

Ofwat consultation

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

January 2021

Response from Welsh Water

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

Overall, yes, we think these are a sensible set of goals. However, there are some tradeoffs to be made between them, and some of them require a higher degree of focus than others at this point. In particular, we believe there is a need to increase proportionality, with fewer pieces of research but generating greater value for the business planning process, with greater commonality, collaboration and consistency where possible.

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

No, we are happy that this is a comprehensive list. We note the principles for customer engagement at PR14 that were extended further at PR19, and would enquire as to whether there will be a revised set of principles for PR24, or will these be replaced by these 'goals'. We would encourage a concise number of goals and principles that are clearly defined.

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?

Generating evidence of customers' preferences in a consistent manner across companies is a worthwhile goal, with results disaggregated at a company area level. The question refers to "within a nation", and here we think that in most cases the 'common' research should be on a Wales basis, and an England basis, separately. There are significant differences between England and Wales in terms of socio-economic circumstances, legislation and policy. It is vitally important that such factors are not lost in any research that is striving to make comparison easier when the context in which the companies operate is different. In light of this, with regard to Wales, the starting principle should be that research in Wales should be conducted separately to that in England (and therefore we agree with the reference to "within a nation" in the question above). However, we should not exclude taking a common methodological approach across England and Wales in selected areas, so as to generate results comparable across the industry. This will need to be considered carefully, however, depending on the topic.

We would add only that achieving consistency across all companies will mean making some difficult choices about what contextual information is presented to customers. Customers' responses can be very sensitive to the contextual information presented, and it may be difficult for companies to reach agreement on how to present such information in a fair and unbiased manner.

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

First, to be clear, we interpret 'nationwide' in the question to mean separate collaborative research for Wales, as distinct from England, in most if not all cases. See answer to Q3 above.

- Which aspects of business plans do you think should fall within the scope of this research?

Potentially, ODIs for common measures, long-term investment and bills, and certain environmental issues.

- Which organisations do you think should be involved in steering this research?

Companies, Ofwat and CC Water, plus perhaps a suitably qualified expert panel of some kind or a peer review process, with separate steering groups for England and Wales. Consideration will be needed as to how the Wales steering group relates to existing forums such as the Price Review Forum and company CCGs.

- When should this research be undertaken?

As soon as possible, but at the latest during 2022.

- How should this research account for differences between England and Wales?

This will depend on the particular research topic and the goals of the research. As noted above, in some cases it might be appropriate to take a consistent methodological approach across England and Wales, through collaboration between the two steering groups, with results disaggregated for the two nations and by company. However on some issues, such as long-term water resource planning, the context is quite different in Wales to much of England, and the research might be best done entirely separately. It might also be necessary to conduct certain pieces of research in Wales that might not be a priority in England at all.

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?

It is of course useful for companies to have a clear view of Ofwat's expectations. At the same time we think Ofwat should take a more focused approach to identifying where explicit customer support is required in the business planning process. At PR19 some of the areas where Ofwat expected companies to present evidence of customer support were not ones where customers were realistically able to provide meaningful feedback.

We would caution against Ofwat taking a more prescriptive approach to customer engagement in general. While we think it is important for companies to understand Ofwat's requirements in terms of specific customer research for the business plan, we believe that companies are best placed to design engagement programmes that are appropriate for their customers and for their particular circumstances.

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

See question 5.

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 agree that the ‘assurance’ of customer research needs to be rethought for PR24. We feel that CCGs worked well in PR19 as a mechanism for challenging the company’s proposals on behalf of customers, in light of the results of the customer research. They also provide a valuable ongoing forum for the discussion and communication of company performance, among other things. The explicit ‘assurance’ of research on behalf of Ofwat, where required, is perhaps best carried out by an alternative body, resourced for that purpose. We could see a 2-tier approach with selected quantitative, ‘common’ research carried out at the national level, assured by an appropriate body, and overseen by Wales or England steering group; and company-specific research, overseen by the CCG.

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?

The techniques themselves, whether qualitative or quantitative, are not the problem in themselves. The problem is that we are expecting customers to be able to respond to highly complex and technical issues and questions. The CC Water review of PR19 customer research showed that in many cases customers did not understand the information being presented to them, or otherwise were unable to provide meaningful answers to the questions being posed. Willingness to Pay is particularly problematic for customers, but this is but one example among many.

This points to taking a less ambitious but more realistic approach to customer research, recognising that if water companies are doing their job well, most customers have little appreciation of the kinds of decisions and tradeoffs that are required in business planning. Companies do absolutely need to understand customers, their needs and expectations. But we may need to revise our expectations of the extent to which companies can delegate to customers the tough decisions on the tradeoffs inherent in 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?

See question 8.

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

As noted above, we think that the scope to solicit informed and genuine information from customers around many of the decisions required in business planning is limited, because of the nature of the service. At the same time, it is of course crucial that companies understand their customers in terms of issues such as affordability, customer expectations of resilience, intergenerational fairness, and the impact of service failures where they occur.

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?

We have no further comments.