‘Open Water’ Market Survey 2017

March 2017

Liz Murray
Research Coordinator

Paul Hammett
Water Resources Specialist

Contents

Method ... 3

Sample information ... 4

Executive Summary ... 5

Mains water supply consumption ... 5

Standard of service provided by their current water supplier ... 5

Reducing mains water costs ... 5

Awareness and views about the change in the 'non-household' water market in April 2017 ... 5

'Value added' retail services ... 6

Survey Results ... 7

1.0 Farm business use of mains water ... 7

2.0 Mains water use for core farming and diversified activities ... 7

3.0 Mains water supply providers ... 8

4.0 Farmer satisfaction with the service provided by water companies ... 9

5.0 Farm business importance attached to reducing mains water costs ... 10

6.0 Farmer awareness of the new water market for business users changing in April 2017 ... 11

7.0 Farmer support for retail competition in water ... 11

8.0 Farmer interest in 'value-added' water retail services ... 13

9.0 Expected cost savings to encourage farmers to switch retail water supplier ... 15

Background

From 1 April 2017, all 'non-household' premises including farm businesses in England (but not Wales) will be able to shop around for their water and sewerage suppliers; an option only currently available to the largest users. Even business customers who decide not to make a switch will be affected. This is because most of the public water companies are dividing their business structures between wholesale (the pipes and infrastructure) and retail (the billing).

Our research was commissioned to help us to understand how farmers:

- Use mains water
- Would like water and sewerage retail services to be improved in future
- Expect NFU advice, support and service to be tailored to meet members' needs.

Method

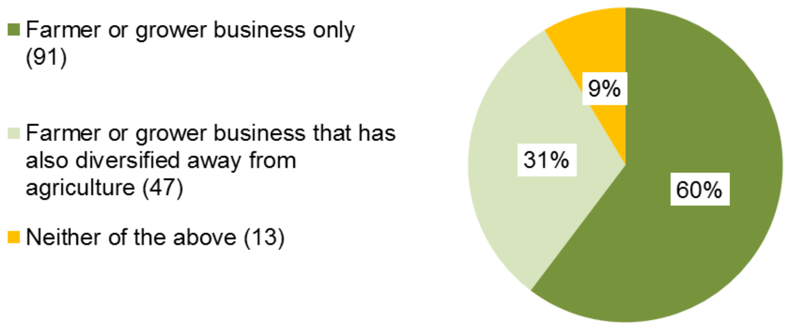
We promoted our survey questionnaire through various NFU communication channels such as member newsletters. Through these channels we invited NFU members in England to take part in an online survey. The online survey ran from 14 December 2016 and attracted 29 self-completion responses.

We then randomly selected NFU members to take part in the same survey by telephone. The telephone survey ran from 19 January 2017 and involved 122 NFU members.

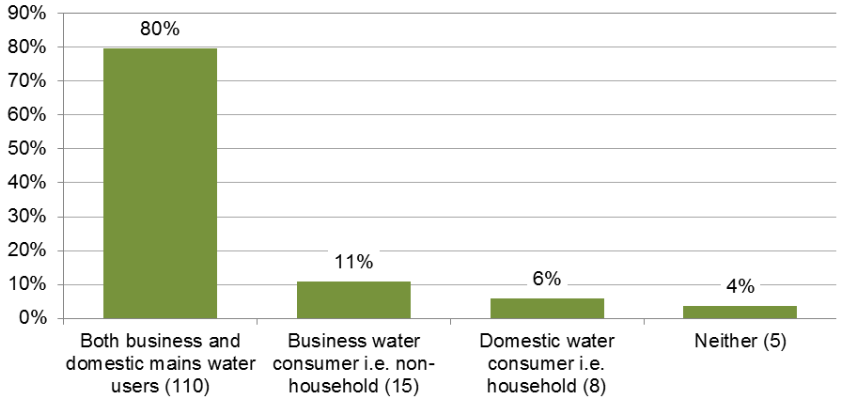
The survey was closed on 30th January 2017.

Note: *We are grateful to the Consumer Council for Water for its assistance in drafting our survey questionnaire.*

Sample information



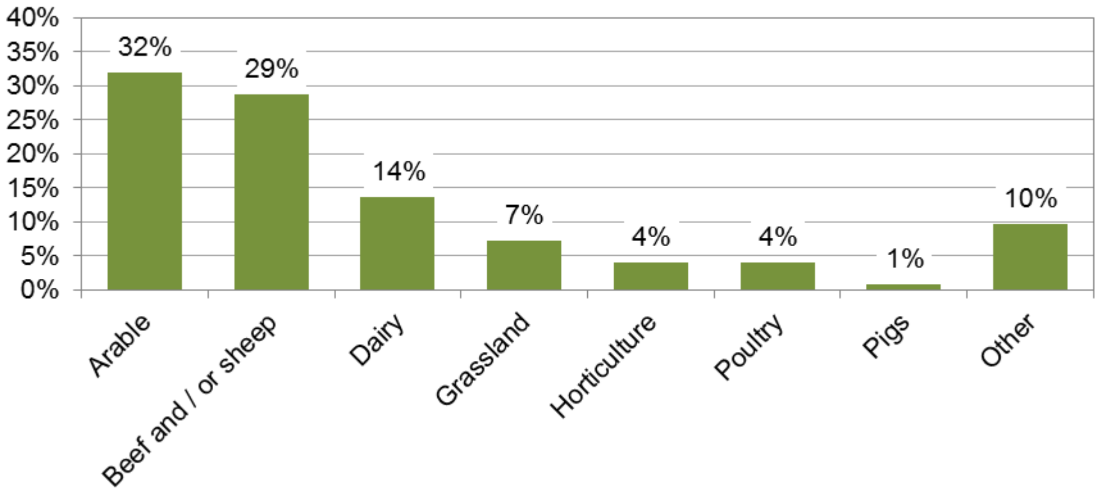
Of the total 151 respondents, 13 were excluded from answering the remainder of the survey because they were not actively engaged in farming or growing businesses.



Of the remaining 138 farmer and grower respondents, 125 were 'non-household' water consumers; our target audience for this research.

This report is based on 125 farmer and grower members who are non-household water consumers based in England.

Farm type



The majority of the qualifying respondents (61%) were beef and/or sheep farmers or arable farmers. Those who stated they were of 'other' farm type preferred to describe themselves as mainly mixed arable with some form of livestock i.e. a mixture of the above categories.

Executive Summary

- 80% of farmers use mains water for both non-household and household (business and domestic) purposes, and a further 11% use mains water for non-household purposes only
- Less than half (46%) of farmers were aware of the forthcoming changes in the ‘Open water’ market for non-household premises
- Over half (57%) of farmers described the current level of service provided by their existing water company supplier as ‘good’ or ‘very good’
- Over one-third (37%) of farmers confirmed that reducing the cost of mains water was a high priority for their business
- With margins for water retail services expected to be tight, it is interesting to note that only 6% of farmers said they would be prepared to switch retailer for a saving of 1-2% in charges.
- Over one-third (40%) of farmers indicated that they would expect a cost saving of at least 11% to encourage them to change their water services retailer
- Farmers demonstrated a strong interest in ideas presented to them for ‘value-added’ services that could potentially be offered by water retailers. However, interest in specific value-added services commonly fell by half or more when farmers were asked about their preparedness to pay for those specified services

Mains water supply consumption

When asked about consumption of mains water compared to water from other sources, three-quarters (74%) of farmers were primarily mains water users (farmers typically described mains water as providing at least three-quarters of their total water consumption).

One-third farmers interviewed were involved in diversified (non-farming) businesses[1] in addition to their core farming business. In those cases, agricultural operations were invariably the main consumer of mains water.

Standard of service provided by their current water supplier

Over half (57%) of respondents said the service provided by their current water company was either ‘good’ (36%) or ‘very good’ (21%).

Reducing mains water costs

One-third (37%) of farmers described reducing the cost of mains water for their business as a ‘high’ priority.

Awareness and views about the change in the ‘non-household’ water market in April 2017

Less than half (46%) of farmers were aware of the changes in the water industry in relation to the supply and billing options for non-household water and sewerage services.

Just under three-quarters (72%) of farmers were either ‘very’ or ‘fairly’ supportive of retail competition for mains water services.

[1] 42 respondents

'Value added' retail services

Farmers responded enthusiastically to a range of potential 'value added' services that water and waste water service retailers could offer them as 'non-household' customers.

Four out of five farmers (79%) expressed an interest in leak detection services. Given the nature of farms (large ground area, rurally isolated, relatively long lengths of pipework on the customer's side of the meter) this is not surprising.

Approximately half of farmers are interested in:

- Installation of equipment such as smart meters to help them monitor their water consumption (52%)
- Installation of equipment to recycle water and to use non-potable ('grey') water (47%)
- Improved billing services in a standardised, electronic format (44%)

Around one-third of farmers are interested in:

- Audits to help them comply with water fittings regulations (38%). Livestock farmers in particular find the compliance requirements difficult to understand and implement in respect of, for example, livestock watering troughs
- Water efficiency audits and services (38%)
- Insurance for the maintenance and repair of pipes and drains (34%)
- Equipment to deal with on-site water treatment (30%)

Of the potential services suggested to farmers, only irrigation consultancy proved unpopular (11%). However, since only 4% of the total survey sample described their primary commodity as 'horticulture' (irrigated cropping), it is possible that interest in irrigation consultancy is high in this specialist commodity sector.

Farmers who expressed an interest in the 'value added' services were asked a supplementary question about their willingness to pay for it. The following percentages relate to willingness to pay expressed by those farmers who showed initial interest in the value-added service.

A high proportion of farmers (79% of those interested in the service) would be prepared to pay for insurance for pipe repairs, presumably reflecting the nature of insurance.

Two-thirds of farmers who expressed an interest in the services were also prepared to pay for on-site technology for water treatment (65%) and irrigation consultancy (64%).

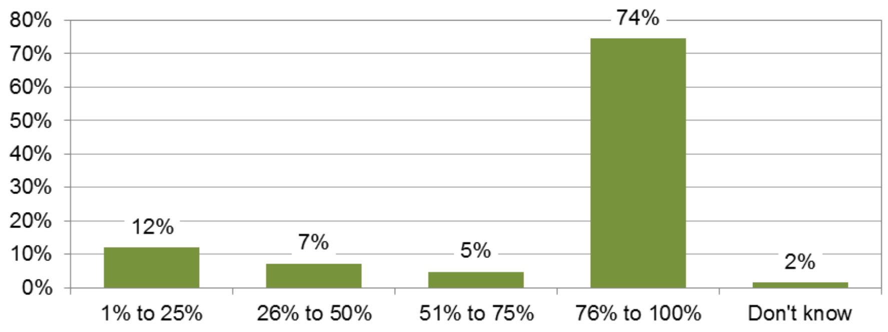
Half of farmers would be prepared to pay for leak detection services (56%) and support in using grey water and recycling technology (49%).

Less popular 'paid for' services that a third or fewer farmers were prepared to pay for were:

- Installation of smart meters (32%)
- Water auditing (35%)
- Water efficiency services (30%
- Water fittings regulatory compliance (26%)
- Standardised electronic billing (22%).

Survey Results

1.0 Farm business use of mains water

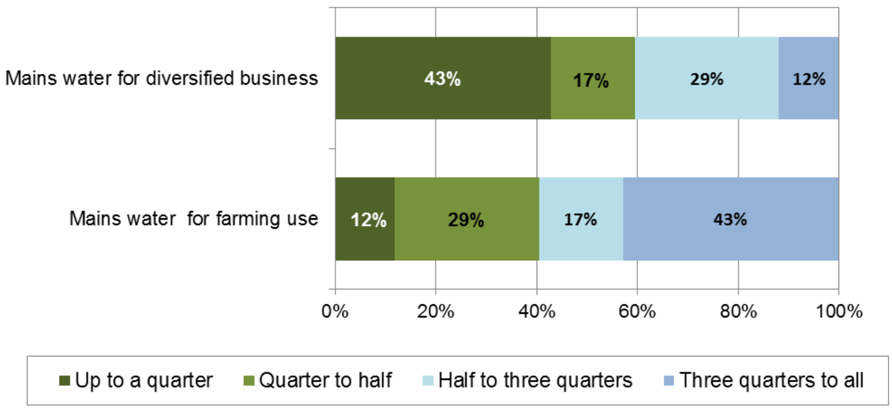


74% of respondents[2] said more than three-quarters of their total water consumption is provided direct from the mains water supply.

2.0 Mains water use for core farming and diversified activities

We looked at how farmers with diversified businesses[3] use their water. We found that 60% tend to use most of their water for farming purposes whilst 41% tend to use the majority of water on the diversified side

.

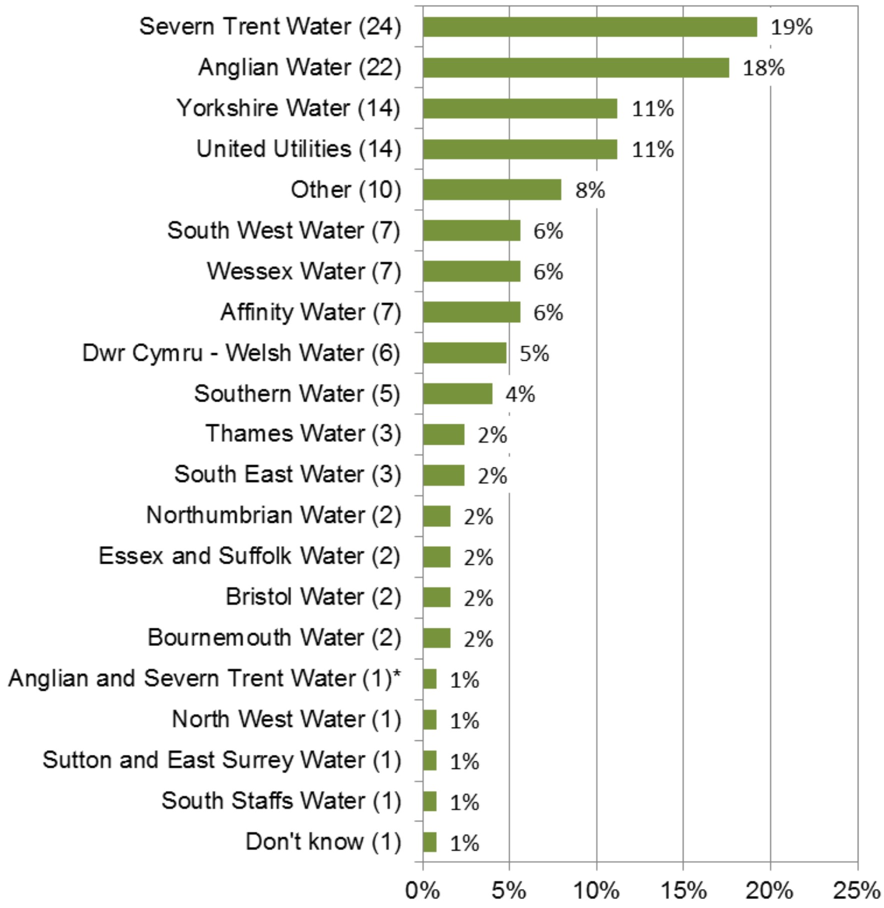


[2] 125 English farmer and grower business water consumers

[3] 42 respondents

3.0 Mains water supply providers[4]

Water companies identified in the survey by their farmer customers broadly reflected the size and spatial spread of the companies. Severn Trent Water, Anglian Water, United Utilities and Yorkshire Water dominated the survey returns.

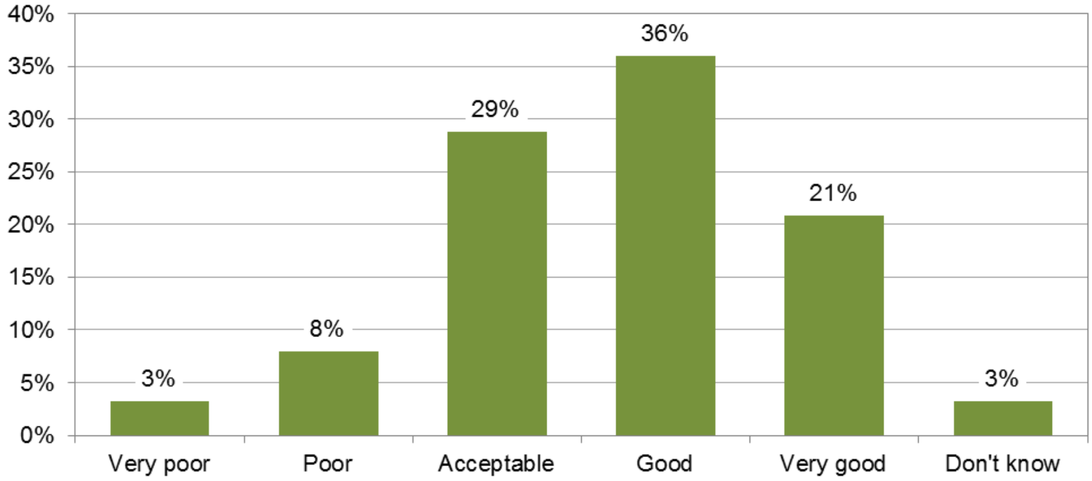


There were no respondents using the following water companies:

Albion Water (0)	Peel Water Networks (0)
Cambridge Water (0)	Portsmouth Water (0)
Cholderton and District Water (0)	SSE Water (0)
Dee Valley Water (0)	Thames Water Commercial Services (0)
Hartlepool Water (0)	Veolia Water Projects (0)
Independent Water Networks (0)	

[4] The entry for Anglian and Severn Trent Water was entered by the respondent who selected 'Other'.

4.0 Farmer satisfaction with the service provided by water companies



Our survey revealed high levels of satisfaction with existing service provided by the public water companies, with 86% of farmers describing the service they receive as at least acceptable; and 57% of farmers describing their level of satisfaction as 'good' or 'very good'.

Farmers who described the service from their water company as 'poor' or 'very poor' mainly described problems with pipes and infrastructure, particularly unresolved problems with mains laid across fields.

A common feature where farmers perceived poor service arose from historic problems experienced with accessing water for livestock.

"We are at the end of the supply line and when the water company have to cut water off to the village for maintenance etc., they don't let us know. This means we weren't prepared and the livestock were left without water. Communication could definitely be better."

A small number of farmers mentioned their frustration with receiving too many estimated invoices, which they attributed in part to the geographically isolated nature of their farm.

Farmers who described the service as 'acceptable' displayed a wide range of reasons for their view, but slow water company response to fixing water leaks featured prominently.

"It's their admin that's the problem. If there's a problem it's very difficult to get it sorted out and then we have some land where the meter is a long way away, it's across other peoples' fields, so if there's a leak it takes forever to persuade them it's not our fault. The people on the ground are fine."

Some farmers have been frustrated with arrangements for dealing with leaks on their side of the meter.

"They're very hard on people when you get a leak, sometimes through no fault of your own. You get a very large bill. We've had somebody damage a pipe in a field away from the buildings, not even our fault, and they send you a large bill. There's no understanding, they don't say oh that was an accident, or a car crashed into a pipe (which happened), there's no give or take with them."

Insufficient water pressure on farms was also a recurring issue.

"They always turn the pressure down in the summer and so that affects everything we've got going on. It's not just the pure consumption, I know we go up to about five million people in Cornwall in the summer but it should not affect the pressure of the main but it does. We've got a camp site with a toilet block, so we put the taps in that you hit the top of them to give a governed amount to try and save

water so people don't leave the taps on, but it can only be a certain pressure. In the peak weeks the taps struggle to function. It's problematic. We don't receive any other services from them. What can they do for us?"

Some farmers who described their existing services as 'good' or 'very good' seemed keen to take advantage of the new retail market.

"I only have one complaint with them and it's nothing to do with the water. I have five supplies to different farms and I keep telling them that they ought to be able to bill me all five accounts together and they can't. All five bills come separately, spaced out over a period of seven weeks. I would prefer it if they could group them all."

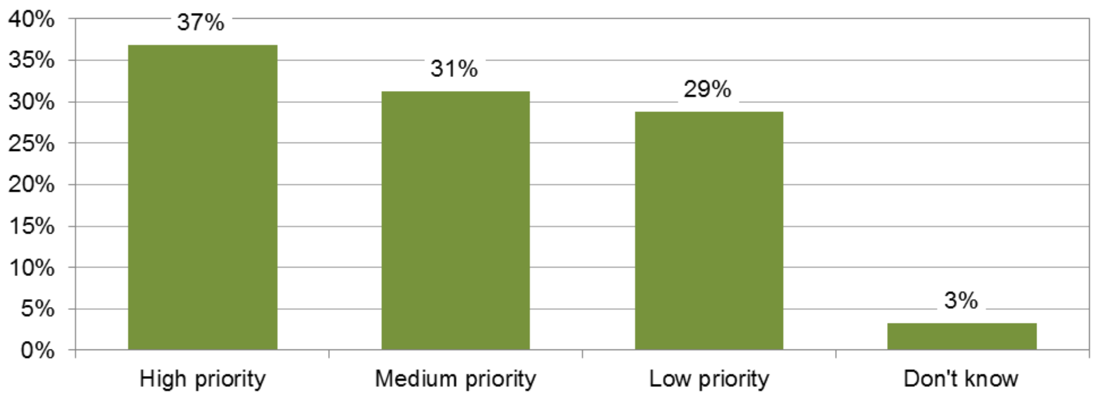
Several farmers specifically complimented the speed and efficiency with which their water company resolved supply problems.

"They're very prompt when we do have a problem. They bring tanks out in fields for cattle if there's been a leak or problem. They've been right on the job and come out. We're very pleased with them."

And some farmers referred to the business-specific service they receive from their supplier.

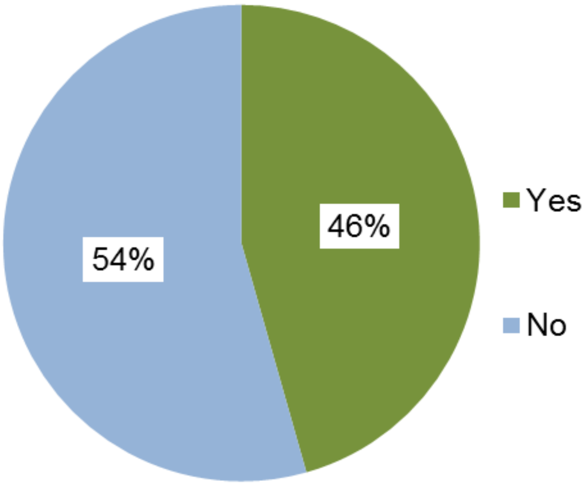
"They understand my business. I pay for all my water while I pay only 28% sewerage charge because of the amount of water I use for my business. Business waste water does not enter the sewerage system."

5.0 Farm business importance attached to reducing mains water costs



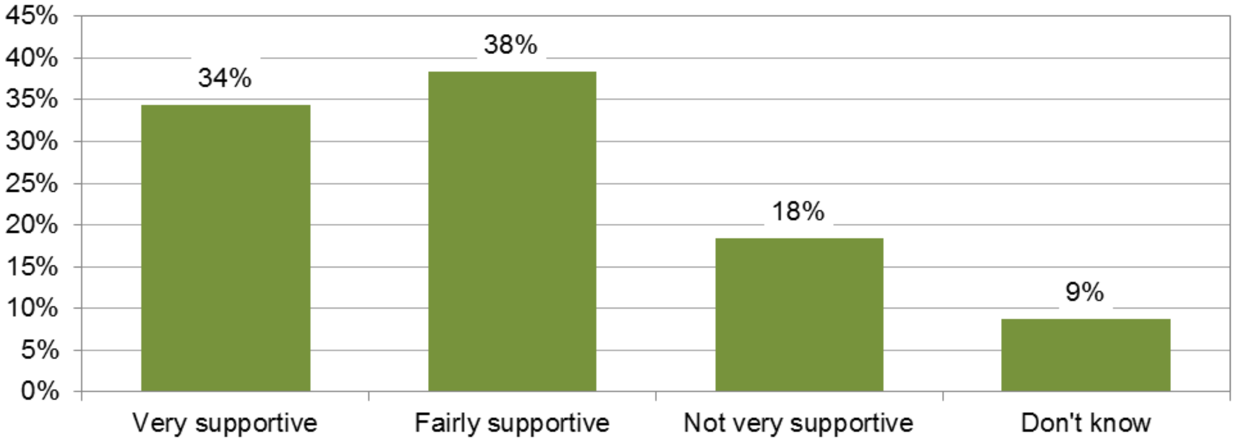
The survey revealed a broad spread amongst farmers of the priority given to mains water costs relative to other farm input costs. One-third (37%) described mains water costs as a high priority for them; one-third (31%) declared it as a medium priority; with on-third (29%) considering it to be a low priority.

6.0 Farmer awareness of the new water market for business users changing in April 2017



Just under half (46%) of farmers were aware of the new water market for ‘non-household’ customers.

7.0 Farmer support for retail competition in water



Just under three-quarters of farmers (72%) favour retail competition for mains water with 34% of farmers ‘very supportive’ and 38% of farmers ‘supportive’.

We asked open questions to farmers to help us understand their reasons for their support (or lack of it).

Reasons for being very or fairly supportive:

Half of farmers mentioned an expectation of reduced mains water costs.

Some farmers (14%) hoped for greater consumer choice and the opportunity to discourage monopolies and cartels.

Some farmers (8%) expressed their expectation that service and/or supply standards may improve.

“It possibly might not change the cost for businesses. But it will improve customer service. Suppliers will have to make customer service a priority and will be more aware that people will have the option to change their service provider and will need to look after customers better.”

Some farmers (4%) registered their belief in the principle of competition for goods and services.

“Hopefully it'll bring the price down. On electricity, every time our contract is up for renewal, we always look around and get the best deal going for the amount of consumption we have. Hopefully it will be the same for water. We're quite considerable users in terms of volume.”

“Any retail competition is good as it tends to force prices down. Gives the option to find a cheaper service but also gives the choice to shop around for a potentially better service.”

However, some farmers supportive of retail competition still expressed concern about potential difficulty or hassle in switching supplier (2%) or that service standards would decline (1%).

“Any competition amongst different suppliers must be a good thing. Having said that, it's been awful with electricity pricing and suppliers.”

Reasons for not being very supportive:

Some farmers (7%) held a suspicion that competition will not make any difference.

“It's like messing about with changing telephone and changing electric supplier. There's not much difference in price anyway. They keep ringing up and messing about. That's it really. They keep ringing up and wasting your time for no benefit.”

Some farmers (3%) were worried about difficulty or hassle in switching supplier.

“Retail competition should be beneficial to the customer in preventing charges from escalating, but I don't like the current situation in the communications industry, where loyalty is penalised and we are constantly pestered with unsolicited calls.”

“For the same reasons that with the other utilities, what we find with gas and electricity and telephone, it has added so much confusion to the market, you don't know where the devil you are. You'll get people cold calling saying "Oh, can we supply you with water?"

A few farmers (3%) were worried that prices may increase.

“Because it only gives them an excuse to put the price up. The time and hassle in sorting new contracts out.”

A few farmers (3%) expressed concern about the possibility of service disputes when something goes wrong.

“I can see it creating problems with billing and disputes over repairs if you aren't getting your supply from the company charged with maintaining the network.”

“Because previous experience with other utilities, gas and electric, if you're dealing with the people that supply it and you have a problem then there's no one passing the buck, it's down to them. Whereas if you go through a third party for billing, everyone is blaming everyone else and you never get anything resolved. BT is a classic on that, telecoms.”

A few farmers (2%) declared belief in the principle that utilities such as water should be under central government control.

“All infrastructure - gas, electric, water - should be under government control or non-profit organisations where there's no shareholders. It should be controlled by central government, not businesses making money to give dividends to the shareholders. That's my main beef.”

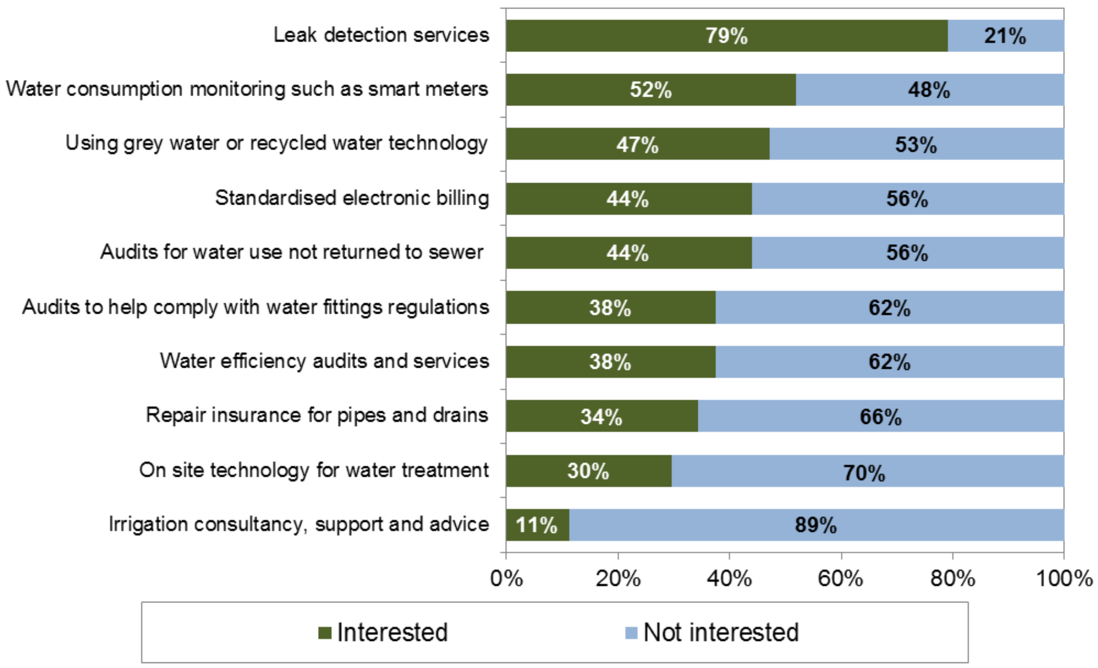
And a few farmers (1%) feared that standards/service may decline.

"It should help keep the price low but then again you have the hassle of having to shop around. When you change electricity it always causes a lot of problems over meter reading and I never feel it's all done accurately. The service of changing over isn't always up to scratch."

"The service we receive at present is good and I cannot see how the addition of a retail layer can do anything other than increase the cost in the long term. With a commodity as cheap as water I cannot see how there can be enough margin for another operator to make enough return to provide an efficient service."

8.0 Farmer interest in value-added services

Which of the following 'value added' services would you be interested in, if any?



Farmers responded enthusiastically to a range of potential 'value added' services that water and waste services retailers could offer them as 'non-household' customers.

"I would be more concerned by the type of service than saving miniscule amounts by switching."

Four out of five farmers (79%) expressed an interest in leak detection services. Given the nature of farms (large ground area, rurally isolated, relatively long lengths of pipework on the customer's side of the meter) this is not surprising.

Approximately half of farmers are interested in:

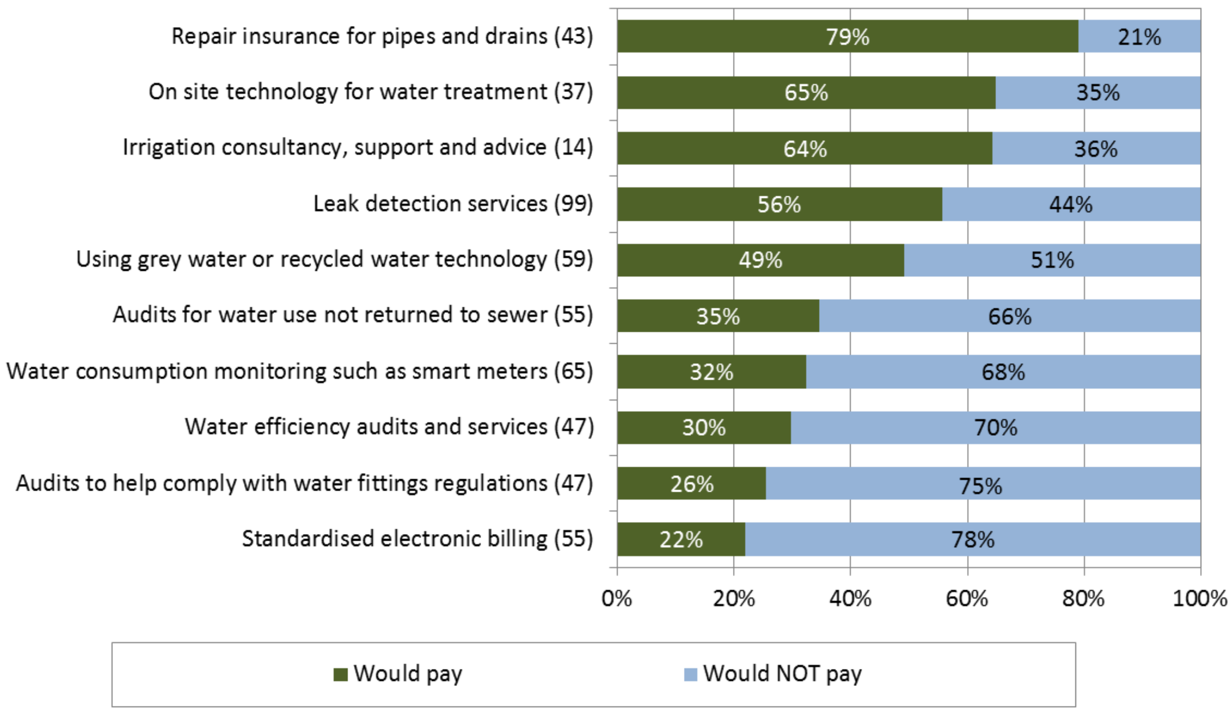
- Installation of equipment such as smart meters to help them monitor their water consumption (52%)
- Installation of equipment to recycle water and to use non-potable ('grey') water (47%)
- Improved billing services in a standardised, electronic format (44%)

Around one-third of farmers are interested in:

- Audits to help them comply with water fittings regulations (38%). Livestock farmers in particular find the compliance requirements difficult to understand and implement in respect of, for example, livestock watering troughs
- Water efficiency audits and services (38%)
- Insurance for the maintenance and repair of pipes and drains (34%)
- Equipment to deal with on-site water treatment (30%)

Of the potential services suggested to farmers, only irrigation consultancy proved unpopular (11%). However since only 4% of the total survey sample described their primary commodity as 'horticulture' (irrigated cropping), it is possible that interest in irrigation consultancy is high in this specialist commodity sector.

Which of the 'value added services' would you be prepared to pay for?



Only farmers who expressed an interest in the 'value added' services were asked a supplementary question about their willingness to pay for it.

In the above graph, numbers in brackets on the vertical axis represent the number of farmers who expressed an interest in that value added service in graph. So, for example, 99 out of 125 farmers expressed an interest in leak detection services, 55 (56%) of whom said they would be prepared to pay for the service.

A high proportion of farmers (79% of those interested in the service) would be prepared to pay for insurance for pipe repairs, presumably reflecting the nature of insurance.

"Our privately maintained service pipe travels 3/4 mile from the meter, across four farms, including our own. Having experienced three major leaks in the past five years, monitoring leaks is a constant

headache, but insurance is not available to commercial properties at present. Such insurance would provide some peace of mind!"

Two-thirds of farmers who expressed an interest in the services were also prepared to pay for on-site technology for water treatment (65%) and irrigation consultancy (64%).

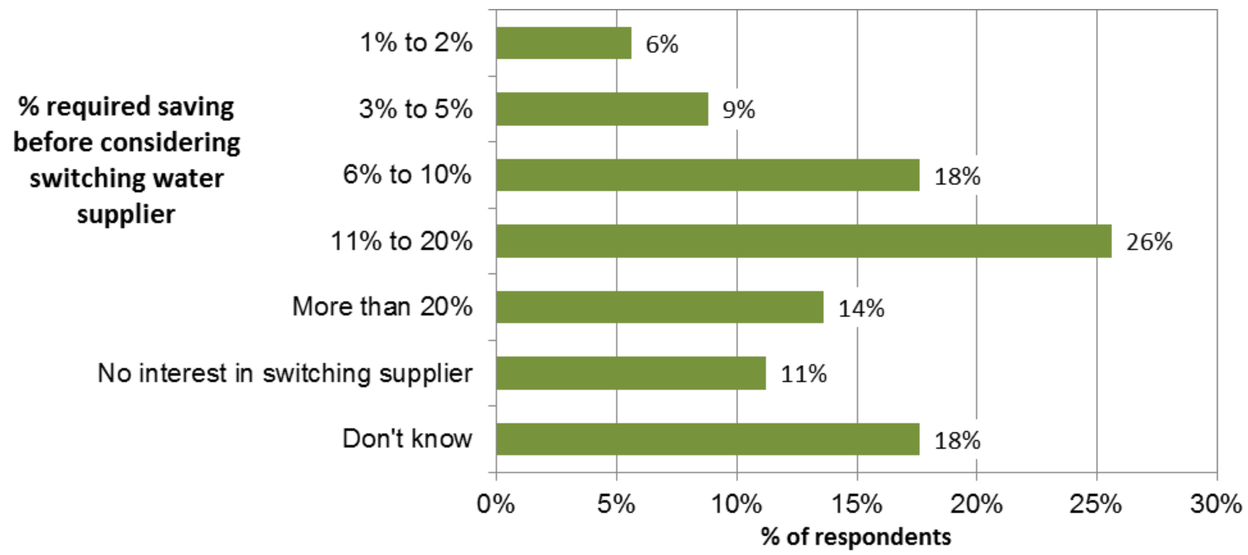
Half of farmers would be prepared to pay for leak detection services (56%) and support in using grey water and recycling technology (49%).

Less popular 'paid for' services that a third or fewer farmers were prepared to pay for were:

- Installation of smart meters (32%)
- Water auditing (35%)
- Water efficiency services (30%)
- Water fittings regulatory compliance (26%)
- Standardised electronic billing (22%).

"Water consumption monitoring such as smart meters - that's fine as long as you live in an area that can send out signals. I've got that on my electric and it doesn't work. A lot of farms haven't got internet connection."

9.0 Expected cost savings to encourage farmers to switch retail water supplier



With margins for water retail services expected to be tight, it is interesting to note that only 6% of farmers said they would be prepared to switch supplier for a saving of 1-2% in charges.

A quarter of farmers (26%) told us they would expect to benefit from savings as high as 11-20% before they would be prepared to switch retailer.

11% of farmers expressed no interest in switching retailer.

"The key factors to get right by the retailer are: first - easy, powerful analysis of water usage that enables quick action on leaks; second - timely, accurate billing; third - good advice on water use reduction."