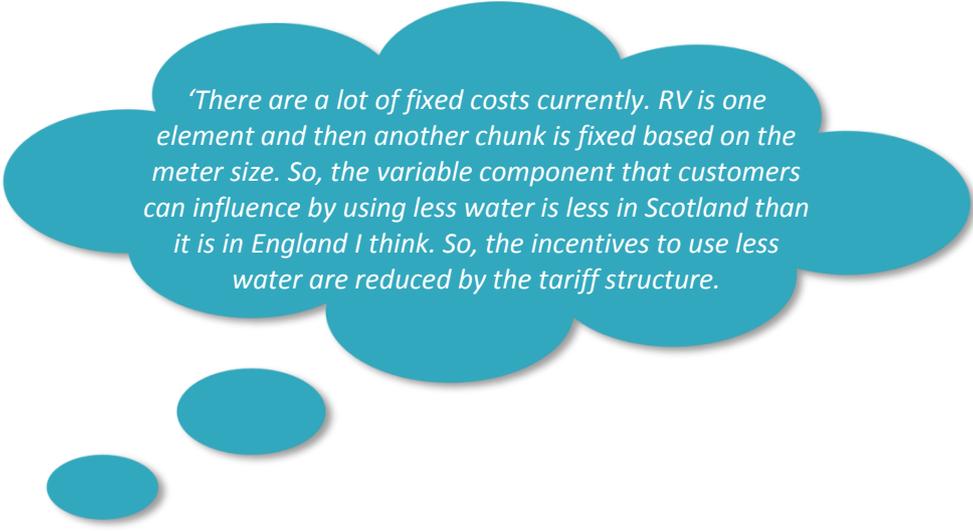
Beyond Smart metering discussed previously, one other area mentioned by a minority of LP's is the metering relating to shared assets. This would mainly apply to those who have customers that share a building.



Tariffs and Charging

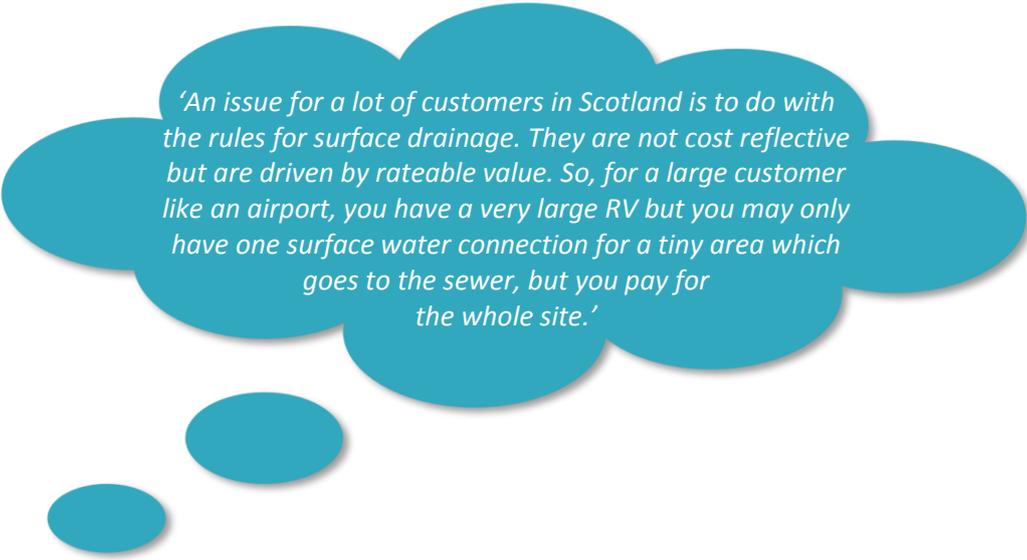
This predominantly relates to two issues: incentivising customers through the tariff structure to use water more wisely. More specifically through placing a larger emphasis on the variable aspect of the bill. Currently it is viewed that the fixed element has too much weighting and there is no real incentive for customers to monitor their usage.

Again, there was also comment that the tariff structure being different between the different markets (Wales, England and Scotland) has brought this issue more to light from an end customer point of view.



'There are a lot of fixed costs currently. RV is one element and then another chunk is fixed based on the meter size. So, the variable component that customers can influence by using less water is less in Scotland than it is in England I think. So, the incentives to use less water are reduced by the tariff structure.'

The other aspect to the tariff structure is that of surface water drainage which is driven by rateable value (RV) rather than what the customer discharges. Whilst it is recognised that SW may have little direct influence over the Government's decision on this, it is believed that it is SW's duty to report back to the Government LP views on these matters.



'An issue for a lot of customers in Scotland is to do with the rules for surface drainage. They are not cost reflective but are driven by rateable value. So, for a large customer like an airport, you have a very large RV but you may only have one surface water connection for a tiny area which goes to the sewer, but you pay for the whole site.'

The move to Live RV charging is generally viewed negatively by LP's. It's not only the structure of it being seen as unfair for some customers, but also the process of phasing across three years. For many LP's, beyond the fact they feel the whole area surrounding Live RV charging is confusing, the phasing in of it is also problematic. From their point of view a simple change over would have been fairer. There is also a feeling that the Government are not listening to them with respect to this.



'We do not think it should be staggered. A customer who sees their RV has dropped immediately for their business rates but isn't going to benefit from that for three years.'



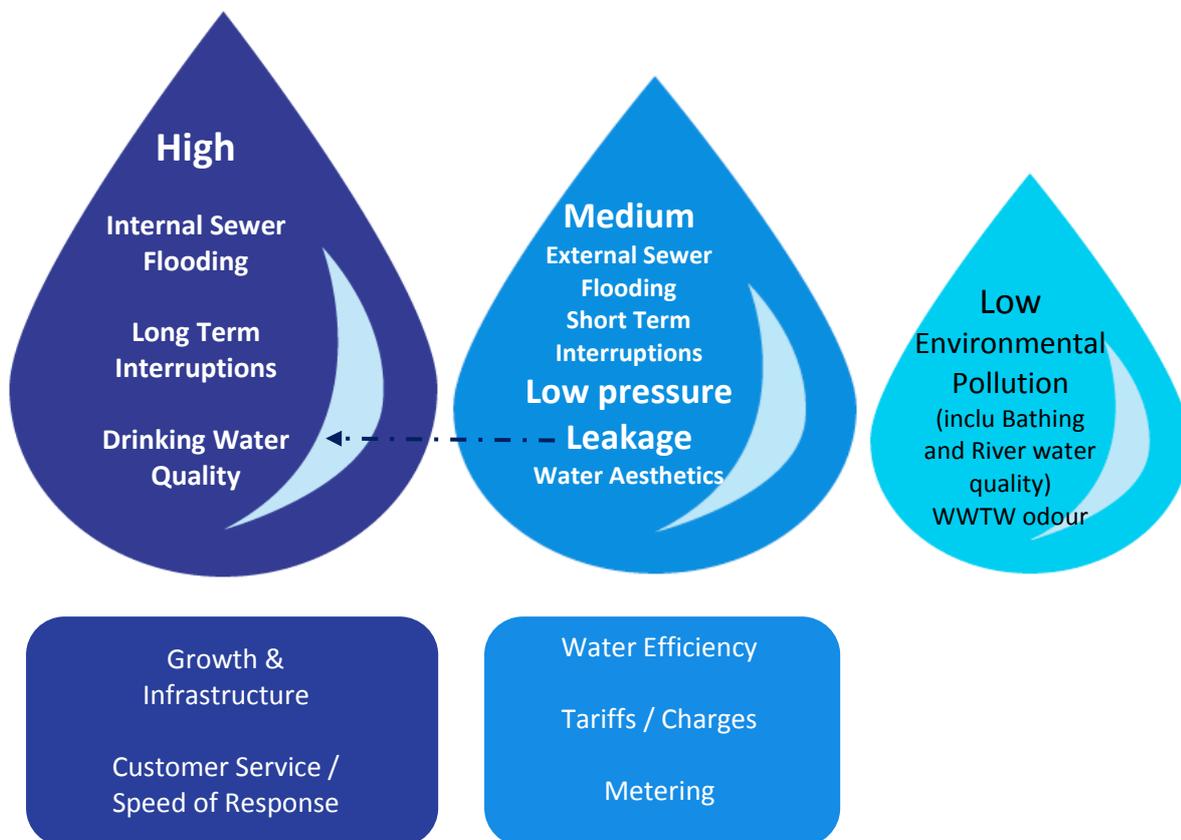
'RV is a real bone of contention. They are going to be phased in. I was involved in business metering program which was a similar phasing idea. Government didn't listen to LP's and they ignored us. They should just change it. Should have met us half way – those with lower RV just change it and those going up, lets phase it in. Then at least there is an advantage to phasing.'

LP's Revised Priorities for Non-Household Customers

The diagram below illustrates the changes that would be made to the existing SR21 Customer Priorities based on LP feedback (in the water drops), alongside the addition of service related priorities they discussed (shown in the boxes below). Generally, those service related priorities in the high level ranking have been allocated there based on the level of frustration noted in LP views around these aspects and thus a greater sense of urgency required to implement them.

Please note that where changes to priorities have been made, these are highlighted by the use of larger font size. All other priorities remained unchanged.

Fig 4 – SR21 LP Revised Customer Priorities:



7. SUPPORTING LP's

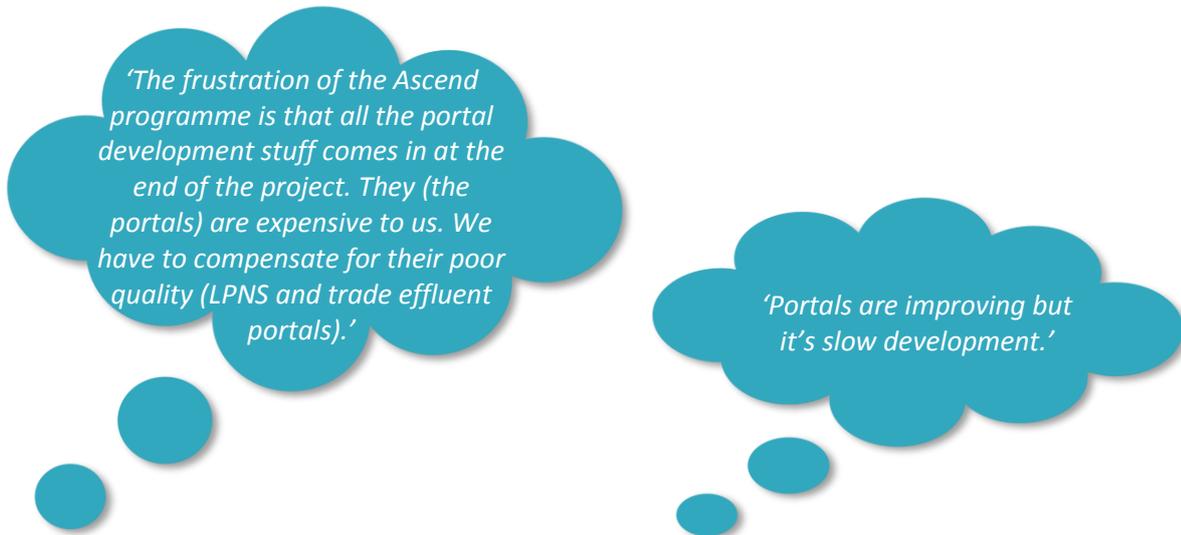
A number of the aspects already mentioned as priorities for customers from an LP point of view i.e. service related aspects, would also benefit and support LP's in their future needs and plans for the 2021-2027 period.

Beyond those already mentioned in the previous section, additional expectations or support required by LP's for the future are as follows:

- Transparency
- Payment terms
- Integration of IT systems (API) allowing CRMs to talk to each other

Transparency:

Whilst LP's recognise there have been efforts made around transparency with the Ascend Programme, many feel this hasn't gone as smoothly as expected and that many of the desirable developments of the portals come in at the end of the project, which is frustrating for LP's as in their current state they are costing them money. Currently, the SW portals are not viewed agile enough to support LP's.



Payment Term Options:

The up front payment of wholesale charges is viewed by some LP's as unfair. Some of these LP's are relatively new and small, and thus cashflow can be lean.

Now that the market is open in England and Wales, wholesalers in that market are offering payment options to LP's, which is welcomed.

Integration of IT Systems / Smarter IT Systems

The integration of IT systems or smarter systems that could link directly with LP's CRMs would not only make life for LP's easier, but would also help customer service. For LP's, the desire is for 'real time' data.

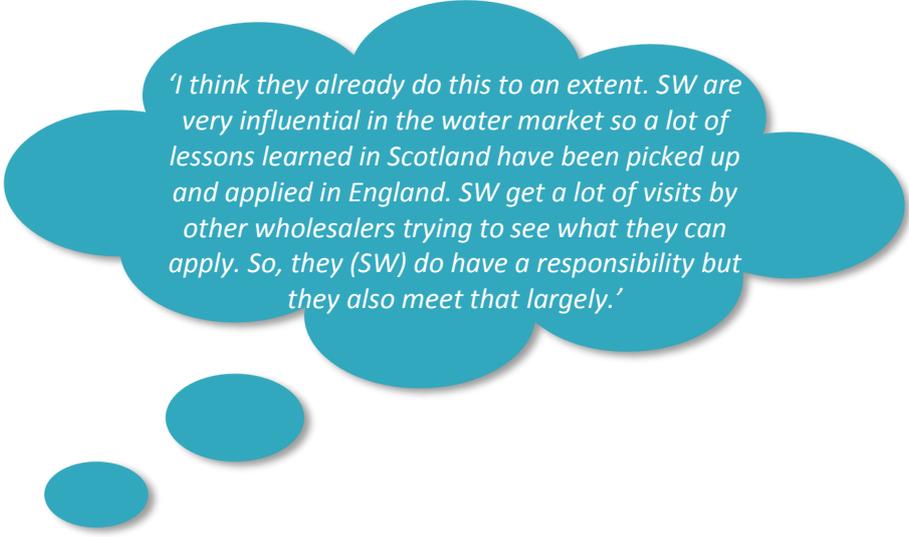


8. SW AS A THOUGHT LEADER

The opening up of the English and Welsh retail water market has seemingly had a beneficial impact upon perceptions of SW by LP's.

Most LP's who are participating in all markets tend to believe that other wholesalers could benefit from looking north of the border. However, they are also aware and acknowledge that the market in England and Wales is new and is going through a teething process much like SW did, and that time will tell. They also recognise that there are many more wholesalers to deal with which comes with its own problems with everyone having different processes, forms etc.

Many LP's feel that other wholesalers could learn from SW, and hence the role of a 'thought leader' seems logical. Some even believe SW are already doing this.



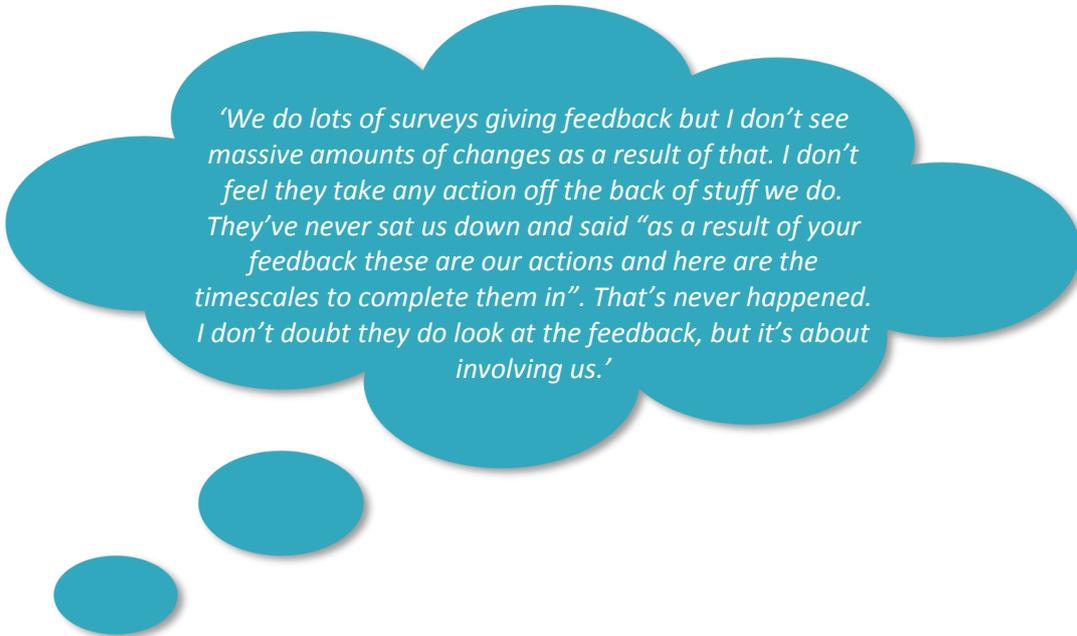
'I think they already do this to an extent. SW are very influential in the water market so a lot of lessons learned in Scotland have been picked up and applied in England. SW get a lot of visits by other wholesalers trying to see what they can apply. So, they (SW) do have a responsibility but they also meet that largely.'

However, the flip side of the market opening up in England and Wales for SW is that their perceived weaknesses have perhaps been more exposed. Namely:

- Processes being overly longwinded in some areas – Anglian was cited as a wholesaler in the new market who is believed to have leapfrogged SW in some of their processes i.e. their turnaround times and processes are quicker.
- Payment terms options – other wholesalers offer different payment term options.
- Tariff structure – there are large fixed elements to the SW tariff compared to wholesalers in England and Wales.

Moving forward to the development of the market in the future, there is a definite desire for some level of standardisation in terms of processes, forms and documentation, and IT systems.

Looking at communication of research undertaken by SW, there was polarisation amongst LP's as to the feedback they receive from SW. For approximately half of them there is sense that they are sufficiently kept up to date via their Account Manager and regular newsletters, but for the remainder, there is a feeling that SW could update them more.



One LP mentioned the Rant and Rave surveys he completes regularly, but he feels that nothing is done on the back of these surveys, and quite often he'll get an automated message back that doesn't reflect or acknowledge his frustrations.

9. THE PRINCIPLES OF CHARGING

As previously discussed in this report, there are a number of issues raised by LP's with regards charging:

- Firstly, there is a desire for incentivising customers through the tariff structure to use water more wisely. More specifically through placing a larger emphasis on the variable aspect of the bill. Currently it is viewed that the fixed element has too much weighting and there is no real incentive for customers to monitor their usage.
- Secondly, the current tariff structure means surface water drainage is driven by rateable value (RV) rather than what the customer discharges.

The move to Live RV charging is generally viewed negatively by LP's. It's not only the structure of it being seen as unfair for some customers, but also the process of phasing across three years. For many LP's, beyond the fact they feel the whole area surrounding Live RV charging is confusing, the phasing in of it is also problematic. From their point of view a simple change over would have been fairer. There is also a feeling that the Government are not listening to them with respect to this.

- Finally, the other area that is a contentious one for many LP's is the wholesaler to retail charges. Overall the desire is for more alignment and parity of these so that margins aren't squeezed.

'The problem is we have one set of rules for wholesalers and one set of rules for retailers. The Government fixed the retail price up to 2021 and the standard tariff won't move until this date. However, wholesale prices were free to fluctuate in line with the consumer price index. So, we are expecting a 2.5% increases next year. We can't move our prices, so we are at risk being a small business.'

10. CONCLUSIONS

Broadly speaking, whilst LP's generally agreed with the derived SR21 customer priorities, there was perhaps unsurprisingly, widespread criticism that they were solely product focused with no customer service focused priorities. This had led LP's to feel that the priorities had a household customer focus rather than business customer focus.

Service related priorities consistently mentioned by LP's included: growth / infrastructure and the service that sits around delivery of this, water efficiency, customer service / speed of response, metering (smart metering and metering of shared assets) and charging / tariffs.

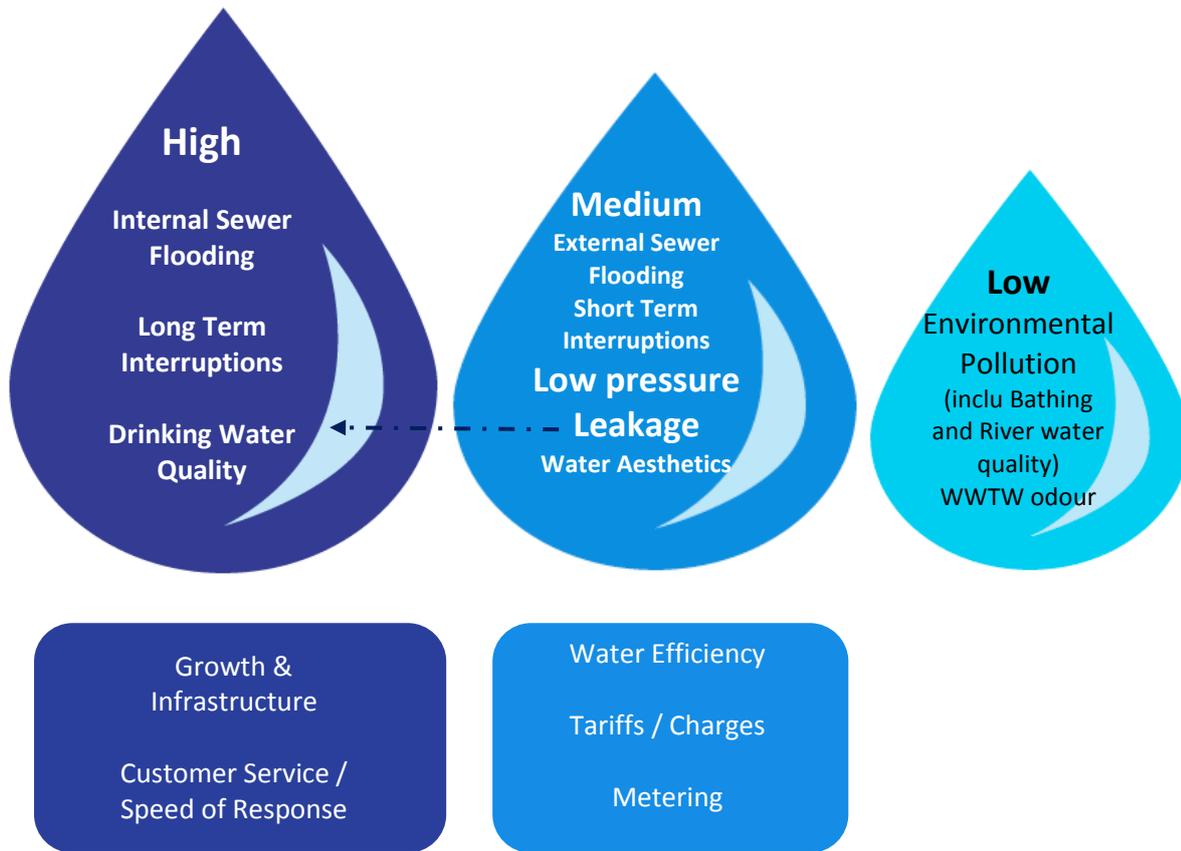
A number believed that drinking water quality was more of an obligation than a high priority, and is a 'hygiene factor' for a water company. Equally, the current standard of drinking water quality was felt to be very good and therefore not an issue for investment. There were far more pressing issues that LP's had come into contact with business customers about.

In terms of the product related priorities, the main changes in ranking from an LP point of view was moving low pressure to medium ranking, and putting environmental pollution in low ranking to include river and bathing water quality. Most believed that there should be a priority of 'leakage' as a whole, not just 'visible leakage'.

'Bathing water quality' as a term caused confusion amongst most LP's, with a more literal translation often observed. Perhaps using a more indicative term such as 'coastal bathing water' may be more suitable?

The revised priorities from an LP perspective, to include service related aspects, can be seen on the following page. It illustrates the changes that would be made to the existing SR21 Customer Priorities based on LP feedback (in the water drops), alongside the addition of service related priorities they discussed (shown in the boxes below). Generally, those service related priorities in the high level ranking have been allocated there based on the level of frustration noted in LP views around these aspects and thus a greater sense of urgency required to implement them.

Please note that where changes to priorities have been made, these are highlighted by the use of larger font size. All other priorities remained unchanged. For some LP's, 'Leakage' was felt to be a high priority depending upon the LP's business customer profile.



Beyond the more service related aspects, LP’s would additionally welcome greater transparency, payment term options and greater integration of IT systems to support them in their future business plans and needs.

Whilst SW is generally viewed quite positively by LP’s, the LP’s that have been operating in the market for some time are perhaps a little more frustrated than those who are newer to the market.

The opening of the English and Welsh retail water market has had a positive impact on LP views of SW, but it has also exposed and further reinforced some of the perceived weaknesses, namely the lack of payment term options, a more rigid tariff structure and the overly longwinded processes that are in place across parts of the organisation.

Moving forward, LP’s would like to see more standardisation of processes, tariff structures, forms and IT systems.

In terms of the principles of charging, there were a number of issues highlighted:

- the RV structure is often viewed as unfair for some business customers and the phasing of the Live RV structure is viewed as unnecessary and further complicates the changes to be implemented.
- the Government have not listened to LP’s around the issue of RV charging.

- the current tariff structure is weighted too heavily towards the fixed elements which does not allow any influence from the variable aspects, thus there is no incentive for business customers to monitor their water usage.
- the wholesaler and retailer charges lack parity and alignment.

11. RECOMMENDATIONS

Based upon this research, Turquoise would recommend that SW considers the service related priorities that LP's have discussed, in order for them to truly reflect both household and non-household customers, and help support LP's in delivery of services they provide to the business customer community.

As a key stakeholder, LP's were keen that SW feedback their comments relating to charging to the Government.

12. APPENDIX

Scottish Water – SR21 Phase 1 Customer Engagement

LP Depth Topic Guide October 2017 V1c

Section 1 - Introduction

2 mins

- Introduce Turquoise
- Introduce oneself and objectives of the discussion: set the scene; reason for discussion
 - We are interested in talking to you with regards to SR21 and the period of 2021 to 2027; SWs future business plan.
 - In particular we want to understand the priorities for end customers, what the needs and expectations of LP's for SW services and your priorities as an LP in the wider market.
- Explain MRS code of conduct and rights to anonymity
- Explain audio recording
- Respondents to introduce themselves – name, LP and job role

Section 2 – Background to the individual

5 mins

Firstly, I would just like to ask you a few questions about your work.

- Explore nature of their work at XXX...
 - Where do they fit into / within XXX?
 - What areas of XXX are they involved with?
 - What areas of responsibility?
- What is your level of interaction with SW?
 - Is that direct interaction?
 - If yes, what and how?
 - Which departments?
- How long have you been operating as an LP in the SW region?
 - What has been their experience of working with SW across that time?
 - What has been good?

- What has been bad?
- Are you involved in helping to shape your own company's future business plan?
 - If yes, what is their involvement?
 - If you don't mind me asking, what stage is that at?
 - Have you identified customer priorities?
 - If so, which (are they willing to share)?
 - Which of those do you think that SW could help you with?
- What three words would you use to describe SW?
 - When I think of SW I feel...
 - When I think of SW I feel...
 - When I think of SW I feel...
- What are your perceptions of SW?
 - What are its key strengths?
 - What are its key weaknesses?

Section 3 – SR21 Priorities for customers

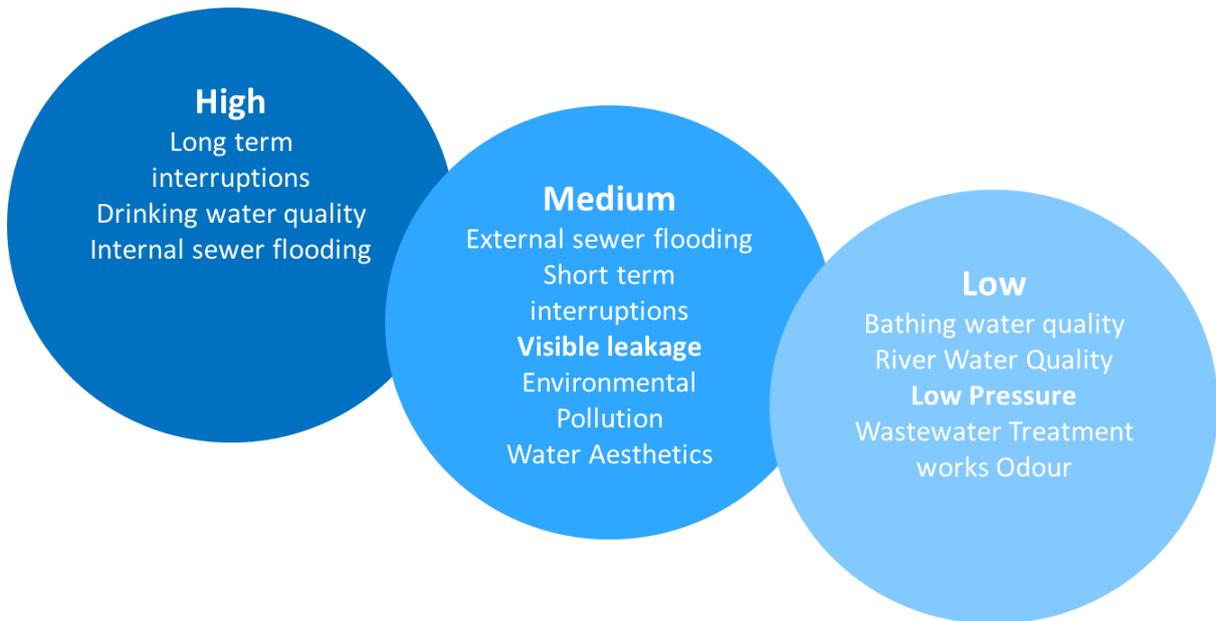
15 mins

SW is keen to understand LP's future needs and expectations. Part of this is gaining deeper insight into the customer priorities; that were an output from SW's earlier research with household and business customers; understanding if they feel right for you based on your experience with non-household customers.

- Do you feel that engaging with LP's such as yourselves to understand your customers priorities is important?

Did you receive the list of high, medium and low customer priorities from SW? (if not received, get email and send direct)

- Just at an overall level, what are your perceptions of the high, medium and low priorities that SW customers have identified?



- Ok, let's take the high-level priorities...
 - What about your own business end users. From your interactions with them, why do you think customers have indicated that these are a high priority to them?
 - Are you able to help us understand why customers have placed these here?
 - Take each in turn and probe why they think it is where it is?
 - Do you have any examples from your own dealings with business end users that support or refute that?
- Ok, let's take the medium-level priorities...
 - What about your own business end users. From your interactions with them, why do you think customers have indicated that these are a medium priority to them?
 - Are you able to help us understand why customers have placed these here?
 - Take each in turn and probe why they think it is where it is?
 - Do you have any examples from your own dealings with business end users that support or refute that?
- Ok, let's take the low-level priorities...
 - What about your own business end users. From your interactions with them, why do you think customers have indicated that these are a low priority to them?
 - Are you able to help us understand why customers have placed these here?
 - Take each in turn and probe why they think it is where it is?

- Do you have any examples from your own dealings with business end users that support or refute that?
- When do you see these priorities differ to those presented by customers?
 - Is this related to business size, type, location?
 - Probe
 - Sole traders
 - Med/large businesses
 - If a business is water dependant or not
 - If a business has multiple locations
 - What about geography, urban V's rural
 - How do they differ?

These priorities represent groups, or categories of issues that might impact customers. When SW did their survey, there were around 30 different sub-categories covering all service issues (e.g. internal flooding, sewer flooding in the workplace coming through an entrance door, internal sewer flooding coming into the workplace in storage areas not used for day to day working, etc).

SW are investing in the overall customer experiences (e.g. how they communicate with customers). However, this does not feature within priorities as they are related to service issues; the customer experience is linked to all of these.

- From what we have been talking about and knowing your own business end users, is there anything at all, that you feel would be an additional priority to your customers?
 - If yes, would you consider this a requirement for delivery from SW as your wholesaler?
 - Is there anything on the periphery that has been missed or might have an impact on your customers?

Section 4 – Supporting the LP's

5-10
mins

We now want to talk to you as an LP and as a customer of SW. Where possible SW is keen to support your needs and expectations within its SR21 plans

- What are your needs and expectations from SW in terms of the level of service they provide to you in the 2021 to 2027 period?

- How far does SW's business plan (priorities) meet their own company's business plan?
- How do you expect SW to support your business plan?

As a business and thinking about your future aspirations for improving the service they provide to your customers...

- What are your needs and expectations from SW related to the future service they provide directly to your customers? E.g. operational/site visits
- Does this differ based on customer type (e.g. location of business, size of business, dependency on water, etc.)
- What experience expectations and levels of service are you looking for SW to deliver?
- How do the LP portals that SW has set up for LP's, align with your businesses expectations and plans for the future?
 - Are they agile enough for your needs?
 - If no, why not?
- What might need to change to support your plans for the future?
- What happens if your plans change in the future?

Section 5 – SW as a provider/thought leader

**5-10
mins**

Whilst SW has been active as a wholesaler for the longest period in comparison to any of the other wholesalers in the UK, SW is keen to learn from your experience of the market opening in England and Wales.

- What lessons have you learned as a result of the market opening in England and Wales?
- What could SW learn from wholesalers in England and Wales?
- Who/which wholesalers are doing well in terms of customer service in England and Wales?
 - Why?
 - What can SW learn from them?
- SW has undertaken regular research with LP's and customers. Do you feel they keep you up to date with work they have been doing?
 - Yes/no?
 - Why/why not?

- If yes, how should they keep you up to date?

SW's vision is to be trusted to care for the water on which Scotland depends.

- Do you feel they do this?

As part of this vision, SW always aims to listen to customers, including business end users and LP's.

- Were you aware of this aspiration?
- Do you feel they do this?
- Would you like more information on the research that is conducted and the improvements delivered?
- Do you think that SW could, or should act as a thought leader for wholesalers or other water companies?
 - If yes, how would they want to input to work that SW do in this regard?
 - How would you want to be part of that process (if at all)?
- How has the market opening up south of the border affected your opinion of what SW do?
 - For better?
 - For worse?
- What other impact of the market opening up do you think might happen/expect to happen?
 - How might that impact you as an LP?
 - What would you need from SW to support you in that regard?
 - If there is/were a process that doesn't work, what lessons are there to be learnt from the market opening in England?
 - What do you want and expect from market development in the future?
 - Probe
 - Documentation
 - Processes
 - Central Market Agency
 - (market alignment across England, Wales and Scotland) only if brought up by LP
- What are your views on the principles of charges (wholesaler to retailer) i.e. the statutory guidance from government?
 - What about the overall level of charges?
 - What about the overall structure of charges e.g. balance of fixed and variable, complexity, use of RV (Rateable value) for unmetered charges?

- As an LP what charges would you want to change?
- Generally, how good do you feel that SW are at engaging with LP's?
 - Why do you feel that way?

Section 6 – Summary

1 mins

- Based upon our discussion and moving forward, what would be the one thing that you would do if you were SW to support you and your plans for the future?

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30

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