



CUSTOMER ENGAGEMENT FORUM

Customer Engagement Forum (CEF) Valuation Sub-Group

Date: 6 March 2018
Time: 09.00 – 10.00
Location: Lancaster House, Ermine Business Park, Huntingdon, PE29 6XU

Present:

- Jeff Halliwell – Independent Chair of Customer Engagement Forum (CEF)
- Zac Alexander – ch2m (for Graham Hindley)
- Beth Corbould – Economist, Civil Aviation Authority
- Bernard Crump – CCWater (by phone)
- Paul Metcalfe – MD, PJM Economics
- Peter Olsen – Chair, Hartlepool Panel
- Allan Provins – ettec
- Scott Reid – ICS Consulting (by phone)
- Daniel Storey – Director, High Point Economics
- Helen Dunn – Anglian Water
- Alex Plant – Anglian Water
- Darren Rice – Anglian Water
- Sophia Ronketti – Anglian Water
- Vicky Anning – CEF Report Author

Agenda Items

Action

1. Welcome and introductions

Darren Rice explained the main aim of the meeting and of the CEF Valuation Sub-Group. This was to review Anglian Water's valuation strategies, to address CEF members' questions and to start talking about the company's approach to triangulation.

Helen Dunn and colleagues had circulated the first pack of PR19 societal valuation reports in advance of the meeting, including:

- Overview application and peer review
- Stated Preference Studies – Main Stage Study & Second Stage Water Resources Study

- Valuation Completion Report

The societal valuation work feeds into the broader customer engagement process – the aim is to feed through into various appraisal processes including:

- Water Resources Management Plan (WRMP)
- Demand management strategy
- PR19 investment option appraisals
- Informing the development of ODIs

For this discussion, Helen focused on core reports:

- Stated preference plays an important role – they are looking at how to improve customer engagement on surveys as well as how to improve validation of results
- Looking at trialling innovative new methods e.g., wellbeing survey – innovative new approach can be used alongside stated preference
- For triangulation, they have broadly used CCWater approach.

Triangulation process is still ongoing. Interim values have gone into next stage in terms of testing.

The company also want to have evidence of good peer review to help in design of study.

Responses/challenges from CEF members:

Bernard Crump: commended Anglian Water’s overall approach, which he found really impressive and comprehensive. Occasionally he found it quite hard to follow in the waterfall diagrams the logic that went from original studies to currently recommended scaled and unscaled values. In one or two cases, some of the results might need some extra scrutiny. He would be interested in knowing at what point the results are used to produce cost-benefit analysis for the Business Plan.

Darren Rice thanked Bernard for the useful insight into making this work more understandable and navigable. He said this would be taken on board.

Paul Metcalfe: agreed with Bernard that the company had taken a very comprehensive approach and should be applauded. He had a few questions:

- 1) Difference between bill reduction and bill increases. There was a table as an annex but he would like to see more detail.

Darren agreed that Anglian Water and eftec will take this forward and provide a fuller response.

DR/eftec

2) **Paul** also asked how the company are using business as usual data with triangulation and suggested this needed some further planning.

Helen responded that the company looks at multiple sources to get to a value range that goes into business testing. A full range of qualitative and quantitative data goes into synthesis report.

Darren: cost-benefit analysis is the starting point. We have supporting evidence from some of the other elements derived from customer engagement and day to day business. The hard bit is now working out what to do with all that data for a critical plan.

Daniel Storey: found the data comprehensive. He had six questions (see appendix for Daniel's written comments):

- 1) Gaps between willingness to pay vs willingness to accept data. Concern that AW seem to be throwing away WTA data for WTP.
- 2) To what extent were consumers involved in stated preference surveys before asked to make choices eg about river pollution
- 3) How can SP be used to calibrate customers' real life choices (giving you more assurance on consumers general preferences)
- 4) Bundle vs individual measures – suggests less confidence in individual choices (is this a conservative approach?)
- 5) Marginal vs average WTP (if you have consumers with variable WTP, are we taking person with least WTP and how does it flow through to numbers?)
- 6) Stability of results: are these replicable within statistical margin of error. If not, how do you deal with that uncertainty?

Anglian Water and efttec will provide a written response to these questions

DR/efttec

Peter Olsen: As Hartlepool is a water only area, he was interested in what level of cognisance of WTP data in Hartlepool is taken into account. The company responded that they have not carried out separate valuations for Hartlepool but have drawn out a context for Hartlepool that tells the specific story there.

Peter would like to see separate results from Hartlepool.

DR/AP

Beth Corbould: was really impressed with the breadth and depth of research. Challenge for AW is how you present this in a comprehensive and navigable way – it will be down to precise drafting and wording. She would like to see more of a narrative in the overall plan.

Bernard referred to an email he had sent prior to the meeting that highlighted a CCWater publication recommending that valuation data for use in setting incentive and penalty rates for ODIs should be derived from studies that are

framed for this purpose. He also highlighted that there wasn't any discussion in the documents about the proposal for stepped rewards and penalties. He asked how data is used for under and over performance – putting values on ODIs – and highlighted the need for that to be framed properly.

Darren: confirmed that AW have a piece of research looking at incentive rates for customers. Agreed that the company need to provide crystallisation to CEF members around ODIs.

Jeff Halliwell raised three points

- 1) Technical challenges
- 2) Assurance: have we identified a brief for ch2m in terms of assurance?
- 3) Next steps

There was agreement that a comments log for the WTP survey would be helpful. Eftec agreed to provide this.

eftec

Helen: would also provide a better narrative by pulling all different challenges into different themes.

HD

Daniel said he would provide comments to add to the log (see Appendix)

DS

Darren: agreed there was a need to create transparency and visibility of process. He said the company needs to provide CEF with assurance and clarity re:

- 1) Triangulation
- 2) Mechanisms and timings

Jeff asked at what point this information is in a state that is more understandable to members of public that can in turn be fed into the customer engagement process.

Jeff agreed that two further meetings of the sub-group would be useful to help with CEF scrutiny. (These have been set for 20 April and 22 May).

Jeff said he would ask one of the panel members to chair these meetings.

Appendix: Comments on Anglian Water's Stated Preference Studies

Daniel Storey, CEF member, 7 March 2018

Overview

This note summarises the questions raised orally at the meeting the AW Consumer Engagement Forum Valuation Sub-Group on 6 March. It is provided as a checklist for AW and its economic consultants to help them demonstrate through clear signposting that questions raised have been answered in the body of the research and, where necessary, in the summary documents which show how stated preference results have been deployed to inform willingness to pay results.

Questions

1 *Willingness to pay for service improvement versus willingness to accept service decline*

Many results show lower levels of willingness to pay (WTP) than willingness to accept (WTA). In discussion, this was attributed to well known features of stated preference (SP) studies and to the underlying psychology of loss aversion. Some researchers though have challenged this narrative and sought ways to design SP experiments to elicit more 'truthful' WTA results, see for example Willis et al¹ and Plott & Zeiler².

- To what extent have the SP studies for AW taken account of these approaches to measuring WTA?
- Where $WTA > WTP$ (value of losses > value of gains), the WTP gains value appears to have been adopted in most cases, as the more conservative figure, in triangulating results to arrive at recommended value. In presenting results, it might be clearer to show the gains and loss figures and the linear, illustrate the difference and then explain why the WTP/gains figure is the more appropriate.
- Does the difference between WTP and WTA shed any light on customers' understanding of the SP experiment?

2 *SP methodology: 'warming up'*

- How far were survey participants able to become familiar with SP concept by practising on non-water examples from everyday life (e.g. valuing different baskets of household shopping items) before immersing themselves in the more complex water choices?

3 *SP methodology: calibration*

- In similar vein, is it possible to calibrate SP results by conducting related experiments on other consumer choices for which there is also revealed preference and/or market transactions data available?

¹ Mehrshad Radmehr, Ken Willis, Hugh Metcalf. A mechanism to derive more truthful willingness to accept values for renewable energy systems. *Heliyon* 4 (2018)

² Plott, Charles, R., and Kathryn Zeiler. 2005. "The Willingness to Pay-Willingness to Accept Gap, the "Endowment Effect," Subject Misconceptions, and Experimental Procedures for Eliciting Valuations." *American Economic Review*, 95(3): 530-545.

4 *Bundle versus individual measures*

There is for most service attributes a high ratio (typically 3-5 for households) between the unscaled value (measuring valuation of that attribute in isolation) and the scaled value (where the value of a bundle of attributes are measured together). The reports note that the approach to scaling is being reviewed and both the scaled and unscaled values will be tested, in that order, with consumers in subsequent testing.

- To what extent does the difference between scaled and unscaled values cause concern about the validity of the unscaled estimations?
- Is there any underlying explanation for the differences in the scaled/unscaled value across service attributes? Does the difference suggest that some SP experiments were better understood than others?

5 *Marginal versus average valuations*

For some attributes, some of AW's consumer categories generated significantly lower valuation than average (e.g. Protective Provincials & Eco-Economisers lower WTP on restrictions survey in WR SP study).

- Where this is the case, how does this lower valuation feed through into the triangulation process?
- If the average value is used, then are some segments of AW's customer base paying well over their marginal valuation for putative service enhancements?

6 *Stability of results*

The detailed reports reproduce the various results of the battery of statistical significant tests applied. It would be helpful in the summary report and the triangulation report to provide some indication of the absolute and relative level of statistical significance of each valuation, and hence its stability and robustness.

Daniel Storey

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7 March 2018