

Attachment 2.13

Email from Western Power Distribution: Stakeholder Engagement Manager

January 2015



Hi xxx

The key here is that we used WTP as a key part of a wider consultation process, but it was not used in isolation. I think therefore it is misleading for them to refer to our research as a potential justification for lower bills for a worsened service. The phrase from the AER's Consumer Challenge Panel that we "further road tested" the results is the absolutely crucial bit.

That's because, whilst the WTP results were tremendously helpful, when taken as a totality they didn't pass the "logic test" when we tested them with wider stakeholders afterwards. That seems to be because a) willingness to pay is conducted with respondents blind to the actual investment cost it takes to deliver the improvement, and b) customers consider the items in choice packages/experiments, so for example, they might be willing to pay £2 for one package and then £3 for another and £1.50 for another, and its only at the end they realise that overall they've actually said they'd pay for a £6.50 increase, which they might not accept as a totality! That's precisely why it was so crucial that we went on to further road test the findings afterwards, rather than accepting them outright without further qualification.

In our case, the various WTP levels came to an overall headline willingness to see bills increase by £28, which in the middle of a recession was laughed at and rejected by wider stakeholders. Therefore we only used the WTP to identify the most sought after improvement levels and priorities. **An explanation of this approach is on pg 21 of the attached "supplementary annex" document.**

We did not elect for any option that led to a deterioration in service. That's because from day one, stakeholders told us that their number one priority above all others was that current service standards should be, as a bare minimum, maintained. **See pg 20 of the attached to evidence this.**

After the WTP research when we further road tested the improvement levels we could deliver, you will see that we again gave customers the option to "do less" than current levels (in other words deteriorate the service), and this never gained majority support in any category. You can find the full story for how the whole process of engagement led us to our final decision in each investment area **from page 25 onwards.**

Given that it's the one the AER's CCP referenced, take a look at page 25 and 26 as an example specifically about network reliability, and how we came to the decision we did. In terms of the "roadtesting" of the WTP findings afterwards, the first bar chart on page 26 shows that when we consulted again, for network performance 52.1% voted for the service level improvement we had proposed (in total 81.7% voted for an option that improved service) versus only 15.4% who voted for a deterioration in service. In terms of the WTP itself, see slide 38 of the "quantitative findings" document attached. Slide 38 shows the actual WTP monetary values customers came to for the levels we tested in all areas. You will see that there was indeed a willingness to pay less for worse service (9 power cuts in 10 years), to the tune of £1.33. However, this was out-weighted by a willingness to pay more for improved service (7 power cuts in 10 years), to the tune of £1.51. There was then yet more willingness to pay a further 33p on top of that (to a total WTP of £1.84) to receive an even greater performance improvement (6 power cuts in 10 years).

I hope this helps,

Alex

Alex Wilkes

Stakeholder Engagement Manager

Regulatory & Government Affairs