

29 January 2021

By email to:
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Dear Sir or Madam

**Response to the PR24 and beyond:
Reflecting customer preferences in future price reviews**

Thank you for the invitation to respond to the above referenced discussion paper.

I am pleased to read that the customer is at the heart of Ofwat's strategy to transform company performance, meet the long term challenges ahead and to deliver more for customers through greater public value. The questions of how best to achieve these objectives are set out in your paper.

I am pleased that Ofwat recognises the step change in the amount of customer research and engagement carried out in the water sector during PR19 and, in the case of the Bristol Water Challenge Panel (BWCP), this led to 25% of the challenges we made to the company resulting in a change in company practice. The direct costs incurred by the Challenge Panel in carrying out its functions over the AMP are much less than the cost of employing consultants that advise Bristol Water in the development of its business plan, its assurance processes and other functions. As a Challenge Panel with a set of clear terms of reference and a broad representation of stakeholders, democratically elected members and independent contributors, we feel we represent good value in performing the roles scrutiny and assurance.

However, BWCP differs from other CCGs in that it carries out additional functions specifically requested by Bristol Water. These functions include providing an overview of the company's Social Contract, reviewing half year and year end Corporate, Assurance and Risk, and is requested to challenge in other areas besides customer engagement in preparing for the next Business Plan. These additional areas include the effect of supply interruptions, the vulnerable customer action plan and marketing for the meter penetration campaign and reviewing of Bristol Water's performance at the half year and year end.

We document our work in an Annual Report that is published and available in print and online. However, we recognise that for a small company, like Bristol Water, even modest and cost effective expenditure can be significant in terms of overall expenditure.

The challenge before Ofwat and its 17 water companies is how to obtain the best value for its water customers within a suitable cost parameter, where consistency and predictability are maintained. The water companies are not homogenous in terms of company structure, assets and networks as well as their typographies, water resources, catchments and land usage; the priorities and preferences of customers differs according to a number of characteristics ranging from national location, age, household makeup, disposable income to housing type and tenure. Ofwat itself has the responsibility of receiving assurances from 17 customer challenge groups (CCGs) that the priorities and preferences of customers are reflected in water company business plans.

There is also the challenge of centralisation versus localisation in decision making. It is clear that Ofwat has received some useful input from CCW and seems to be leaning towards increasing the responsibility of this organisation to represent the customer. Merely exchanging CCW for the CCGs does not necessarily rectify the challenges faced by Ofwat. While CCW representatives participate in BWCP and hold regional events to share good practice, the effectiveness, consistency of outcome, quality of local leadership as it relates to customer engagement activities is absent from the discussion document. The relationships between Ofwat, CCW and the CCGs are at times opaque. For example, the CCGs are unaware of the research programme of CCW and might be able to contribute to the framing of the research or illuminate some reasons for differences during analysis.

CCGs are specific to a company, but some members (for example, CCW, Environment Agency, Natural England, etc) participate on several CCGs in their geographical area and are thus more focussed on their national direction than on what may be best for the specific company's customers. They are also more susceptible to national 'guidance' and tone.

The water sector has a range of organisation concerned with the customer upon which the regulator has relationships, ranging from CCGs and CCW to industry bodies such as Water UK. Each has a role that adds value but also could duplicate effort in some way.

There are a range of remedies available, some of which are included in the discussion paper. The sector is unavoidably complex and its regulation is likely to also be complicated. There is a clear need for a set of terms of reference issued by Ofwat to each of the partner bodies involved in customer engagement that establishes precisely what is required, much in the way the Aide Memoire made it clear on what issues CCGs were required to provide assurance. This could eliminate the mission creep noted by Ofwat, ensure transparency between partner bodies, avoid duplications, increase consistency and aid comparability. Most importantly, it could give Ofwat the confidence to make certain judgements and adjudicate between corporate blindness, regulatory excellence and customer demands on service and performance. With regard to the quality of assurance, the calibre of leaders within those partner bodies could well be assured through an initial interview process, as this could provide Ofwat with some level of ability of veto, comfort or any other factor required. The independence of the partner body would not be affected by such an

additional mechanism. BWCP, for example, publishes an annual report on its activities which could form the basis for a focused and practical regulatory discussion to enable Ofwat to have insights, gain knowledge, probe deficiencies and gain confidence on matters as diverse as independence, capability, effectiveness and customer engagement. Ofwat also could invest in its own research and liaison functions, rather than outsource them to other bodies, in order to ensure that it can perform its role as regulator adequately, effectively, fairly and knowledgeably. Ofwat may also wish to understand the regional characteristics that define and describe a tangible difference and whether and how this may manifest itself in customer preferences and priorities.

The use of seminars and learning opportunities for CCG Chairs could be used effectively to benchmark CCG performance, explore corporate characteristics, spread best practice and disseminate regulatory information while enabling local differences and distinctiveness to be understood. Another topic could be a customer engagement research framework which sets out relationships between research projects and how these might be triangulated.

In considering common performance commitments (PCs), there is value in having some consistent measures and targets that ensure customers benefit from better quality services across the sector. Where the natural limit is to the number of common PCs is a matter of judgement for Ofwat as some commitments, such as turbidity, will become business as usual in their application and performance. Behavioural PCs, such as the reduction in per capita consumption, may benefit from a national consumer-targeted campaign to raise awareness and change the hearts and minds of customer priorities, supported and tailored to promote local messages, to see significant, sustainable progress. Campaigns involving the environmental regulators could do much to help Britain 'Build Back greener' following the coronavirus pandemic.

The matter of innovation in customer engagement research is an interesting one. The early involvement of, say, The Chartered Institute of Marketing or Chartered Institute of Customer Service, might stimulate innovation. However, there is a tension between the increased use of nationwide common measurements and the flourishing of innovation and experimentation.

Q1. Agree

Q2. Agree

Q3. The sector is not homogenous in terms of type of company ownership and assets, customer characteristics and priorities as well as water resources available. The smoothing out of these differences will likely rely on various adjustments and modelling which could be the subject of complaints. However, there are some topics, such as the impact of Covid 19 on the sector, how best to evaluate local manifestations of the disease on its customers, serving vulnerable customers and the transient nature of vulnerability, the differences between customer views on price, value for money and cost the best ways to change customer behaviour (say to reduce per capita consumption), that could benefit from a national approach. There also may be scope to have common sets of questions in specific

research with clear direction on interpreting the responses in order to reduce variability and aid comparability.

The ONS, for example, carries out national research into how people are feeling about particular issues and this may be valuable for Ofwat and provides disaggregated results (based on gender, age, ethnicity) that can be overlaid with other statistics, say household income. The water equivalent could be imagined as follows. Understanding, for example, how someone feels having lost supply or the taste, odour or colour of water, and the priority they may place on these matters are likely to differ based on how frequently this occurs, age of occupants, quality and rapidity of emergency supply, etc. The solutions of these matters are local although the results from common research might assist in the development of common PCs on supply interruptions, leakage, etc.

Common research could also identify new areas where companies should seize opportunities to serve their customers, such as the capture, storage and reuse of grey water. The establishment of a common set of PCs may be more difficult as, for example, in rural areas with a predominance of farming targets may be more achievable than in urban areas and different communities may have preferences that could make grey water reuse less important than flooding. Worthwhile though it is, the generation of energy through, say solar, wind, kinetic energy or other mechanisms, on water owned property may be more achievable in some areas than others.

Q4. Areas where nationwide research can be used

- Behavioural matters, such as reduction in per capita consumption, or new initiatives such as grey water reuse, could benefit from national research. Matters on customer service, customer contacts and complaints, are best done locally to enable the water company to address problems immediately they are detected. Best practice in the interpretation of deliberative research could be useful.
- The Chartered Institute of Marketing, The Chartered Institute of Customer Service, Ofwat, CCG chairs, CCW, utilities network, consumer advocates such as Which?
- At the start of any deliberations on the setting of national, common PCs and outcomes
- No comment on differences in Welsh and English research requirements

Local schemes should be up to the water company to design which meet stated customer preferences or national targets (eg number of customers on a single supply). National research, even with a local top up, might struggle to identify the depth of local concerns (say, environmental approaches or priority activities for community engagement).

The use of a national group drawn from a range of perspectives, mixing key Chartered Institutes for marketing and customer service alongside consumer advocates and the water sector such as Institute of Customer Service, Institute of Marketing, Which? and Citizen's Advice Bureau.

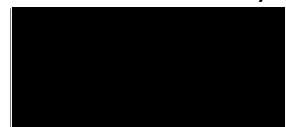
Q5. Guidance could be helpful, such as the Aide Memoire, to assist in the scoping, objective setting, issues to be researched, clarity on assurance expectations, prior knowledge

requirements. Clear terms of reference, set piece requirements, such as the production of an Annual Report setting out the scrutiny for customer engagement, corporate performance and assurance activities.

Q8. The quality of deliberative research, whether part of a Citizen's Assembly or not, depends on the quality of the expert brief and the quality of facilitation. The results, however, could reveal a sliding scale of options, with an arbitrary mean or median point representing the 'viewpoint' or 'way forward'. It is extremely helpful in determining the range of options that are available and have support, but will still require interpretation and the weighting of particular views. If Ofwat is concerned about interpretation and the consistency of it across the water companies, Citizen Assemblies or customer forums then it could be helpful to have guidance and clarity regarding the preferred research methods; guidance on how to interpret the findings; your expectations on how to substantiate why and how decisions were made. Having a Citizen Assembly that meets over time to gain an understanding of the company, the issues, the performance is an asset where tackling complex, technical or other problematic concepts can be researched. There will be a need to have a clear differentiation between, say CCGs and Citizen Assemblies, with explicit terms of reference and scope of operations.

Please do feel free to come back to me if you have any queries or wish to pursue any particular issues raised in this response.

Yours faithfully



Mrs Peaches Golding OBE CStJ
Independent Chair
BRISTOL WATER CHALLENGE PANEL