



Affordability, vulnerability, customer engagement and outcomes

20 July 2017

Addressing affordability and vulnerability

20 July 2017



## Aim

To explain the draft methodology to assist your response

To take clarification questions – not for views on the methodology (this is for your response)

We will provide breaks in the presentation to allow questions

## Structure

**Affordability** – overall approach, the three areas, the five principles and evidence we propose to use for our assessment

**Vulnerability** – overall approach, the two options and proposed metrics



Affordability

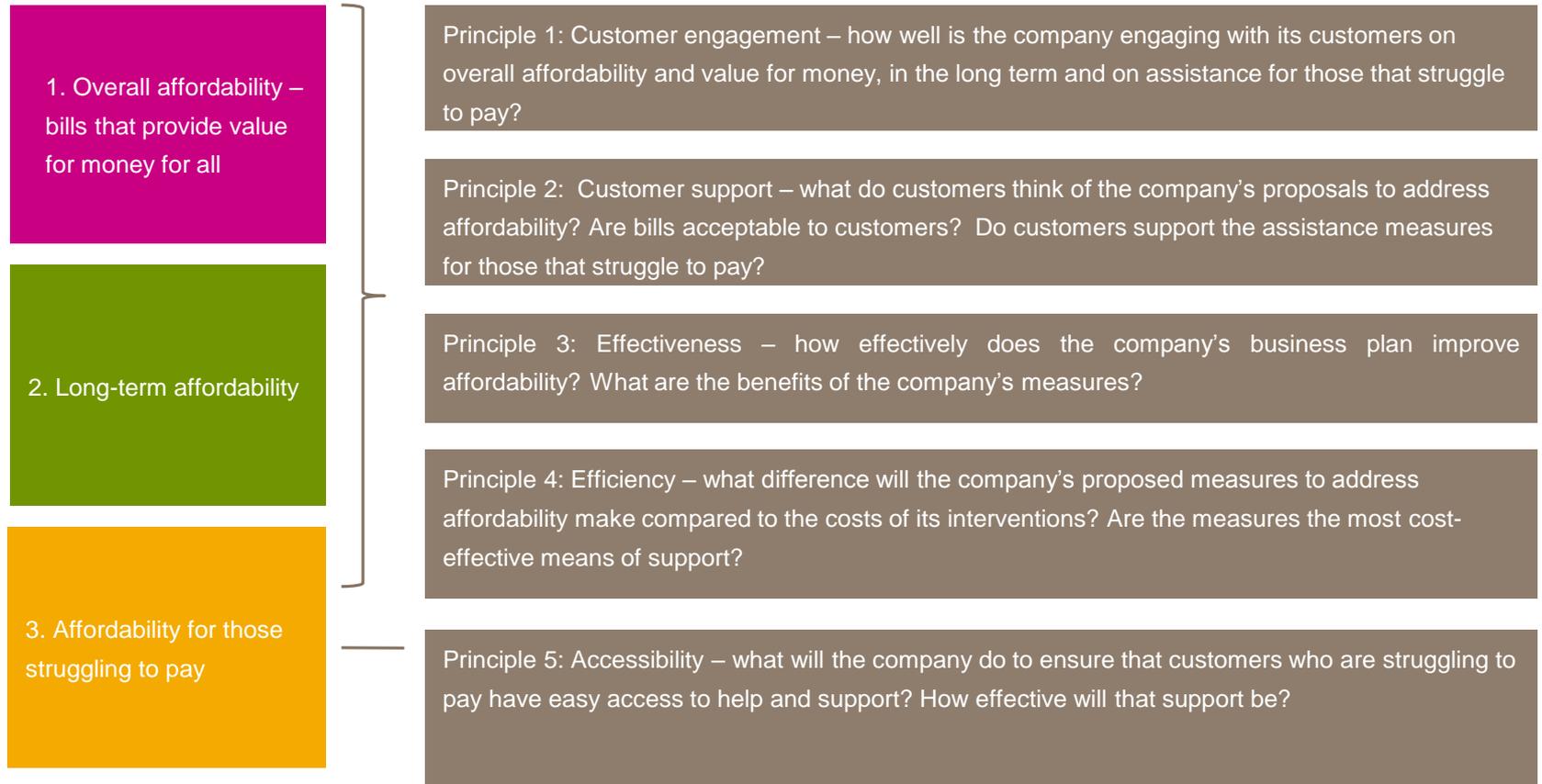
PR19 means companies delivering bills that are **affordable for all, now and in the future.**

We expect companies to find better ways to identify and support customers who are, or are at risk of, struggling to pay their bills.

We expect companies to provide value for money bills and challenge themselves to push the **efficiency** frontier to provide **scope for price reductions** if this is what customers want.

We want companies to do more to **reduce bad debt**, reducing the burden of those who won't pay on those who do.

Our overall assessment of the affordability of business plans is supported by our **securing cost efficiency, delivering outcomes for customers** and **aligning risk and return tests.** These aim to ensure customers get the highest quality and most resilient services for a given bill level.



Evidence from companies, the CCG report and from other sources (such as CCWater research or organisations specialising in debt) on:

The company's customer engagement on affordability - how well the company understands the needs in its area for affordable bills and how its proposals address these needs.

Customer support for the company's approach to the three aspects of affordability - on the level of bills and the assistance for those who struggle or are at risk of struggling to pay.

How effective is the company's plan in improving affordability? How well does the company understand the needs in its area for affordable bills and how its proposals address these needs.

The efficiency of the company's approach to addressing the three areas of affordability.

Support available for those at risk of struggling to pay their bills and how proactively companies deploy such support in advance of problems arising.

We consider the use of common measures of affordability would provide greater transparency and would allow us to make comparisons, taking into account differences between companies and the quality of the data.

Companies could still provide their own data specific to their customers' affordability issues.

We gave examples of proposed metrics in the draft methodology and set out in the business plan tables the common measures of affordability we propose to collect.

Customers finding bills acceptable

Benefits of applying affordability measures (for example, decrease in revenue outstanding)

Costs of applying affordability measures

Debt management costs (as % of average bill)

Customers receiving financial assistance

Customers receiving non-financial assistance

Average (mean) bill reduction from financial assistance options

Q1 - Do you agree with our proposal to use the five principles of: customer engagement; customer support; effectiveness; efficiency and accessibility, to assess how a company is addressing affordability in its business plan?

Q2 - Do you agree with our proposal to use information and measures on affordability, including possible common measures, to assess how a company performs against the five principles in its business plan?

# Vulnerability

Our approach to vulnerability will be an explicit part of the price review for the first time in PR19.

This builds on our [2016 'Vulnerability focus report'](#), which aimed to stimulate interest in and inform the debate around vulnerability and provided examples of best practice in supporting customers who are in circumstances that make them vulnerable.

Our proposed **qualitative tests on vulnerability** will ensure we are testing companies against the three key areas set out in the 2016 Vulnerability focus report.

The **bespoke performance commitments** on addressing vulnerability will require all companies to **engage with their customers and CCGs** on their future commitments in relation to vulnerability.

By asking companies to provide data on common measures, customers and other stakeholders should be able to **understand** more fully **the nature of vulnerability issues** and the variations between companies, and the sector should have **better information** to **identify ways of improving** approaches to vulnerability in the future.

## We consulted on two options

Option	Option details	Option rationale
1	<p>a) We will require companies to propose <b>bespoke performance commitments</b> in their business plans for addressing vulnerability, after engaging with customers and taking on board challenges from their CCGs.</p> <p>b) We will require companies to report to us publicly against <b>common measures</b> for how vulnerability is addressed. We will work with the companies and other stakeholders to develop these, and how they could evolve into common performance commitments in the future.</p>	<p>Option 1 is our preferred option.</p> <p>The bespoke performance commitments will require companies to engage with their customers and CCGs on their future commitments to addressing vulnerability. Only some companies did this at PR14.</p> <p>The common measures will help customers and other stakeholders better understand vulnerability issues, understand variations between companies and provide the sector with better information to identify ways of improving the approach to vulnerability in the future.</p>
2	<p>a) We will require all companies to have a <b>common performance commitment</b> for addressing vulnerability, using a common definition.</p> <p>b) We will set a <b>common level for the performance commitment</b>, based on a comparative assessment of companies' past and projected performance.</p>	<p>Option 2 is not our preferred option.</p> <p>Although a common performance commitment with a common commitment level would incentivise companies to improve their performance, we do not think the data on how companies address vulnerability is mature enough to make this workable.</p> <p>A common commitment level might also not be suitable because of the transient and individual nature of vulnerability.</p>

We gave examples of proposed metrics in the draft methodology and set out in the business plan tables the common measures of affordability we propose to collect.

Proportion of eligible customers receiving support through vulnerability assistance option(s)

Customers contacted by the company about eligibility for vulnerability assistance options

Q3. Do you agree with our proposed option for requiring companies to propose bespoke performance commitments for addressing vulnerability in their business plan?

Q4. Do you agree with our proposed option for using common measures in our assessment of companies' approaches to addressing vulnerability in their business plan?

Engaging customers

20 July 2017

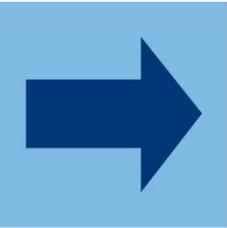
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- We are expecting **a step change in customer engagement at PR19** with companies using a wider range of techniques to address our principles of good customer engagement.
- **Customer engagement will be central to our assessment of company business plans at PR19**, as part of the initial assessment of business plans process. Customer engagement will provide essential evidence for company proposals in their business plans such as their performance commitments to customers and their proposals for special adjustments to their costs.
- We held an event and published our 'Tapped In' report on **customer participation** in March 2017. We expect companies to show they have taken its themes into account.
- We propose to **meet companies during 2018 to understand their approaches to customer engagement**. This will help us to better understand company approaches to customer engagement during PR19.

Delivering outcomes for customers

20 July 2017

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## **Structure**

Our approach to the balance of common and bespoke performance commitments

Ensuring stretching performance commitments

Our approach to Outcome Delivery Incentives (ODIs)

WaterworCX: New customer experience and developer experience measures

We consider:

- there is significant scope to make performance commitments more **stretching**, so that customers benefit from better service;
- there is significant scope to build on the ODI framework to incentivise companies to deliver **more of what customers** want by better aligning the interests of company management and investors with those of customers.
- There should be greater incentive for companies to **go beyond their service commitments** to customers, and larger penalties for those who do not achieve their commitments; and
- better services can be achieved alongside keeping **bills affordable** for customers, given the scope for **efficiency improvements** at PR19.
- We consider that the design of our new customer experience measures should **encourage companies to improve customer experiences**.

# Performance commitments, the balance of common and bespoke

- We are proposing **14 common PCs** so that customers and stakeholders can **compare stretch** in companies' commitments. There will still be plenty of space for **bespoke PCs** to reflect their customers' particular preferences.
- The common PCs cover the areas most important to customers such as customer experience, day-to-day performance and future performance / resilience metrics.



## Area of focus

■ Customer experience    ■ Day to day performance    ■ Future performance/resilience

**1 to 6 and 9, 11 and 12 apply to WoCs and WaSCs**

**7, 8 and 10, 13 and 14 apply to WaSCs only**

- There remains plenty of opportunity to propose **bespoke performance commitments**
- Bespoke PCs must cover **vulnerability, price controls, environment, resilience** and **AIM**.

# Ensuring stretching performance commitment levels

- Performance commitments should be supported by **long-term projections** to encourage companies to consider long-term ambitions and to help customers and stakeholders engage on longer-term issues.
- Companies must challenge the degree of **stretch** in their performance commitment levels by using all information they have available including **historical** and **comparative** information.

## Approaches for setting commitment level

- > Cost Benefit Analysis (CBA)
- > Comparative information
- > Historical information
- > Minimum improvement
- > Maximum level attainable
- > Expert knowledge

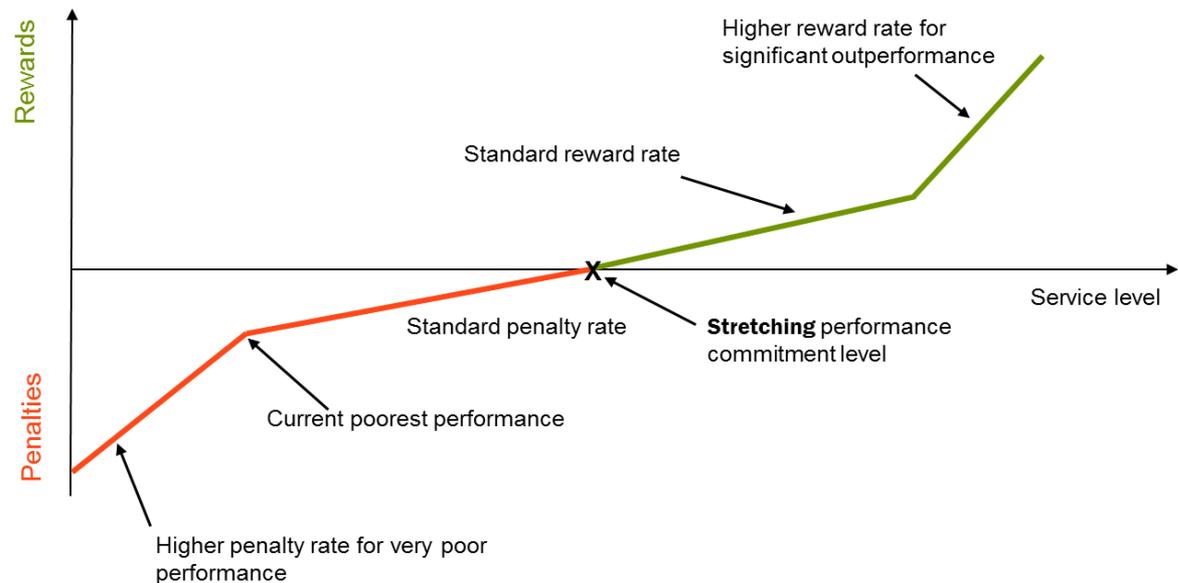
- For a number of the common performance commitments, such as supply interruptions and sewer flooding, we expect companies to set their performance commitment levels at least at the **forecast** performance level of the **top quarter** of companies (upper quartile performance) in 2024-25.
- For **leakage**, we propose companies set more stretching performance commitment levels than at PR14. We expect companies to justify their proposals against options including a 15% reduction or **forecast** upper quartile performance in **relation to leakage per property per day and leakage per km of main per day (correction from slide presented at the webinar)**.

1. Do you agree with our proposals for common and bespoke performance commitments?
2. Do you agree with our proposals on setting performance commitment levels?

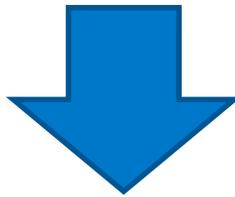
Following our consultation on strengthening ODIs, in November, we propose a package of measures to better align the interests of company management and investors with those of customers:

- We will continue to **increase the impact ODIs have on reputation** by encouraging companies to provide contextual information, for example, such as league tables for performance.
- Companies (and customers) should **experience ODI payments closer in time to when the service that generated the payment was delivered**. As a default companies should have in-period ODIs and have end-of-period ODIs that impact revenue rather than asset base (RCV).
- We will encourage companies to **propose enhanced, higher, rewards for significant performance improvement which moves industry forwards** as part of their ODIs for the common performance commitments. This mimics how a competitive market rewards and spreads innovation. Enhanced rewards should be accompanied by increased penalties for very poor performance.

## Illustration of proposed enhanced reward and penalty curves at PR19



- We will encourage companies to **strengthen their financial ODIs** by having financial ODIs as a default where customers are supportive.
- We propose not to cap the ODI rewards and penalties a company can receive overall and **to set an indicative range for the overall value of ODIs a company can receive of  $\pm 1\%$  to  $\pm 3\%$  of RoRE** (the return on regulated equity).



We expect that our proposed measures will mean **an average company with average performance would expect to incur penalties on its ODI package, rather than rewards**. However, companies are able to manage this risk by ensuring they deliver for customers.

We expect companies to assess the impact that their proposed packages of ODIs would have on **customer bills**. Companies should propose how they would smooth any potential bill volatility that may occur during the price control period.

Q3 - Do you agree with our proposals for strengthening outcome delivery incentives?

# Customer Measure of Experience (C-MeX)

We are consulting on three options for C-MeX:

**Customer service**  
quarterly satisfaction survey via online channels, of contacts based on the handling and resolution of a recent matter or complaint

**Customer experience**  
quarterly satisfaction survey via phone, of customers who have not contacted their company

**Net promoter score**  
using monthly data submitted by companies of the net proportion of customers who would recommend their water company

Complaints volumes based on application of updated guidance (includes complaints made via social media)

Option 1

50% weighting

50% weighting

Not applicable

Reputational incentive

Option 2

40% weighting

40% weighting

Not applicable

20% weighting

Option 3

40% weighting

40% weighting

20% weighting

Reputational incentive

All options: Combined into a single C-MeX score benchmarked against UKCSI all-sector threshold

# Our preferred option for C-MeX

## Customer Measure of Experience (C-MeX)

Customer service quarterly satisfaction survey via online channels, of contacts based on the handling and resolution of a recent matter or complaint

50% weighting



Customer experience quarterly satisfaction survey via phone, of customers who have not contacted their company

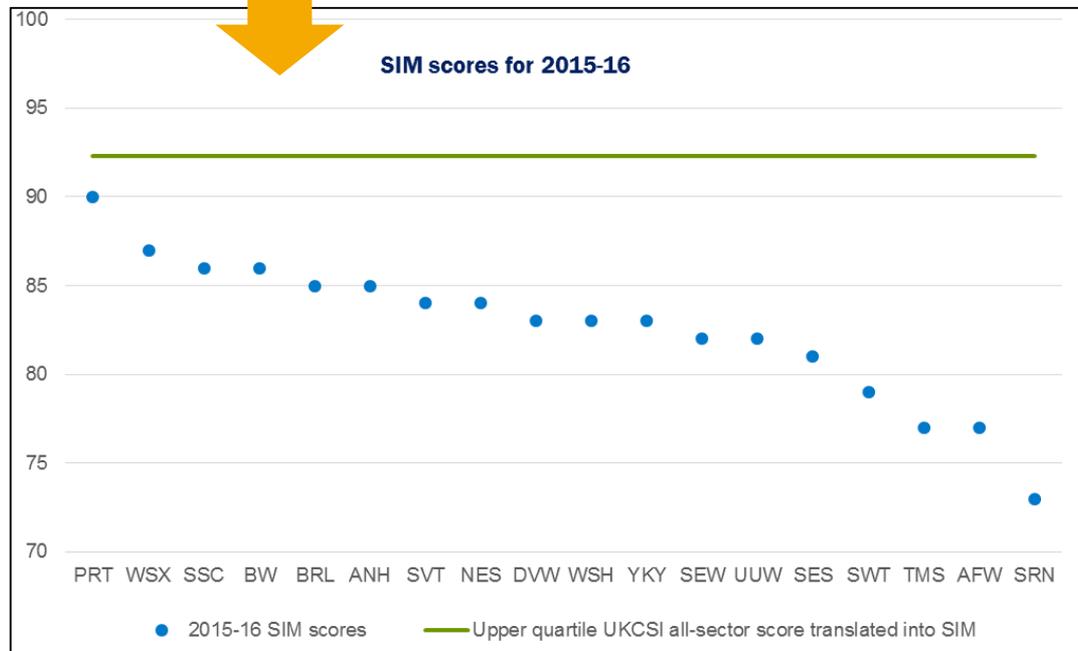
50% weighting



Complaints volumes based on application of updated guidance (includes complaints made via social media)

Reputational incentive

Financial incentive: The two customer surveys are combined into a single C-MeX score benchmarked against UKCSI all-sector threshold



The Developer services Measure of Experience (D-MeX) is a new incentive with financial and reputational components for developer services (new connections) customers.

Our proposal is to base D-MeX on a telephone survey of developer services customers, but we are also considering other options and will develop them with those customers and other stakeholders.



Q4 - Do you agree with our proposed Customer Measure of Experience (C-MeX)?

Q5 - Do you agree with our proposed Developer services Measure of Experience (D-MeX)?