



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's consultation on Reflecting customer preferences in future price reviews

January 2021

Introduction

The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to provide input to Ofwat's discussion paper on reflecting customer preferences in future price reviews.

Questions

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

Yes, we think the goals for customer engagement create a good framework to guide activity at PR24 (and the period leading up to the commencement of the review). We have the following comments on the goals:

Enabling companies: We agree that companies need to own their relationships with their customers and this means making sure that their engagement is conducted in a way that ensures business plans are truly reflective of customers' priorities. CCW's *Framework for water company research*¹ highlights that companies need to do more to make engagement a business as usual activity – to constantly evolve the understanding of issues that are important to customers. This should happen through both regular (tracking customers satisfaction) and ad-hoc research (for example in response to any major incidents) and more community focussed engagement, which will help make the research more meaningful for customers as they will be able to see and understand the reasons for the engagement and ultimately its results. Ongoing engagement with customers will be particularly important to help companies to understand any changes to customers' expectations due to the Covid-19 pandemic.

Recognise Preferences: Understanding customer preferences needs to include differences within regions and between sub-sets of customers. Companies need to reconsider the best ways to capture the needs and experiences of vulnerable customers as CCW's *Engaging customers for better consumer and business outcomes*² research, carried out by Blue Marble, found that simply including vulnerable customers as a quota within an overall sample in generalised research was not the most effective way of understanding their needs.

Foster collaboration: We agree. It is important that the sector works together to share its knowledge in order to deliver the best possible outcomes for all customers. Collaborative nationwide research would present the opportunity to take the best practices from PR19 and deliver the results to all companies. Sharing best practice on engagement across the industry offers the opportunity for all companies to raise their standards. As we said in our

¹ [CCW: Framework for water company research, November 2020](#)

² [CCW: Engaging customers for better consumer and business outcomes, May 2020](#)

*View on customer engagement at PR19*³: “A customer is a customer wherever they are – more collaborative research would help the industry develop a deeper understanding of attitudes, behaviours and the communications that can influence these.” Well-designed collaborative research will allow the sector to understand where there is agreement between customers up and down the two countries about the same issue, and where there are genuine differences among customers of different companies.

CCW is undertaking a review of triangulation at PR19 with the aim of assisting companies to improve and refine their practices leading up to PR24.

Promote transparency: This is essential to maintain and build trust in the sector. Our *Engaging customers for better consumer and business outcomes* research found that research was more meaningful for customers when they could understand how it had made a difference. It was not always clear at PR19 how companies’ engagement programmes had informed their business plans, or the weight that Ofwat had given to this evidence in its decision making. This is the ‘golden thread’ that was often referenced throughout the PR19 process; the ability to see the link from the beginning to the end of the process. To see how customer evidence has been used to influence the outcomes and to understand the decision making that took place. One of the key recommendations from CCW’s *View on customer engagement at PR19* is that “It must be clear how engagement informs the business plan so the extent of consumer influence is transparent.”

Increase proportionality: In our *View on customer engagement at PR19* we observed that while there had been a step-change in the amount of research and engagement with customers this had not necessarily led to a step-change in the influence customers had on business plans. The sector needs to consider the recommendations from CCW’s *Engaging customers for better consumer and business outcomes* research ahead of PR24 and ensure that all of its engagement is meaningful. CCW’s *Framework for water company research* calls on companies to develop a multi-faceted approach to engagement that moves away from the explosion of research at price reviews to better encompass ongoing engagement and insight from day-to-day activities and makes more use of localised, community engagement.

Proportionality also needs to be a consideration when decisions are made on the model for consumer representation at PR24. There needs to be an objective assessment about whether time and money needed to run CCGs delivers the best value for customers, or if an alternative model, (or models) could be more effective.

Broaden value: CCW is supportive of efforts to understand and capture the wider public value that water companies can deliver through their activities. We have advocated greater use of community engagement by companies as a way of doing this. Bill-payers, water consumers and citizens can think differently in different situations and CCW believes it is important that the sector gets better at understanding what these differences are and the reasons for them. One sub-set of the citizens mentioned in the consultation will be future bill

³ [CCW: View on customer engagement at PR19, October 2020](#)

payers (FBPs) – we think more needs to be done to effectively capture their views. It is important that the sector also deepens its understanding on issues of national and regional importance - the EA's National Framework is a good example of co-operation between companies at a regional and national level.

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

As mentioned above we think companies need to do more to show how they have considered the views of future bill payers (FBPs) alongside current bill payers (CBPs) and how this is reflected in the business plan strategy.

Based on a CCW WaterVoice survey that will be published in February 2021, FBPs are more likely to prioritise accessible services and longer-term services to meet the challenges of climate change and population growth, CBPs prioritise water services and keeping bills low. Water companies need to show how they have considered the views of each group, and this could be understood via an informed dialogue between the two. People are spending longer as non-bill payers as they are becoming older before they live independently, or find themselves moving home as their circumstances change, so the proportion of people in the FBP category is increasing – it is a big segment of society which is more affected by the resilience of longer term services than many CBPs. They need to be fully represented and not unintentionally marginalised in the price review process.

The sector needs to improve its commitment to equality, diversity and inclusivity by increasing its engagement with “seldom-heard” customers. CCW’s *View on consumer engagement at PR19* found that language and cultural differences may affect whether customers take part in company engagement. There were some good examples at PR19 of companies translating research into different languages to improve representation from certain communities. The sector would benefit from understanding more about the cultural and religious aspects of customers’ water use.

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?

Yes. At the last two price reviews, CCW has commissioned acceptability testing of Ofwat’s Draft Determinations because we believed that having consistent, comparable information on customers’ views was important.

Companies’ own acceptability testing of business plans took different approaches when dealing with issues such as how they presented the impact of inflation on bills, the definition of what would constitute an ‘uninformed’ sample and how to reflect the possible bill impact of ODIs. Even where the treatment of these issues is similar the overall methodological approach, and the presentation of information to customers, is different from company to company.

These differences made comparison of acceptability levels difficult, and perhaps more importantly meant that CCW and Ofwat could not know whether any variations between company results were due to methodological factors, or genuine reflections of customers' differing views.

Ofwat's review of PR19 has noted similar difficulties in considering the wide variance in WTP values and ODI rates companies included in their plans – based on what companies' said were reflections of customers priorities determined by research.

Having comparable information on company performance would also help customers to understand the context of the performance commitment levels and associated incentives that their company was proposing. Something that was lacking at the last price review.

CCW's recently published *View on consumer engagement at PR19* highlighted the potential benefits of collaborative research in allowing companies to share innovation and close the gap that exists between the resources of the bigger Water and Sewerage Companies (WaSCs) and some of the smaller Water Only Companies (WOCs). We believe that any collaborative research would need to follow the recommendations of this research, and our research on *Engaging customers for better consumer and business outcomes*.

The use of collaborative research would remove the inconsistencies brought about by companies employing differing approaches to research. It also brings the opportunity to ensure that the research utilises best practice identified through the review of PR19, and previous price reviews. There is a risk of stifling innovation if the sector uses a methodology that does not reflect the very best practice in engagement, especially for complex surveys. For example, at PR19 several companies developed graphical interfaces using sliders as a more engaging way of getting views on service priorities and showing relative bill changes as service levels went up or down. To revert to a 'standard' survey format may be a backwards step in engagement. Consideration would need to be given to best practice and innovation in the way that collaborative research is done.

Companies are likely to be understandably sceptical of any research that they feel delivers to them less insight than they previously obtained through their own research programmes. It will be important, in commissioning any collaborative quantitative research, that the sample size is sufficient to allow the identification of differences between the customers of different companies and any differences between different customer groups within a company area.

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 believe that CCW's position as the statutory independent consumer representative for the water sector makes us best placed to lead the collaborative research. We would use our expertise and specialist sector knowledge to deliver research that aligned with our strategic aim – *securing a fair deal for water consumers, now and in the future*. We have experience of regularly commissioning and developing sector wide research, including at both of the last two price reviews, and we were also involved in the collaborative research that was undertaken by the sector at PR09.

It is clearly important for both Ofwat and companies to be closely involved in any collaborative research, but we believe there would be potential conflicts of interests for both parties that should preclude them from leading the project. The outputs from the research will be used to inform the company business plans that Ofwat will assess during its determinations. We believe CCW's honest broker position would be best placed to deliver this balance and ensure that the research is fully independent and delivers the best possible outcome for consumers. CCW's independence also means we are more likely to be trusted by consumers to deliver research that ensures their views are an integral part of shaping company business plans and Ofwat's decision making at the next price review.

CCW, Ofwat, companies/Water UK, Defra, Welsh Government, the Environment Agency, Drinking Water Inspectorate, Natural Resources Wales and Natural England should all be involved in a steering group for collaborative research. However, the steering group needs to strike a balance between allowing all interested parties to have input and to feel their voice is being heard, and the dangers of creating a group so unwieldy that it either is paralysed by disputes or has the research outputs damaged by continued compromises on approach.

It may be more appropriate for some of these parties to be involved in a Central Oversight Group that would take on a similar role, centrally, to that carried out by company CCGs at PR14 and PR19. CCW could provide secretariat support and advice for such a group and we think it would be beneficial for it to be chaired by an independent research expert.

There is the potential for the collaborative research to deliver cost savings where projects are delivered under a single piece of research utilising the same methodology. This is clearly more efficient than the industry commissioning more than a dozen bits of similar research.

As a minimum the collaborative research should act as a bookend to the price review process. Around the beginning of the process it should be used to understand customers' priorities for PR24 (and beyond) and, towards the end, there should be acceptability testing of companies' business plans and Ofwat's draft determinations.

Ideally, given the concerns raised about the unexplained differences in WTP values between different companies research at PR19, we would recommend that this should also

fall within the scope of the collaborative research. We believe more work is needed to determine the best way to carry out WTP research with customers, as our *Engaging customers for better consumer and business outcomes* research cast doubt on how meaningful much of the research undertaken at PR19 actually was.

Ofwat felt the need to make a number of interventions at PR19 to amend companies PC targets and ODI rates. This was often as a result of concerns about the company's research or concerns above the level of stretch companies had applied compared to the rest of the industry. It was difficult for companies, and particularly CCGs, to compare company performance targets against the rest of the sector. Ofwat's interventions also created a disconnect between what company research determined was customers preferences and what ended up in plans. In effect this made the company research redundant. To avoid this in future we think that common PCs and associated ODI rates should also be included in collaborative research.

The timing of the research is important to ensure information is given to companies at the right time to allow them to develop their plans. Business plan acceptability research would need to be done at a point where the plans were fully realised to ensure customers are given the most accurate information possible, but not so late in the process that companies do not have time to make changes prior to submission of their plans to Ofwat.

Consideration should be given to what would happen if an unforeseen event meant that the industry could legitimately question the validity of research conducted at an earlier point in time. This could be something that was company specific, or industry wide. For example, the economic impact of the pandemic is likely to have affected affordability of bills, and would likely have a knock-on effect on acceptability because of this.

We encountered some difficulties when asking customers about ODIs in our acceptability research as the mechanism that provides companies with more money and increases customer bills when they exceed targets is not as straightforward due to Dŵr Cymru's not-for-profit model. Differences between England and Wales, and between regions of England, need to be carefully considered when designing the collaborative research to ensure that the most appropriate method of undertaking the research is used (for example deciding between quantitative, focus groups and deliberative research.) Carefully designed research should enable the sector to understand any differences between customers' views at different levels: England and Wales, England only, Wales only and company by company.

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?

We think it is inevitable that Ofwat will need to issue guidance to companies. Even though companies have been expected to own their plans at the last two price reviews they have still looked to the regulator to understand what it is they are required to deliver – and how they should do this.

There is clear risk involved in not issuing detailed guidance to companies on their engagement and assurance models – the most obvious being that customers could see their influence on business plans reduced and the process could be more opaque, which does not fit with Ofwat’s goal to increase transparency.

Companies will also need to understand how their own research programmes fit with any collaborative research. Ofwat will need to be clear about where they will expect, or allow, regionally specific evidence from the companies that complements the collaborative programme, and where this will not be considered. It would not be in customers’ interests for companies to carry out separate research that seeks to challenge or debunk the results of the collaborative research. The EA’s National Framework for water resources offers an example of the kind of collaborative, joined-up approach that can bring together complementary research at a national and regional/company level with the aim of achieving the right outcomes for customers.

An important consideration is the goal of increased proportionality. We agree with Ofwat’s aim to focus on high quality research ahead of PR24 – it is important that customers’ money is spent effectively on meaningful research. This is also important when determining how consumer representation models should be used at the next price review. A lot of the most valuable work carried out by CCGs was in helping to shape and challenge companies’ engagement plans in the early stages of the price review, work that was essentially ‘unseen’ outside of the challenge logs that CCGs maintained (and some of these were incomplete). It was not always clear how much influence the CCG’s more visible outputs – namely the CCG reports – had on Ofwat’s decision making, particularly where the CCGs looked to extend their remit beyond assuring a company’s engagement programme.

However, the use of collaborative research would remove some of the responsibility (and risks) from companies and associated local challenge groups. This could allow the opportunity for companies to have greater flexibility over the model that is adopted for PR24. Allowing different bespoke models for each company enables an assessment to be made during and after the price review process of how effective each model has been and provides a wider pool of options from which to determine best practice – rather than a single CCG model.

Clear guidance would be necessary to make it clear how Ofwat will use the views of any future consumer representation group. It is not in anyone’s interests for time and money to be spent on a process that is not valued by the regulator. This guidance will need to make clearer the outputs that the group would be expected to deliver and how Ofwat will use this information in its determinations.

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

If Ofwat decides to go ahead with collaborative nationwide research, as we feel it should, then guidance should be given to companies about how their own research would be considered alongside this during business plan assessments.

CCW has published our *Framework for water company research* setting our expectations for changes to company research ahead of PR24. It recognises the equal importance of different strands of customer engagement and the need to pull these sources together to develop a well-rounded picture of customers' views. Our triangulation review will help the sector to develop its work in this area. It is important that companies have an effective decision making framework that clearly shows how they have weighed up different sources of evidence in reaching a conclusion on investment decisions.

We would expect Ofwat to issue its own guidance on engagement once further work has been undertaken to explore the best way to meaningfully engage customers at price reviews – and to ensure that this engagement is not just restricted to this period but becomes an ongoing, constantly evolving and improving part of companies' everyday activities.

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?

CCW believe it is appropriate for the sector to take this opportunity to consider whether or not the current CCG model delivers the best value and outcomes for customers. At the last two price reviews there has been a lot of good work undertaken by these groups, but there have also been a lot of problems that need to be addressed before PR24. These problems include questions about the remit of the group and how its outputs are used by Ofwat, the level of expertise (and therefore effective challenge) among the groups membership, and how to ensure independence from both companies and the regulator.

We think the decision on the appropriate model for PR24 and beyond is intrinsically linked with the decision on the scope of any nationwide collaborative research. Conducting research centrally will likely require a different model as some of the work undertaken previously by CCGs would transfer to the steering group and its associated assurance processes. We believe an independently chaired Central Oversight Group, (as we mentioned in response to question 4) will be needed to challenge the development of this research by the Steering Group.

We believe there is an opportunity to consider a number of different models for consumer representation. And also to consider if the answer might be a number of different models for different companies. Although companies were required to have CCGs for PR14 and PR19 these were not homogenous organisations, all saw their remit as being different often going beyond an appraisal of their company's customer engagement programmes, performance commitments and ODIs. The level of expertise on each CCG varied considerably as well, meaning that some were able to challenge companies more effectively than others. This meant that the burden of this challenge often fell to a few members of the CCGs – and specifically CCW - as others were unable to contribute either due to the unexpected time commitments required, or because they did not have the level of water industry knowledge required.

In view of this we think that the most important aspect of consumer representation at PR24 is not necessarily the model that is chosen but the outputs that are produced.

CCW's *Engaging customers for better consumer and business outcomes* research recommended that the sector made better use of expert consumers to inform business planning at PR24. The existing CCG set-up provides more of a stakeholder engagement model than delivering true consumer representation. CCG members, with the exception of CCW and some others, tend to represent the specific interests of their organisations rather than their primary focus being to speak on behalf of all consumers. One way to improve representation would be for there to be a customer panel as well as a stakeholder group for each company. Comprised of a representative cross section of customers, the customer panel would be used to test customer opinion on aspects of the business plan and long-term strategy and to complement companies' own research and triangulation, alongside the national level research. Another potential model would be the citizens' assembly that Ofwat mentions in its discussion paper.

CCW will publish a discussion paper on some potential models that could be employed to help represent consumers to inform and shape the debate around the future of these groups.

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 think this is less about revisiting research techniques, than it is about rethinking how business plans are evidenced to tailor the approach more to the aptitudes of the customer base, to ensure the evidence is meaningful and truly reflects their views. At the moment evidencing business plans seems to reflect the needs of the regulatory system and industry, more than it does the aptitudes of customers to be able to provide input, as shown by CCW's *Engaging Customers for better consumer and business outcomes* research.

While valuation techniques such as stated preference are technically suitable to understand customer views on business plans and inform final determinations, their effectiveness as a reliable indicator of customer views is questionable. In CCW's *Engaging Customers for better consumer and business outcomes* research, many customers struggled with the detail involved in complex surveys. These are typically surveys such as stated preference designed to get customer valuations to inform pricing decisions. However, any survey that covers unfamiliar, abstract or technical questions will be hard going for customers. The longer the survey then the more likely people are to struggle to understand – as cognitive load grows – and to stay engaged to give meaningful responses.

Part of the issue is content. The starting point for meaningful and effective research is to ensure that customers easily understand industry-wide service measures. This will help them evaluate what proposed services changes mean for them, to understand the consequences of their decisions and whether they are worth the price. Some aspects of

service are far removed from how customers experience and understand their services. An example of this is the drinking water Compliance Risk Index, which measures quality failures in an abstract way, whereas a customer may understand this at a much simpler level.

When developing service measures for PR24, it should be considered how they can be translated into customer research. Anything that needs explanation, for example if it is averaged over a number of years, or has a starting point which is not intuitive, adds a layer of complication to how a customer can engage with service changes. Similarly anything which presents service level changes in small increments is hard for people to form an opinion on.

In terms of revisiting approaches that are difficult for people to engage with, surveys themselves are a common, tried and tested vehicle to understand customer views. But they should be set at a level and cover things that people can relate to.

Surveys used to evidence business plans are largely driven by the approach of building services and prices from the bottom up, meaning they look at things at a fairly detailed level. However, we know that some customers who can afford their bills are relaxed about the detail and even question why they are being asked about these things for a proposed bill change of a couple of pounds each year. This raises the question of whether for most customers, it is necessary build from the bottom up, or whether a top down approach could be used where acceptability of a proposed bill change is tested, which is a simpler survey to construct than stated preference or similar. For example, if most are not concerned by the detail and would find an inflation-only increase in bills acceptable then that could be the starting point from which to develop a plan. Detailed engagement around specific investment and service levels could be informed qualitatively by expert customers and community engagement. If there is a case for an above inflation increase this could be tested using investment case studies to see if people support bill increases in broad terms.

Aggregating services (i.e. grouping related services into something which is more relatable to customers rather than looking at more abstract specific services) may be a way of increasing engagement and comprehension by simplifying what customers are asked, and also be a half-way house between a bottom up and top down approach. However more work needs to be done to understand the implications of this.

For someone who cannot afford their bills, a few pounds a year is likely to be both unacceptable and unaffordable. For these customers, the over-riding issue is how to make this affordable. In a high-level survey, anyone who thinks that proposed bill changes are unaffordable should be informed about financial support schemes and the effect they have on bills to see if this is sufficient to address their objections. This is an opportunity to link in affordability schemes as a mitigating factor and join the dots between affordability and business plans in a more meaningful way for the sector.

Anyone who wanted to give their opinion on proposed service and price changes at a detailed level should be given the opportunity to do so. This could be achieved by a survey

with a flexible format that allowed people to choose the level of detail they wanted to see. For some it might just be the bill change, for others it could include particular services they were interested in, or the full range if they wanted. Research agencies could consider how this would alter the analysis of the data as there would be an effect on the sample composition. However, it should also support people to engage at a level that is meaningful to them.

Qualitative research techniques, where customers are first informed about issues to support them to give a view, are a good way of understanding views on some of the detail that is difficult to convey in surveys - provided research is conducted objectively. Citizens' assemblies are another format for deliberative research.

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?

As noted at question 8, we think this is more about rethinking the wider approach to evidencing business plans to match customer aptitudes, than looking for alternative research techniques.

We think that companies need to do a better job in triangulating the data they have when developing business plans. While some companies developed effective, clear, decision making frameworks a lot still struggle with this concept both in terms of applying the appropriate weighting to different sources of evidence and making it clear how they had arrived at their decisions. CCW's review of triangulation aims to provide the sector with guidance on how to improve.

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

As noted at question 8, the limitations are around complex surveys that contain detailed information about aspects of service which are unfamiliar to customers, and which are presented in units of change that are hard to understand the implications of in terms of service experience.

In addition, looking at services and prices in the future is also difficult because for some, it is hard to be certain about household income more than a few months ahead. Even for those lucky enough to consider their household income broadly stable for the foreseeable future, forecasting appetite for bill and service changes several years or more into the future may feel uncertain to them.

CCW's *Engaging Customers for better consumer and business outcomes* research concluded that future-focussed objectives need to be designed and analysed with care because customers may be hesitant to commit to a point of view when they cannot conceive of how things will have changed in 20-30 years' time. Complex decision making about the future was an area where customers believed experts and specialists needed to be involved.

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?

Following on from our comments under question 8 we think more work needs to be done to explore how WTP research is carried out at PR24. We think would be useful to undertake research to see whether customers would find a top down or bottom up approach to engagement more meaningful. This could also explore how they would want expert customers to interact with this approach to provide input on some of the more technical issues. This initial research would allow a more informed consideration which research techniques should be utilised in the business planning cycle.

Companies are already undertaking research to inform their Water Resource Management Plans and this will impact on decisions made for business plans at PR24. This needs to be taken into account when determining how customer engagement will look for the next price review. We would urge Ofwat to promote CCWs *Framework for company research* to ensure the sector moves to a position of continuous engagement with its customers and makes better use of its existing data in building up its understanding of customers' priorities.

Enquiries

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