

Draft response to Ofwat consultation from Anglian Water CEF

This response focuses on three specific consultation questions which were discussed by AW CEF at its meeting on 20th January 2016.

Q46) What does good customer engagement look like? What are your views on the principles outlined above? How could companies draw on good practice from within and outside the sector? How can companies make use of revealed preference techniques and information obtained in their day-to-day interactions with customers to develop a richer set of evidence of customers' needs and requirements?

The CEF agrees with many of the principles in this section of Water 2020. These include that customer engagement should be continuous and not episodic, with a programme that operates across and beyond the AMP, whilst accepting that there may be some specific questions, including the overall acceptability of plans, which will need to be discussed with customers at key points in the planning cycle. The CEF is sceptical about the spurious precision that can be afforded to individual customer surveys, however well resourced and designed, given the challenge of achieving representative responses from what is a very large and diverse customer base. The experience of members who have attended focus groups, open days and the wide range of other engagement opportunities that have been used in the area leaves them confirmed in their view that some of the choices and priorities being discussed with customers require a process of raising understanding and responding to initial fact finding which is not compatible with short remotely conducted surveys of stated preference or choice experiments.

For this reason the CEF reacts positively to the suggestion that a process of triangulation, drawing on insights gathered from a wider range of engagements, including day to day contact, should be drawn into an evolving rich picture of the spectrum of views and needs of the customer base. This approach places an emphasis on the diversity and range of views rather than seeking to establish an average or typical view on a particular topic. The advantage of this approach is that the CEF can test company plans against their ability to address the spectrum of needs in the populations and areas served by the company. It is important, however, to recognise that this does not lead easily to the titration of outcome delivery incentives to average willingness to pay.

Revealed preference methods may have a part to play in the development of this understanding, but these techniques have mainly been used where customers regularly exercise choice between competing alternatives, from which their implied preferences can be imputed. The CEF is supportive of further work in this area but not yet clear of the specific applicability to the current water industry.

The CEF wishes to work with AW to develop an overall strategy for customer engagement, consonant with these principles, which it can use to hold the company to account for its activity. Ofwat could usefully outline its views on the scope and parameters of such a strategy, but should then commit to not placing new or additional engagement requirements on the company which are incompatible with this more balanced approach.

Q47) What are your views in relation to our proposals on future CCG remit; scope; timetable; governance arrangements; and membership? In relation to the quality of a company's customer engagement, do you agree with the above list of issues that should be covered by the CCG report? What are your views on the division of responsibilities between CCGs and Ofwat?

The CEF is largely in agreement with the proposals for the role of CCGs outlined in the consultation document. It has already taken steps to ensure the independence of the group with the appointment of a new independent chair through a formal recruitment process.

Members reflected, however, on the impact on their motivation to continue to play an active role in this agenda, that arose from their perception that Ofwat placed very limited emphasis on the CCG report that the group had submitted for PR14 or on customer engagement generally. The group had requested an opportunity to engage with Ofwat and to emphasise key elements of their report, but this request was not accepted. They had sought feedback about the ways in which their work had influenced Ofwat's consideration of the Business Plan submission made by AW, but this had not been forthcoming. The group was in no doubt that their work had influenced the company in the development and balancing of their submission, but was less sure if the effort they had made to report to Ofwat had been worthwhile. In particular the CEF and its sub groups had focused in their work on the special, if not unique, features of the area and population served by AW, and on long term challenges. Their sense is that these issues were not adequately reflected in the regulatory conclusions reached about the plan and they remain frustrated about the lack of dialogue to enhance understanding of why this was the case.

The CEF would suggest that there is a point of contact within Ofwat for the CEF; that this should include an opportunity for the group, and not solely its Chair, to engage at one or two key points in the cycle with this point of contact, and that even if briefly, there should be feedback following the submission of a report from the CEF to indicate how the report had been used in Ofwat's consideration of the Business Plan.

Q48) What are your views on our proposal to facilitate more collaboration between CCGs? What are your views on our aspiration to publish information on the WACC and outcome RoRE ranges early? Without inserting ourselves between companies and their customers, what else could we do to incentivise and encourage good quality customer engagement?

The CEF is positive about opportunities for greater collaboration between CCGs. This is especially true as AW serves a number of customers who receive water services from other companies with their own CCGs. The CEF would want to see this collaboration moving beyond a collective communication to CCG Chairs from Ofwat towards more of a dialogue as elements of the process are being designed.

This would be facilitated by a commitment to some key parameters, including the WACC, to which plans are so sensitive, being established early in the process and in good time for initial submissions to be developed in the knowledge of these constraints, though it will be important to ensure alternative ways of securing ambitious plans from companies. The WACC is closely linked to the balance of fast and slow money (PAYG and run-off rates) and guidance on these issues will need to be published with the WACC.

Whilst the CEF fully accepts that judgements on these issues fall outside its expertise or remit, these constraints are so significant to the overall scale of the Business Plan that the CEF role in challenging the company requires that they are understood.

Another feature of the proposed regime for PR14, designed as we understand it to incentivise companies to be accurate in their forecasts of efficiency potential, was the “menu” element. The CEF was asked by Ofwat to examine the menu proposals from their company, but found this to be an opaque task, deployed too late in the process for it to make an effective contribution. We support the remarks made by the CMA in their determination of the Bristol Water price review that this was not an effective part of the system, and would wish to see this addressed if menu regulation remains a feature of the approach for 2019.

There is an opportunity for Ofwat to incentivise customer engagement through the use, if retained, of “enhanced status”. We believe that any assessment of the quality of customer engagement should be heavily influenced by the report of the CCG (in our case CEF) for that company, whilst also incorporating an objective assessment.