

Information notice

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Involving customers in price setting – Ofwat’s customer engagement policy: further information

This information notice updates our August 2011 statement on how we are giving water customers in England and Wales more say over the prices and services they will get from 2015, when we next set price limits. We consider that engagement between customers and their water companies is crucial to achieving a fair outcome to the price-setting process. This information notice builds on our decision last year to require the companies to involve their customers better. In it we explain more about our policy, progress so far, how it works in practice and next steps.

Background

Most business and household customers in England and Wales currently receive their water and sewerage services from one of 22 regional monopoly companies. One of our key roles as regulator is to set price limits for each of these companies. We will next do this in 2014 for the 2015-20 period.

Effective customer engagement is vital to establish a legitimate and

fair price regime and ensure customer buy-in. That is why in [‘Involving customers in price setting – Ofwat’s customer engagement policy statement’](#), published in August 2011, we confirmed that we were increasing significantly the say that customers have over the prices and services they receive at our next price review in 2014.

Our three-tiered approach will enable customers to influence the price and service package they receive by:

- direct engagement with their water company on issues including local services and tariffs;
- challenging the shape of their company’s overall business plan through customer challenge groups (CCGs); and
- influencing and informing our decisions through our sector-wide customer advisory panel.

Progress since August

Most companies have begun to engage with their customers, for example by asking them about

their expectations and priorities for future services. They are also now appointing the chairs and inviting consumers to join their customer challenge groups. Several have held their first meetings.

We held the first [meeting](#) of our sector-wide [customer advisory panel](#) in February 2012. We expect to publish our future approach to setting price limits in May 2012, and to consult in the autumn on our methodology (and timetable) for setting price limits for 2015-20.

As we move into the practical stage of customer engagement, companies and customers are asking questions about how the process will work in practice. We are therefore setting out further information on how we expect the customer engagement process to work, to ensure all participants understand it and their various roles and responsibilities.

Who does what

Each company is responsible for:

- direct engagement with its customers, with challenge

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

- provided by the CCG;
- effective working of its CCG, including membership, providing accurate and accessible information and a timely work programme; and
- submitting a well-evidenced business plan to us.

Each CCG is responsible for:

- testing that the company has adequately understood and addressed its customers' priorities and needs;
- challenging whether the plan will deliver the right outcomes and levels of service at a price customers are willing to pay;
- assuring us on how well the company has engaged with its customers and highlighting any concerns; and
- reviewing how well the company delivers its plan and challenging its response to any service failure.

The CCG does not agree the company's business plan or prices on behalf of customers.

We are responsible for:

- providing information on our regulatory assumptions, the price review methodology and sector-wide information; and
- making decisions on each company's business plan and price limits.

Direct engagement

Each company must engage directly with its customers to understand their views, not just

through customer representatives. We have not prescribed how the companies should do this. Instead we have left it to each company to find an approach that works best for it and its customers.

We expect that each company will use a wide range of information from its customers (for example from any complaints they make) and where necessary carry out any robust new customer research needed to understand its customers' priorities for services and views on bills. This will help it shape its plans to reflect the needs of current and future customers. We will look for evidence that each company's business plan reflects its customers' views when we make our decisions on price limits.

Customer challenge groups

We have not prescribed how these groups are set up or run. Each company is able to decide the membership, timings and work programme to best reflect local circumstances and priorities. We have asked that the group's chairman be independent of the company.

Each group will:

- review the company's engagement process and emerging evidence;
- confirm the outcomes that the company will deliver for customers and challenge the phasing, scope and scale of work required to deliver them, together with the balance of risk

incorporated into the company's plan; and

- advise us on the effectiveness of the company's engagement and the resulting acceptability to customers of its business plan and bill impacts.

This does not mean reaching a negotiated settlement (where the company and customer representatives agree on the price, cost and service package). Instead the CCG is responsible for challenging the business plan if it does not think the company has properly sought or reflected its customers' views.

We will hold each company to account for understanding and responding to its customers' views in its business plans. Our scrutiny of plans will be informed by the CCG's assurance on how well the company has done this.

The customer advisory panel

The panel's role is to challenge our regulatory assumptions that will have an impact on:

- all companies' business plans
- standards of service and price limits; and
- our price review methodology.

The panel considers different issues from those facing the CCGs. It has a national perspective, compared with the more local approach necessary for the CCGs. It will not review companies' business plans or advise or review feedback from CCGs.

Outcomes

Outcomes are high-level objectives that company actions, activities and achievements are intended to help deliver. They represent what customers and society value, such as reliability, availability and safety of water supplies. In 'Future price limits – a consultation on the framework', we consulted on a framework for setting price limits that would incentivise the companies to develop an outcome-based business plan.

We expect each company to:

- test its proposed outcomes through customer engagement and to share its conclusions with its customer challenge group;
- test the level of ambition and risk together with the acceptability of the cost implications of its proposals; and
- enable the groups to challenge the proposed phasing, scope, scale and method of delivery.

The CCG may wish to propose measures of success and consequences for the company in the event that it fails to deliver its outcomes. It need not carry out detailed technical assessments or look at cost efficiency. We expect to provide further advice about setting outcomes when we publish our framework for setting price limits in May.

Information

Each company will need to provide in an accessible form the information that its CCG needs to

work effectively. This could include likely costs of a course of action, options on performance standards, possible risks to delivery, and customers' stated preferences and willingness to pay. The CCG is encouraged to ask the company for any specific information it needs.

We will give each company information to enable it to consider and explain to the CCG the impact of its proposals on customers' bills. Some information can only be provided as we reach decisions on wider aspects of the price review over the coming months and years. But we will ensure that companies are able to calculate bill impacts, using previous cost assumptions on pensions, energy, bad debt and efficiency. Where costs cannot yet be provided, we will signpost the information that the companies can use now for planning purposes, such as the 2010-15 cost of capital.

We will also provide briefing on our approach to issues such as leakage, climate change, resilience, sewer flooding and sustainable drainage. We will work with the Environment Agency and the DWI to provide early guidance on meeting environmental and drinking water obligations.

We will ensure that CCGs are made aware of relevant guidance to Ofwat from the UK and Welsh Governments as soon as such guidance is published.

We will make information on company performance accessible

to the CCGs. If a CCG needs information that the company cannot provide, it can contact us.

Ofwat's challenge

Customer acceptability will be a key factor in our decisions. Evidence of effective customer engagement on, and support for, a company's business plan will inform our scrutiny of the plan. We will follow a risk-based approach that focuses on the material issues. We expect a plan will require less scrutiny by us where:

- the company demonstrates that its customers support its plan;
- the company can comply with its obligations and meet cost assumptions; and
- we are confident of its track record of effective planning and delivery.

Making final determinations of price limits is our responsibility. In reaching our decisions, we will:

- make clear the reasons for any marked differences between each company's proposals and our draft determinations; and
- build in time to allow for further engagement between each company and its customers to inform the companies' representations on our draft determinations before we issue our final determinations.

Next steps

We will hold a workshop for companies on 16 May 2012 to continue to develop the process

and provide further information about the price-setting process. We will hold a similar workshop for CCG chairs on 22 May.

We expect to publish our framework for setting price limits in May. This will expand on the information already provided and give more detail, including:

- timetables for the business planning process;

- information provision; and
- our expectations of responses to the assurance process.

We plan to consult on our methodology for price setting in 2014 this autumn and will publish final decisions on our methodology in spring 2013.

This new approach to customer engagement is an exciting development, but it has not been

tried in any utility sector before. So it will be challenging for everybody involved and we will need to work closely with all our stakeholders, including the newly-formed CCGs, to make it work and learn lessons as it develops. We are at the early stages of its development and so not all information is yet available. Some issues will only become clear as the price-setting process progresses. But we are committed to ensuring that customers have more of a say.

More information

[‘Delivering sustainable water – Ofwat’s strategy’](#), March 2010

[‘Involving customers in price setting – Ofwat’s customer engagement policy statement’](#), August 2011

[‘Future price limits – a consultation on the framework’](#), 23 November 2011

Customer advisory panel [web page](#)

Further information

If you have any questions about our approach to customer engagement, please send them to alison.cullen@ofwat.gsi.gov.uk.



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.



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