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It's what we're made of.

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Dear Ofwat,

PR24 and beyond: Reflecting customer preferences in future price reviews – a discussion paper

Thank you for inviting us to provide input on the above discussion paper. We welcome Ofwat's intention to set out their early thinking on this. We are however seriously concerned with the direction that Ofwat are signalling as part of this consultation, in two key areas: firstly, that it starts on an assumption that the objectives of PR24 should be the same as PR19, and that PR24 should be an incremental build on the PR19 approach, and secondly a pre-conceived belief that a move to centralised customer engagement will benefit price review processes and ultimately customers.

Our overriding concern is that the consultation appears to be responding to the problems of the complexity of PR19, by offering proposals on changing customer research in an attempt to reduce such complexity. We believe this approach will have serious unintended consequences:

- Alienate local customers and communities whose voices will be lost amongst national sentiments, often driven by national media and politics.
- Damage legitimacy of water companies who no longer can clearly demonstrate their close understanding of their customer's needs at a local level.
- Duplicate costs and efforts and add to overall regulatory cost and burden as the need for local engagement for business as usual will have to continue.
- Ultimately result in worse regulatory decisions based on either "averaging" or "lowest common denominator" of customer preferences.

The PR19 methodology and process built on all previous reviews. It initially promoted local and flexible approaches, but it gradually changed to a significantly burdensome and complex process that felt more prescriptive and less flexible than PR14 as Ofwat opted for standardisation in preference to local customer choice. In pursuit of benchmarking and comparative/competitive regulatory principle, important customer choices, including that of Bristol Water customers, was ignored. We would urge Ofwat to prioritise conducting a robust 'lessons learned' exercise on the limitations of PR19 first, run by an independently appointed person or organisation, before reaching conclusions about the objectives and approach to future water sector customer research.

On the main proposals considered, we have summarised our views in the table:



Consultation proposal	Red/Amber/Green rating	Notes
Nationwide research (idea 1)		<p>Water companies are able to design engagement based around local participation, which reflect the water services the participants directly receive. Whilst some central research may be useful, it is not likely to be useful if designed by regulators who are not close to customers, or if it compromises participation and explanation to try and describe at national level what are local public services, which are significant affected by local circumstances. This is why local research, undertaken by water companies who are most closely connected to the communities they serve, contributes most effectively to designing business plans that are supported by customers.</p> <p>We would only support national research by exception where there are clear benefits and efficiencies from standardisation (rather than this becoming the norm).</p>
Prescriptive guidance (idea 2)		<p>Whilst there may be advantages to Ofwat (but not in our view companies or customers) over the degree to which there is comparability across companies (for specific areas of research), we have concerns over the potential loss of creativity which was a hallmark of PR19. We would therefore support Ofwat in taking a step back from specifying requirements, leaving it to companies to decide how they engage, including any role the CCGs would play in this, with exception of that research which Ofwat believes should be comparable across companies (i.e. ODI research).</p>
Regional or national CCGs (idea 2)		<p>The proposals seem to suggest that local CCGs are no longer relevant. Our experience of a local CCG is that the participants add a huge amount of value for our customers and stakeholders. A national or regional CCG would remove the local expertise and knowledge that the CCGs bring, and the benefits of local CCGs also being involved in monitoring our delivery and other activities. Like much of the consultation this would be a retrograde step back to when CCW defined customer research in a national and formulaic way (up to PR09).</p> <p>CCGs are not necessarily populated with market research experts and are not necessarily able to provide technical assurance on customer research techniques or sampling methods etc. If Ofwat wants that sort of assurance then a more central body could be established to provide it. But there would still, in our view, remain a role for a CCG-type body to provide informed opinion that customers views are being properly represented in the business plan, and this can only be achieved by:</p>



		<p>a) A strong understanding of what the customers want, and b) A detailed view of how those preferences are being translated into the plan.</p> <p>Both of these can only be provided effectively at a local level. This requires participation and engagement, and not just research. This inevitably means national research is duplicative and additional regulatory burden and cost.</p>
<p>Better capturing and reflecting customers' preferences and utilising citizen's assemblies, social media or big data (idea 3)</p>		<p>Evidence based on engagement with customers was used more in PR19 than any other price review. It was participation, and the use of customer fora that made the largest difference. In our view, none of the consultation paper ideas are therefore new or additive, merely based on limited knowledge of best practice participation at PR19. We refer specifically to the bill options research which included deliberative, participatory and survey approaches in order to understand (segmented) how trade-offs between service levels and bill sizes varied, to avoid subjective triangulation of values and plan construction.¹</p>

Whilst we agree that the customer voice must be heard clearly, we would urge Ofwat to reconsider whether centralised national research, national CCGs or citizens' assemblies contribute to this aim. The proposals give the perception that only economic regulators or 'experts' have the right to decide on what customer research accurately reflects the opinions of customers. It may do nothing to improve the understanding of **trade-offs**, which must be the main purpose of research in a long-term infrastructure industry faced with uncertainty as to what the local impact of macro societal and environmental trends will be.

The most important priority is that customers and stakeholders trust their local water company, because of the essential nature of the service and the challenges that society faces, in which the water sector has a positive role to play. We are concerned that there is insufficient respect on the important role that local stakeholders and CCGs play in company plans, and some of the public statements made by Ofwat and national consumer bodies (including in the CMA reference) may lead stakeholders to a negative impression of the value of engagement to water regulation that is not intended. Not least of these concerns is the impression that local stakeholders and customers cannot understand or have a say in the tools of economic regulation, such as financing and outcome incentives. We could not disagree more, and we all must take action to dispel this impression, which we do not believe is intended.

If the regulatory framework is to maintain its legitimacy, it is essential that we reset our view of the value of engagement. In our view we need to clearly signal that water regulation will seek to build consensus and trust with local stakeholders in the **trade-off** choices that are faced, and that the technical tools needed of price reviews are used in support of this priority. We plan to expand on these thoughts further in a Future Ideas Lab piece and we look forward to engaging with Ofwat and other stakeholders further on this topic.

¹ [C1 Engagement, Communication and Research Appendix – B27 Sensitivity Testing](#)



Our views on centralised national research are formed by the experience of the last time that such research was given significant weight to the price review process at PR09. For the South West Water sub-part of that survey, a description of a £4 bill increase for 0km of river improved was included on the basis of standardisation, for what was the innovative catchment management “Upstream Thinking”, approaches that are now *de rigeur* for the water sector, but at the time did not easily fit into the water regulatory framework. It was stakeholder relationships, not just centralised research, that allowed such innovation to happen. Centralised research in the way it was inevitably structured suggested low acceptability but drove no useful decision-making information for this complex problem.

In our view, local research undertaken by water companies contributes most effectively to better long-term decision making, and this should be in the context of, but not limited by a clear national policy framework set out in advance. This is why we welcomed Ofwat’s encouragement of company-led customer engagement in the preparation of PR19 business plans (as well as at PR14). Good engagement with customers can legitimise the price setting process, but we do not think national research should replace our own engagement (other than by exception), because such results could potentially contradict the results that reflects our local customers’ views and therefore impact the legitimacy of such research. At best, national research could only supplement local engagement, but this could represent costly duplication. We also feel that through encouraging a variety of different approaches this supports innovation and driving forwards best practice, which would be negatively impacted if the majority of research was centralised or awarded to a small number of providers.

On “idea 1: collaborative nationwide research” on page 8 of the consultation, we disagree with centralisation of research and would see this as a retrograde step. Companies need to be able to design our own engagement approaches to get the inputs we need to inform our plan and in order to demonstrate ownership of the research to have confidence that such plans are truly reflecting customers’ preferences. Local issues and preferences are important to gaining legitimacy for plans, and to ensure that plans truly meet the needs of customers. As an example, we question whether customer preferences always carried sufficient weight at PR19, particularly regarding performance commitments and incentive rates. We carried out research on those issues and consider that we gained a good insight into customers views on those topics but found that the results of that research were then overridden in Ofwat’s determinations. It is difficult to explain why the range of interventions was an improvement on the original plan, as in many respects there was little impact overall. This is not surprising, as Ofwat’s interventions were not based on direct customer insight, but rather reflecting an assumption that top-down standardisation should be the default.

We do of course recognise that in some areas, such as willingness-to-pay (WTP), company-specific valuations could be determined via national research, but if adopted as the default for wider research this will further the trend of applying top-down preferences over local customer preferences. This will not be a welcome outcome if the focus of companies should be on their customers, and not the regulatory process, which was a key finding from the David Gray review that lay behind the PR14 reforms that are now being incrementally built on.

On “idea 2: consider the need for prescriptive guidance from Ofwat on customer engagement” we disagree with any move towards a prescriptive approach. More fundamentally, we disagree that it is the role of Ofwat to dictate what good research looks like. It should not be for Ofwat to dictate over how CCGs should be set up, which is why we are concerned with the proposals for regional or national CCGs. Customers would be less likely to understand engagement on that basis because



their representatives would become further removed from the communities served. The social purpose and social contract would be neutered.

Whilst it is Ofwat's role to guide the role of CCGs in regard to price reviews, we think that the proposals risk losing the local connection that local panel experts often have with local communities, in addition to their role in being able to 'champion' the voice of our customers (particularly those that are hard to reach). If for example Ofwat disregard the advice of a local CCG-type body then it would reduce the incentive for good people and stakeholders to commit their time to contributing to the business planning process and potentially for companies to invest time on it, which would be a retrograde step. Ofwat may have it in mind to replicate the Ofgem R110-2 approach, but our understanding is that the process was confused and burdensome and it is not clear there is a positive learning point for the water sector here.

The challenge may be in reconciling local CCGs with the PR19 focus on assurance on research, rather than on what **trade-offs** had been considered and reflected in plans, and whether these reflected customer priorities. Prescriptive guidance is only needed if Ofwat are seeking pre-determined assurance, but if this is the case then it may not be the best use of CCGs (or the driving factor behind research in our view). A national or regional CCG is unlikely to improve either assurance on transparency on what trade-offs are required locally, given an appropriately flexible national policy framework for the water industry.

Aside from CCGs, other elements of the consultation appear similarly out-of-touch with good practice. Citizens' assemblies are not new and have been used frequently by water companies. For example, at Bristol Water we established a customer forum at PR19. It is interesting to observe how Ofwat have during the CMA process criticised such engaged customers from the perspective that it sounded to Ofwat as if they had been "captured" and that their views were no longer independent - the same accusation that Ofwat has made of CCGs. A common issue in Ofwat's complaints about the industry as a whole seems to be that the more that companies engage with customers or their representatives, the more those participants "buy in" to the company plans, which does leave companies in a catch-22, by either being criticised for not including "independent" views on business plans or for not having undertaken "appropriate" customer research. One option could be for Ofwat to directly participate more in this engagement to provide a counter-view. Given how resource intensive this may be, it suggests instead that a fundamentally different approach to regulation may be required.

Specifically, the problem with citizens' assemblies (for instance in local government when considering topics as complex as faced by the water sector as adult social care) is it then requires disaggregation of decision making and local accountability to make the outcome feel worthwhile to participants contributions. Ultimately assemblies on individual topics also face the challenge of trade-offs to other public priorities.

On "idea 3: better capturing and reflecting customers' preferences", we disagree with the statement that "evidence shows that customers have struggled to engage with company research in the past". This is not a statement that is evidence-based. Clearly there will be examples of this that we all have experienced, but this a risk all those undertaking research and engagement need to be alert to. It is not clear from the consultation the extent of this problem, or whether from a learning perspective this actually matters.

Contrary to what is implied by idea 3, from our conversations with stakeholders inside and outside of the industry, there is a consensus that evidence based on engagement with customers was used



more in PR19 than any other price review. Throughout PR19 we talked to thousands of customers and made real changes to our “business as usual” work, whilst also developing a business plan that reflected the priorities of our customers and the services they valued. We used wide-ranging methodologies, which helped us to engage customers as part of an ongoing process and ensured a two-way dialogue was established on both short and long-term issues. We were able to provide customers with comparative information and involve them in service delivery. This engagement meant that we were able to understand the needs and requirements of different groups of customers. Such direct customer engagement was a positive interaction for both customers and company staff, to meet and learn directly from each other and to engage on a range of issues. Research by third party intermediaries cannot, in our view, achieve the same level of engagement.

We were, and we continue to be, proud of our customer engagement work and believe it represented a real step-change in how we, as a water company, relate to the communities we serve. We continued to look for ways to improve, such as via our joint-WTP research with Wessex Water, our innovative slider tool and our adoption of customer segmentation.² We will continue to look to learn from best practice from others but too much centralisation would limit such opportunities.

Furthermore, we have already tried and continue to integrate big data and social media as part of our customer research – if problems are not big and concern incremental improvements in our experience it is not representative or statistically robust. The water sector and its issues are not seen as large enough day-to-day issues for most customers. This is not a new finding for the water sector, it existed well before the rapid improvement in customer experience and service levels that have been seen.

Ofwat appear to assume that social media reflects society but this is not the case, as it often excludes the time poor and vulnerable and can overemphasise stakeholder views and extreme perspectives. Local customer research is useful to understand how this influences views, and where there is a gap between policy need and expectations, what communication strategies and engagement is required. This is part of the purpose of the social contract, building on the outcome of trade-offs that are inevitable in the regulatory process. We suggest Ofwat reframe the approach to PR24 and this consultation to be much clearer about the importance of dialogue on trade-offs.

Similarly, revealed preferences are useful cross-checks for cost benefit analysis, but do not support the trade-off decisions that are inherent in water services. Such considerations are not new and were explored at previous reviews, with a preference for stated preference supported by uninformed and informed customer research and engagement exercises for that reason. As a result, in our view big data and digitisation can only support, not replace, such trade-offs. They are particularly unsuitable for a water sector where public value and social contracts have a role. Having carefully considered this issue, the quote below summarised why in general revealed preference valuations are often not appropriate for a water sector that cares about wider public value:

“Revealed preference can lead to some strange and unpalatable conclusions, such as the idea that lives in poor countries are worth less than those in rich countries, and has been criticised on the basis that it extrapolates from trivial individual behaviour to life-or-death political issues. It is especially problematic when dealing with the impact of environmental damage in the far future,

² [C1 Engagement, Communication and Research Appendix - B12. Innovative “Slider” stated preference games](#)

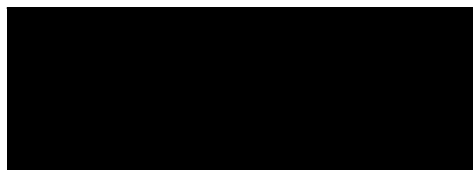


since it relies on the decisions of people who are alive today. It therefore cannot take into account the interests of future generations simply because that are not yet born³”.

Finally, we note on page 13 the reference to wider policy work on establishing a new customer research and insight function. We question whether such a function should be instigated and whether this would be duplicating the role of CCW. It also contradicts the Gray review, particularly regarding the principle that companies that can demonstrate effective customer engagement and widespread support should receive a lower degree of scrutiny, which we believe needs revisiting because of the regulatory burden and associated costs with these new proposals. In our view, the concept and approach to customer research needs to establish from fundamental principles as to what Ofwat is trying to achieve with these proposals. Although negotiated settlement was not considered in the scope of the consultation, a process that seeks to understand consensus and differences in view is always important for the design of research, and is necessary to build trust in the outcome. We do not share the views on the purpose of research or approach to price reviews that underpin this consultation.

We attach our response to the questions included in the consultation. We would welcome the opportunity to discuss our response further.

Yours sincerely,



Iain McGuffog

Director of Strategy and Regulation

³ Earle et al (2017) “The Econocracy: on the perils of leaving economics to the experts”



Q1: Do you agree with the goals we have proposed for customer engagement at future price reviews? If not, why not?

The key goal that is missing is the one of trade-offs. That is fundamental to decisions in the water sector. We would describe this goal as “Enabling customers and stakeholders to engage in, shape and understand the set of realistic choices and trade-offs faced in a way that is meaningful, which informs decisions being made on their behalf”.

Transparency is a key goal. However, the consultation views it from the perspective of customer research, rather than wider customer engagement in how the regulatory process is delivering for society. It also promotes a regulator-centric view of assurance, rather than a customer-centric view of participation in decision making.

On transparency, we fully support the concept that all research should be transparent. But there needs to be a clear and transparent set of rules by which we know how our customer evidence is being used at PR24. In turn, we can then be transparent with our customers about how the research we undertake will inform our regulatory, as well as wider business decisions. We believe that the goal of transparency needs commitment from Ofwat to increase the level of transparency shown by themselves with regards to the judging of customer engagement and providing clarity on what they view as high quality research which is suitable for informing PR24 business plans. By this, we mean greater clarity over how research will be evaluated from the perspective of trade-offs, not just from a narrower focus on regulatory incentive design.

Transparency should also lead to greater clarity over how research impacts the assessments (of business plans). The consultation assumes an approach to business planning that may prove to be sub-optimal, if we genuinely want to obtain greater value out of customer and stakeholder engagement and participation through research activities, building on the excellent work across the water sector at PR19.

Whilst we welcome the recognition in the goal to recognise preferences that there can be differences between customers and communities, there should also be recognition that there are differences between regions and that customers in one region may value the benefits that a smaller water company may be able to provide (which may not be accounted for when undertaking nationwide research). Indeed, customers may be valuing the overall service, performance and reputation of a company when providing views on more specific issues, which may not be obvious in comparative analysis. Ofwat here seems to form a price-review centric approach (i.e. tailoring price controls), rather than a framework which understands the value of trust and strong relationships (a public value approach). The gap between preferences and trade-off decisions is fundamental to whether the price review approach is appropriate, not just whether it requires some tweaking.

On the goal to broaden value (and the link this has to public value), it is not really about customers’ diverse needs that is important in all research (as that should be covered by customer service anyway), but the wider contribution to society provided by a water company. It is societies’ expectations and needs that changes most over time (e.g. the collaborative and forward-looking approach from water companies to deliver net zero carbon emissions for the sector by 2030) – both the expectations and needs of society and the impact on delivery of water services. Fundamental to this is a public service ethos, which is about serving local communities. But it is not delivered via a mechanical process of customer engagement. Clarity on the engagement framework and



regulatory process is all that is required, rather than on “creating public value” via engagement. Centralising research does not, in our view, fit comfortably with this goal.

On the goal to increase proportionality, we disagree that customers cannot engage on all aspects of the price review. For example, at PR19 we developed innovative engagement approaches, such as our innovative slider stated preference game, which allowed our customers’ views on financing issues to be explored in depth⁴. Moving away from this flexibility would be, in our view, a backward step.

Likewise, we fundamentally disagree with the comments in section 4.5 on proportionality. Our PR19 research was meaningful to our customers. This view seems to arise because of CCW’s long held view that customers do not agree with outperformance incentives. It does not take into account our research approach. What is “conventional research techniques” is a misinterpretation of the best practice approach in the water sector, which was originally developed by Yorkshire Water at PR04, taken forward at PR09 and PR14 (South West Water and Anglian being notable contributors) and further developed by many more, including Bristol Water for novel aspects at PR19. Use of customer forums and gamification are standard, but CCW’s report on customer research approaches starts in our experience from a false perspective that distinguished between uninformed and informed research, both of which yield valuable information.

Finally, the consultation is vague and non-specific about what the research studies for low probability high impact events are? Our experience of PR19 resilience studies is Ofwat understood the importance of innovative outcomes for the customer impact of resilience, but Ofwat’s appraisal approach only allowed focus on major scheme outputs, rather than low cost solutions to unlikely but high impact events.

Q2: Are there any other goals which you think we should have for customer engagement at future price reviews?

At PR19 we welcomed principle 3 of good customer engagement (that engagement should not simply take place at price reviews). Despite this, the goals presented are price-review centric. Customer engagement needs to be an ongoing process and should not simply take place at price reviews. The goals stated overlook this principle. Indeed, this is partly related to why we object to national research. There should therefore be more of a focus on the use of day-to-day research in the price review process.

There are a number of periodic engagement activities that we undertake on a regular basis (e.g. Customer Forums, Online Panels, and our social contract initiatives, such as our innovative Water Bar). As we undertake these regularly, they help us identify trends in customer views, and also see how changes and improvements we make impact on our customers. They also allow for views in different areas and customer segments to be understood. We also engage with our customers every day. Over the last few years we have transformed the way we use this data to ensure we are capturing our customers’ views and learning from their feedback on an ongoing basis. The goals in this consultation should not overlook the importance of ongoing engagement.

⁴ [C1 Engagement, Communication and Research Appendix - B12. Innovative “Slider” stated preference games](#)



Q3. Do you agree with the principle that in areas that are of common concern to all customers within a nation, evidence of customers' preferences should be generated in a consistent manner such that results are comparable? If so, why? If not, why not?

In principle, yes, depending on what types of research and how the costs would be split. There are however potential benefits of a more collaborative approach, if the starting point is that companies themselves are able to define the boundaries of the research:

- Some research topics do not hold a particular regional difference, and therefore increasing the breadth and depth of our data source by incorporating results from collaborative results from across the industry could be valuable.
- By inputting at the design stage, then regulators like Ofwat and other stakeholders, such as CCW, will no longer need to question the research at business planning stage, but rather raise their concerns early and address any concerns with companies directly.
- Such an approach has the potential to save costs. The majority of the costs we pay for research are initial set-up costs, the remaining costs increase relatively slowly when increasing the size of the research/sample.

We do not agree as is stated on page 31 of the consultation that the nationwide approach to research “could allow us to better understand differences across company areas and nations, because we would know that any differences in results were not being driven by methodological differences”. Such research could potentially contradict the results that reflects our local customers' views and therefore impact the legitimacy of such research. More fundamentally, exploring, understanding and responding to customers' views should be clearly distinguished from Ofwat's role in protecting customers. The former should be under the responsibility of individual companies and nationwide research has the potential to skew Ofwat's role in this area, if the intention is to override local customer views with regional preferences.

Q4. If we make use of collaborative nationwide research in future price reviews:

- **Which aspects of business plans do you think should fall within the scope of this research?**
- **Which organisations do you think should be involved in steering this research?**
- **When should this research be undertaken?**
- **How should this research account for differences between England and Wales?**

We find ourselves asking what is the problem that Ofwat are trying to solve with the use of nationwide research? We fundamentally disagree with centralised research – business plans have to be engaged on as a whole – common performance commitments is not an isolated topic – customers will not understand engaging just on a subset of a plan. At the moment we are faced with the worst of all worlds, higher regulation costs, funding centralised research and innovation, which will not reflect the local issues relevant to Bristol Water that will require local research.

We welcome the clarity provided at the Ofwat workshop on customer engagement at PR24 that the intention is for national research to focus on common PCs, incentive rates and acceptability testing. However, even that scope is unlikely to be beneficial. As a business our strategy is that we continue to fundamentally disagree with a regulatory framework that requires national consumer research, other than to test overall acceptability and ODI structures as part of regulators consulting on their potential interventions, as opposed to companies carrying out such research because they want to develop their business with this vital local information.



Where Ofwat could helpfully consider conducting its own research is on those issues which form part of its regulatory framework rather than companies' plans. Specifically, on issues such as ODI structures we think it would be helpful for Ofwat to hear customers' views directly rather than via companies who it may, fairly or not, suspect of filtering messages. However, our experience suggests customers will not trust research undertaken by regulators, or jointly with industry bodies, and it may be that if there is central research CCW could undertake joint research if it was done to an agreed specification.

Our experience of PR09 when some joint research was done, was that by being a standardised approach, it lost its engagement and applicability (there being examples of customers being asked about their preferences for bill increases for no improvement, because what was being proposed didn't fit with the standard framework being used). Best practice is not to do research surveys without deliberative engagement, preferably with engaged and informed customers who you can test results with. It will be important before research is centralised, the impact on participation and engagement is understood.

If Ofwat does insist on conducting nationwide research in future price reviews, then we have the following observations:

- Analysis to understand differences in willingness-to pay design was undertaken before PR14 by UWKIR, which supported greater consistency in survey approach. At PR19 we were ultimately unable to secure sufficient interest to make a similar study effective, but if such a study was commissioned or supported by Ofwat we expect that it would attract greater support, which would be beneficial to companies in reviewing their own values and to Ofwat in reviewing consistency.
- Ofwat should set out the aspects of the business plan which they believe should include comparable pieces of research. This research should then be categorised as possible to conduct within a nationwide approach, and that which should be conducted at a company level (due to local deviations from an expected 'national average').
- We believe that any national research design should primarily involve Ofwat and the water companies. This would mean that only the two parties involved in the PR24 process in a regulatory manner would be involved. The discussion paper indicates that the water industry could be represented by Water UK in steering this research with Ofwat, however we believe that this would dilute company ownership and is not an obvious role within Water UK's remit. We do not agree with this precisely because we are not bound by Water UK, which has a wider remit than water services, and the perspective of our customers and our regional circumstances will be diluted. Ofwat's engagement must be direct with companies, in order for it to be valid. The development of our social contract and social purpose is a good example that would not have happened with centralised engagement and research, or a national regulator and stakeholder led design approach. As it is the companies who develop business plans, and Ofwat who scrutinise them, it is most important for both of these parties to represent themselves in as full a manner as possible.
- On the reference to the RIIO-2 "enhanced engagement" approach, our understanding is that this has not obviously had a significant role in final decisions, or the balance between this process and individual company engagement. It requires further exploration, but generally research and engagement techniques are different in the water sector because of the "source to tap" end to end relationship with household customers.



Q5: To what extent do you think it would be necessary for us to provide guidance on customer engagement, assurance and other issues at future price reviews if we made – or did not make – use of collaborative nationwide engagement?

The perception of what is “high quality” engagement does not align with our views, as we feel the consultation takes a narrow view of regulator decisions at price reviews. Lots of engagement can be needed to reflect diverse views, and as a process rather than a once and for all. This is because views are context dependent (e.g. the use of customer forums on an ongoing basis). The volume of engagement is not a deciding factor, and a range of different conclusions can be informative and beneficial.

If Ofwat wants companies to retain ownership of the relationship with customers we should be careful to avoid introducing prescriptive rules on what is “good” engagement. Companies carry out research, engagement and participation because they want to and need to.

We believe that further clear views in advance of evaluation guidance should be provided by Ofwat, before we consider the topic of collaborative national engagement. It is a consistent theme throughout this discussion paper that Ofwat wish to see the quality of research improve. However ‘better research’ may hold vastly different meanings to Ofwat and water companies, let alone between the water companies. Therefore, if it is the desire of Ofwat to see ‘better research’, they must first explain what this is, and how they expect to see it carried out, reported and utilised to inform our business plans. If the regulatory purpose is merely more effective outcome incentives, or greater consistency in target setting, then this is more a matter of evaluation guidance stating this objective, rather than ‘better research’.

Q6: To the extent that you consider further guidance is necessary, what areas should this cover?

Further guidance should cover all areas where Ofwat have previously questioned the quality of research or asked for a higher standard of research. This is particularly important with regards to any research used to inform business plans, or performance commitments and outcome delivery incentives. Our preference however is first to understand the issue and the type of regulatory framework that is in customers’ interests, rather than leaping to the assumption that further guidance, or standardised national research is the answer.

The research approach question has to consider the additional costs of national research that companies should have the choice of participating in, or should be included in discussions on Ofwat’s licence fee given that it represents a regulatory burden if companies effectively are not being presented with a choice. That is a transparency issue as it is ultimately customers’ money, and we do not believe they will prefer national to local research without a clear discussion on the benefits to their relationship with the local water company

Even if a national approach is adopted, companies will still be required to conduct specific research, and whilst it would be difficult for Ofwat to provide very detailed guidance for these pieces of research, we believe that there should be guidance provided on how the quality of research is judged, and guidelines on what Ofwat considers to be ‘good research’. We and our stakeholders may disagree, so it requires specific consultation on the principles, in context of the decisions it is going to be used for.

Q7: Are there other models which you think we should consider for providing assurance at future price reviews? If so, what are the benefits of these alternative approaches?



We remain supportive of local CCGs. Our CCG, the Bristol Water Challenge Panel (BWCP), actively encouraged Bristol Water to focus on and reflect customer priorities and preferences and, in general, has encouraged the adoption of performance commitments that reflect their priorities. They also challenge on ongoing performance, both against regulatory metrics and wider public value, as is clear from our social contract. As a diverse range of stakeholders they take a long-term view, entirely appropriately for a water company in its 175th year of existence.

Local CCGs are seemingly not only designed to, but are well placed to give a view on the quality of a company's engagement and stakeholder and customer views. Most will likely have a relatively long-term view of the company's activity, with memberships of some CCGs having been in operation since the last price control. Given that local CCGs are 'based' within the company (pre-Covid-19, the BWCP would host meetings at our offices) but separate from it, CCGs can have a useful perspective on company culture and engagement in practice. CCGs play a wider role than just reviewing business plans, for example we regularly engage on our performance and assurance, and important projects and customer policies. Most CCGs also have members with local knowledge and understanding who are plugged into relevant communities and can give a grassroots perspective.

We have a specifically nominated non-Executive director to focus on community and employee issues, who regularly attends the BWCP meetings and makes sure their views are heard in all our Board decisions. National CCGs would not bring about such advantages, nor could they be reasonably expected to replicate such local connections or provide opportunities for co-ordination of local regulators. Replicating local and national CCGs would confuse all parties. National stakeholder management for Ofwat for regulation and price reviews may be of value, and transparency on this could be valuable. However, a different term from CCG will be required, and the role of CCW and other consumer representative bodies clearly defined.

Q8: To what extent do you think that the research techniques which have previously been used in the water sector are suitable to enable companies' business plans and our final determinations to reflect customer views? Do you think any particular approaches should be revisited?

We would urge Ofwat to revert back to its PR14 strategy when it comes to customer research, and outcomes in general. Namely, that throughout the price setting process, companies should be given flexibility, and given responsibility, for engaging with their customers on the techniques they see fit. Ofwat should of course facilitate effective engagement by providing high-level guidance, but companies must be trusted to respond to the local views of their customers and to demonstrate accountability for how such views have been taken account when they develop their business plans.

Q9: Do you think that there are alternative approaches that we might usefully adopt in water, including those used in other sectors and potentially outside the area of economic regulation? If so, which techniques and why? If not, why not?

Consumers are currently targeted for surveys, polls and feedback from every company that they communicate with. This means that customers are overloaded and may become fatigued, leading to less willingness to participate, and a lack of importance placed on providing true responses rather than completing the survey as quickly as possible. Therefore, the water industry should focus on developing innovative research which engages our customers, rather than just relying on research surveys. This is a bigger risk if national research is adopted.



Surveys are a useful tool when seeking large numbers of customers, but to explore the complex aspects of the water industry it is vital we begin to truly engage our customers and to use techniques which reveal their behaviour in real-world scenarios. One example of this is the research conducted by United Utilities, where a scenario was created to situate customers in the middle of two different operational incidents and recorded their responses to financial cues, water use and general behaviour. We carried out similar deliberative research on difficult to discuss topics, such as financial issues which considered both individual and community scenarios such as boiler replacement and village halls to explore.⁵ Our bill options research for instance started with deliberative discussion on real world issues in order to frame long term choices on leakage and resilience in a way that allowed the impact on different segmental groups to be explored.⁶ Customers can understand trade-offs this way, and companies understand both communication and the limits to which they can apply research. Sometimes innovative ideas also are derived from such research, which are captured throughout our business plan.

Q10: Are there any areas of the price review where the scope to solicit informed opinions from customers is intrinsically limited?

We disagree that companies cannot engage on all aspects of the price review – there is no reason why they cannot. Whilst there are aspects of the regulatory regime which are intrinsically complex, we found at PR19 that informed opinions could still be sought (such as via our small company premium research)⁷. However, by developing informed customers, it is possible to solicit informed opinions. Citizens’ assemblies are a form of deliberative engagement which is utilised by Bristol Water and a number of other water companies. Through repeated engagement with the same engaged customers, it is possible to develop a more in-depth knowledge of the water industry amongst these customers. We utilised this informed opinion, triangulated with the opinions of a wider uninformed customer group, within our business planning process.

Q11: Do you think there are other ideas we should be considering for shaping customer engagement at future price reviews? If so, how would these ideas help deliver on the goals proposed in this paper?

On triangulation, the paper highlights that there was a discrepancy between the level of triangulation of research that companies conducted. However, there is no further clarity provided on the topic of triangulation, the ‘correct’ methodology (if any) companies should adopt and how Ofwat would like companies to address this issue. We would welcome further clarity/guidance on this in any PR24 and beyond guidance. We think the innovative “sequential stated preference” bill options research⁸ we undertook at PR19, so that triangulation could be based on evidence-based research rather than just judgement, is something that could be developed further. It allowed segmented customer support at different service, bill and willingness to pay levels to be explored for a range of outcomes.

⁵ [C1 Engagement, Communication and Research Appendix – B19 Company financing and bill impacts deliberative event](#)

⁶ [C1 Engagement, Communication and Research Appendix – B27 Sensitivity Testing](#)

⁷ [C1 Engagement, Communication and Research Appendix - A3a Customer Forum September 2017 and B32 Future of the water sector](#)

⁸ Section 3.2.3 of <https://www.bristolwater.co.uk/wp-content/uploads/2018/09/Section-C3-Delivering-Outcomes-for-Customers-1.pdf> provides a good summary of the approach.



Whilst we recognise that the consultation is looking at the long-term, we do think that the impact of COVID-19 over customer research over the next few years needs further consideration. It is inevitable that companies across the industry will be looking to adapt their research techniques to reflect the current circumstances, which may be elongated. Research will inevitably be harder to conduct at least in the short term. This may affect the decision on national research, and in any case the uncertainty this decision is causing may add further delay to research and engagement because companies are concerned not to undertake duplicative work that will not be cost effective.